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Stars and Dragons: The EU and China

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NOTE:

(Q) refers to a question in oral evidence

(p) refers to a page of written evidence

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The Evidence of the Committee is published in Volume II, HL Paper 76-II

SUMMARY

China and Europe are two of the world's most ancient civilisations. They will be two of the most important international actors shaping the 21st century.

Of the world population of 6.7 billion people, China accounts for 1.3 billion and the EU 0.5 billion. With India (1.1 billion) and the United States (0.3 billion) the four entities account for just under half of all mankind.

The EU's single market is the largest economy in the world. China's economy is number three—but has been growing at a rate of some 10% a year. The US economy is second. China's largest trading partner is the EU. China, the United States and the EU together account for 55% of global emissions of carbon dioxide.

The eastern hemisphere is growing faster in terms of economy, population and emissions than the west. As was shown at the Copenhagen climate change conference in 2009, the balance of global power is moving strongly eastwards and southwards.

We are moving rapidly towards a multi-polar world, but with key players. Though it will not compete with the US in hard power, the EU aspires to be one of them. That was part of the rationale for the Lisbon Treaty. Without resolving its relationship with China, the EU cannot achieve its aims.

Our key conclusions and recommendations are as follows.

A strategic relationship

The role which China and the EU can play in shaping 21st century global affairs will be crucial to solving the world's problems.

There needs to be an effective strategic relationship between the EU and China, based on trust and mutual respect. Such a relationship does not currently exist beyond trade matters.

A US-China "G2"?

There is a widely held and rather fatalistic view that a putative US-China "G2" will dominate world affairs in the coming decades. While it is unlikely that a cooperative G2 model will emerge because of major differences of interest and values between the two nations, it is conceivable that China and the United States will concert more closely on world affairs. In terms of cooperative fora the G20 is the more likely formal model for the future.

The EU must play a stronger role in driving forward multilateral solutions to global problems. It should encourage the strengthening of the G20 model of multi-national cooperation. It is clear that if the EU and its Member States are to remain influential at global level they must successfully manage their relationship with a strong and growing China, including through multilateral institutions.

The arms embargo U-turn

The relationship between the EU and China deteriorated strongly in 2003 following the arms embargo debacle¹. The Chinese perceived the EU decision as driven by the US. The perception that the EU is the weak partner to the US rather than a strong partner to China still affects EU-China relations. The EU must avoid public division and policy reversals in future, which only serve to undermine its credibility.

The EU should never again advance along an important strategic dialogue with China only to fall into disunity or be effectively vetoed by other powers prior to implementation. The EU must fully consult, and ideally agree a common position with, the United States where a US strategic interest is also involved. Then the EU should define a clear process and transparent criteria for lifting the embargo.

A divided EU

The credibility of the EU as a strategic and important partner of China is regularly undermined by the tactical actions of individual large EU Member States. This is true from Tibet and meetings with the Dalai Lama through to bilateral commercial agreements.

We were informed by a number of witnesses that the EU had considerable diplomatic leverage and influence. The EU is China's largest trading partner and overseas market. We see little evidence of this leverage being used effectively, and certainly not outside the trade area.

The EU has to make hard decisions about which areas of its relations with China are best dealt with through a united EU approach. It is clear that disunity and lack of mutual support over issues such as the Dalai Lama weaken the position of both the EU and the Member States involved. The Lisbon Treaty will not be sufficient to enhance EU solidarity. Whilst respecting the division of competences, the EU and its Member States need to decide the key issues on which, in practice, the EU should stand firm on a united approach and then fully implement this.

The EU should use its leverage effectively in areas where it wants change—whether on climate change, international development or human rights. The EU must be determined, unified and consistent in its areas of vital interest.

The EU should also recognise that the main impetus for reform will come from within China itself. The EU will be most persuasive where it can show how China stands to benefit from reform.

¹ An EU arms embargo was imposed on China following the 1989 events in Tiananmen Square (Chapter 5).

China's lines in the sand

Nevertheless, it is clear that there are two key themes that drive all policy in China. These are the Chinese government's lines in the sand.

First, "one China". China will not accept any questioning of its territorial integrity whether over Tibet, Hong Kong or Taiwan. It is the Taiwan issue that presents a threat to regional security. The EU and its Member States have a one-China policy, but they must also, together with the United States, make it clear that a military solution must not be contemplated and would lead to severe repercussions.

Second, China's need for development and economic growth. China is a one-party state with a growing economy and increasing expectations among its 1.3 billion citizens. The Chinese Communist Party depends for its legitimacy on guaranteeing prosperity for its citizens. No other policy area will take precedence over the need to continue growing. All EU policy towards China has to recognise this immovable fact.

China—more than Beijing

China is a huge country in which the provincial authorities are powerful and have a significant degree of independence. Yet the Commission has a very limited presence in the country outside Beijing and Hong Kong. This is true even in the major industrial centres where trade and investment issues are of great importance.

The EU representation in China needs to be made more effective, including by giving higher priority to areas outside Beijing. This should be achieved in consultation with Member State embassies and consulates.

Knowledge and experience of China

China is a large and complex nation in all its aspects. The EU lags behind the United States in the depth of its understanding of modern China.

The EU and its Member States, in cooperation with European business and civil society, must plan and fund the training and education of a greater number of specialists on all aspects of China, as well as boost Chinese language training and research on China.

The developing world and natural resources

China is now a major and rapidly growing player in the developing world. China's priority is to secure access to natural resources in order to fuel continued economic growth. It offers investment and trade to Africa, Asia and South America without the governance conditions upon which developed world donors insist.

It is too early to assess China's far-reaching engagement with the developing world. The EU should encourage China to use the influence it has on developing countries to help the achievement of the Millennium Development Goals and build good governance.

But the EU must monitor Chinese natural resource deals with developing countries and remain focused on its own strategic interests.

World citizen

China is increasingly engaging in global institutions, for example by contributing forces to UN peacekeeping missions, despite perceiving them as heavily western-orientated and having shown considerable reserve in the past. We welcome this increased engagement. China increasingly has an interest in effective global governance.

The EU has a unique role to play in further encouraging China to take on fuller and wider involvement in global governance.

Democracy and human rights

Apart from the single market, the EU's influence largely resides in its values. Three of the most important are democracy, rule of law, and human rights.

China has made important progress on human rights in the last 30 years, primarily through lifting millions of people out of poverty. Progress on civil and political rights is slow despite efforts to introduce democracy at the village level. The Chinese Communist Party still tolerates no opposition to its one-party rule.

The EU should continue to assert its core values in its relationship with China. The EU must act in a consistent manner in conveying those values.

The EU should press on in a practical manner with its successful but lower profile rule of law and civil society projects which are making a real difference on the ground.

Climate change

The Copenhagen conference illustrated a marginalisation of the EU, even when united; China's leadership of the developing world; and its direct challenge to the United States as an equal.

The EU should be prepared to set an example on carbon emission cuts which is in the interests of the Member States and the world.

The EU must reassess its negotiating strategy prior to the UN meetings in Bonn and Mexico City in order to re-enter the negotiations as a player rather than as a spectator.

Trade and currency imbalances

Two-way trade and investment have benefited both the EU and China. However, the huge trade imbalances between east and west, coupled with Chinese currency undervaluation and massive foreign exchange reserves, have already contributed to the origins of the recent global financial crisis.

The vast trade imbalances between China and the West are not sustainable. As a major global trading bloc, the EU in partnership with the United States must address this issue firmly with China through the G20, in order to resolve it before a major US-China crisis results that will inevitably affect core EU interests.

The EU should fully assert its rights, whether access to markets or intellectual property issues, through World Trade Organisation procedures. There must be equality of access to markets.

In Conclusion

During our inquiry we have become aware of the growing assertiveness of China on the international stage. Examples include the Copenhagen conference, the execution of a UK citizen despite strong diplomatic pressures, newly vocal claims over an Indian province, a move back towards greater repression of human rights, and cyber attacks.

The EU has limited time to convince China of the value of a strong and active strategic relationship. It must do so. It can do so. But it must act quickly, consistently, in a united fashion, and with confidence. The Lisbon Treaty, with its new enhanced role for the High Representative supported by an External Action Service, and a permanent President of the European Council, offers the instruments to help to achieve this; but unless the EU raises its game substantially the moment will be lost.

Stars and Dragons: The EU and China

CHAPTER 1: INTRODUCTION

1. The emergence of the People's Republic of China as a major economic and political power has presented the European Union, and the world, with a new challenge. China's vast landmass, its population of 1.3 billion, its hunger for resources, its distinctive culture and sense of grievance against others have added to the challenge, as has the Chinese historical concept that China is the centre of the world and superior to other nations.
2. As was shown at the climate change conference in Copenhagen at the end of 2009, the balance of global power is moving eastwards and southwards. Economic development has transformed China's global position with implications for the world's economy, and in particular for that of the United States and the EU, which have reached a level of significant financial and trade interdependence with China. This gives China international influence politically as well as economically.

Understanding China today: the key issues

The State, the Party, democracy and the rule of law

3. China has never known democracy as the West understands it. The Communist Party, in power since 1949, continues to run China at all levels and remains the dominant force. The formation of alternative political movements or parties is forbidden. This is unlikely to change in the near future.
4. Dr Kerry Brown (Chatham House) told us that there had been talk about democracy but no recent significant moves towards political enfranchisement (QQ 38–39, 67–70). Professor Rana Mitter (Oxford University) commented that the leadership had made clear that “there was not going to be now, or at any point in the future, a Western-style, multi-party democracy in China”² (Q 147).
5. Despite the lack of a party-political democracy, the Chinese do operate a consultative system which enables the State to discover what people are thinking and the people to obtain redress for grievances. This system was explained to us by Yang Dong of the Chinese Peoples' Political Consultative Conference in Guangdong³ (also Mitter Q 153). Lord Patten of Barnes said that since Tiananmen Square⁴, China had emphasised economic growth and reform rather than political development. However, the lives of the people had improved in terms of disposable income, economic and job choices and

² Comment by the Chairman of the National Peoples' Congress (Parliament) and member of the Politburo Central Standing Committee in March 2009.

³ Appendix 4.

⁴ In 1989 the Chinese state violently suppressed anti-government protests in and around Tiananmen Square.

where they wanted to live. “Peoples’ lives ... are incomparably better than they were in 1989” (Q 550).

6. Professor William Callahan (Manchester University) pointed out that there were groups of well-placed intellectuals in China thinking about democracy in the way it was understood in the West. 7,000 to 8,000 people had signed a “Charter 08” document calling on China to reform in terms of liberal, multi-party democracy (Q 153).
7. Dr Brown commented that the Chinese had developed their legal system since 1979 and people were more willing to use the courts: some good judgments had been made. However, the Party controlled the courts and the media (QQ 57–58). Professor Shaun Breslin (Warwick University) said that trade unions were official agencies but they were representing the problems facing their members and, compared with 10 to 15 years previously, there was greater legal protection for workers (Q 207).

Central and provincial government; unity and minorities

8. China is a diverse country with 31 very different provinces and 56 nationalities, though the 55 national minorities comprise only 8% of the population. Central directives can be interpreted differently at local level and local rivalries and conflicts exist between state industries and the state, and between different provincial governors (Lord Patten of Barnes Q 557, Jochheim Q 432, Moran Q 343, EU Chamber of Commerce Appendix 4, Brown Q 41, Hilton⁵ QQ 119, 137, Song⁶ Q 483, Breslin Q 200).
9. For the leadership, and in public opinion, the unity of the country is all-important. Ambassador Chen⁷ commented that this was the government’s supreme concern, together with the nationalities question (see also Brown Q 74, Callahan Q 154). Tibet and Xinjiang are particularly sensitive issues where dissent is harshly treated (Brown Q 61, Grant⁸ Q 87, Hilton Q 133, Mitter Q 154). We discuss Taiwan further in Chapter 5 and Tibet and Xinjiang in Chapter 8.
10. Isabel Hilton (China Dialogue) thought that, in China’s centuries-old search for a modern political form, the dominance of Han culture had become an instrument of state to the detriment of other cultures within the country. Both religion and culture were seen as vehicles for local nationalisms. Long-running discontent in Tibet and Xinjiang was of concern to the government. Both provinces were tightly controlled by the Chinese authorities and there was no prospect of independence for either: they were strategically important, not least in Tibet’s case, as a source of water (QQ 97–99, 134–136).

The real “great leap forward”

11. Dr Brown described China as “a GDP growth factory” with an average economic growth rate of some 10% per year since 1978. China had lifted some 300 million people from poverty, created a successful middle class mainly in the coastal areas and been “incredibly successful” in terms of wealth creation. Agricultural efficiency had improved; over 54% of people

⁵ CEO, China Dialogue.

⁶ UN University, Bruges, and Renmin University, Beijing.

⁷ Renmin University, Beijing, Appendix 4.

⁸ Charles Grant, Centre for European Reform.

were still rural. The main area of growth had been exports though this constituted around only 4–5% of the Chinese economy (QQ 37–41, 44, 47). Professor Breslin and Lord Mandelson⁹ commented that the state continued to play an extensive role in economic activity (QQ 182, 199, 718).

12. Professor Robert Ash (School of Oriental and African Studies) told us in March 2009 that the global economic crisis had slowed Chinese growth and exports significantly. Hopes that domestic consumption would become a new driver of growth were unlikely to be fulfilled because of slower per capita income growth, rising unemployment and weakened consumer confidence. The government was attempting to increase non-industrial, infrastructural investment, e.g. in the health sector and other social insurance, in the hope of diverting resources from the remarkably high levels of saving into consumption (Q 180).
13. Other problems in the economy are an unsustainably high current account surplus; the fixed exchange rate; the need to move up the technological ladder and diversify in manufacturing; the need for a larger service sector; and an unsophisticated banking system struggling to modernise (Bertoldi¹⁰ QQ 428–434).
14. With the economic take-off, China's outward investment and foreign exchange reserves have increased exponentially and changed China's relationships with the rest of the world, including with the US where China has substantial investment in Treasury bonds and lost considerable amounts in the 2008–09 economic crisis. The motivation for the very sizeable Chinese overseas investments is to secure resources and strategic assets, access markets, and obtain managerial, organisational and technological know-how (Ash Q 193). Dr Brown told us that China was also using its wealth for political purposes: when Costa Rica recognised the People's Republic of China instead of Taiwan in 2008, China bought £120 million of its debt (QQ 41–42).

Domestic pressures and the demographic time-bomb

15. China is developing rapidly and some of China's cities are at least as developed as any in the world. There are however severe domestic social and environmental problems. Aggressive population planning targets have reduced absolute population but have produced significant distortions in gender and generation balances, with men outnumbering women, and difficulties supporting the elderly, which will affect Chinese views and policies in the future. The lack of social security in China and the consequent need for self-reliance has created a conservative society where savings are valued over western-style consumption (see Brown QQ 46, 61, Hilton Q 131, Lord Mandelson Q 729).
16. China's new wealth is unevenly distributed, with considerable contrasts between the rapidly developing eastern seaboard and the poor regions, mainly in the west. This has provided benefits for China as the flow of population from the underdeveloped areas enables its products to be cost-competitive, and its industries to move up the production and technology

⁹ First Secretary of State, Secretary of State for Business, Innovation and Skills, Lord President of the Council.

¹⁰ Moreno Bertoldi, Head of Unit, Directorate-General for Economic and Financial Affairs, European Commission, Brussels.

chains. The transfer of cheap labour is likely to continue for several decades. Ambassador Chen¹¹ told us that, under modernisation, China would have dual characteristics: it was a major power but in per capita terms it would remain a developing country.

17. New inequalities have been created and unemployment has recently grown. We were told that, with the world economic recession, 20 million migrant workers had returned home. These problems led to unrest, which has been contained so far by the Communist Party. China also remains a male-dominated society (see Brown QQ 37–41, 45–47, Hilton Q 131, Lillie¹² Q 9, Ash Q 180, Breslin Q 188).

Environmental problems

18. China's industrialisation and continued use of coal has been accompanied by environmental degradation, air and water pollution, desertification and drought. Dr Brown told us that China was the world's biggest user of energy, except for oil, and was still 70–73% reliant on coal. China was now suffering from drought, particularly in the north east, and desertification north of Beijing. Beijing was without sustainable sources of water, which came largely from neighbouring provinces (QQ 48–50). Isabel Hilton added that the Himalayan glaciers were melting, affecting 40% of the world's population, as they were the source of all the rivers in Asia, including the Chinese Yangtze and Yellow rivers¹³ (Q 137). Lord Patten of Barnes¹⁴ pointed out that, with glacier melt, water stress would grow as an important issue for China and India which they should discuss, perhaps with US and European encouragement (Q 562).
19. Isabel Hilton commented that the Chinese model of internal development ("you get rich first and you clean up later") was not sustainable. Official policy was sustainable development but a number of problems remained including the absence of an effective legal state and a free press (Q 137). EU-China cooperation on climate change is dealt with in Chapter 7.

The EU's institutional arrangements with China

20. The EU's formal relationship with the Peoples' Republic of China began in 1975 with the establishment of diplomatic relations, followed in 1978 by a trade agreement. It is currently governed by the 1985 Trade and Cooperation Agreement¹⁵, under which the EEC and China granted each other most-favoured nation status. The objectives are chiefly trade-related: promoting trade, increasing economic cooperation and encouraging investment.
21. In 1994 and 2002 the Agreement was supplemented by exchanges of letters establishing a broader political dialogue¹⁶. The institutional architecture is

¹¹ Renmin University, Beijing, Appendix 4.

¹² Stephen Lillie, former Head of Far Eastern Group, FCO.

¹³ The fact that it is now admitted that the pace of glacier melt has been exaggerated by some scientists does not lessen the significance of glacier melt as an environmental threat to China.

¹⁴ Last UK Governor of Hong Kong, 1992–97, EU Commissioner for External Relations 2000–04, Chancellor of Oxford University

¹⁵ Council Regulation (EEC) No 2616/85 of 16 September 1985.

¹⁶ See:

http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/asia/r14206_en.htm

now extensive, with annual summits and other high-level meetings held alternately in China and Europe. Apart from regular political, trade and economic meetings, there are 56 sectoral dialogues and agreements on a wide range of matters of common interest. A full list of EU-China arrangements is in Appendix 7.

The EU's policy towards China

22. In October 2006 the EU Commission published a communication “EU-China: Closer Partners, Growing Responsibilities” in which it set out the EU’s aspirations for the relationship¹⁷. In 2007, negotiations began on a Partnership and Cooperation Agreement (PCA) to replace the 1985 Agreement.
23. A High Level Economic and Trade Dialogue Mechanism (HLM) was launched in April 2008 to enhance cooperation on trade and economic issues, with the participation of eight Commissioners and 10 Chinese Ministers. According to the Commission’s website, the main objectives of EU policy towards China are to¹⁸:
 - extend dialogue with China, both bilaterally and on the world stage, working together on global challenges such as climate change;
 - support China’s transition to an open society based upon the rule of law and respect for human rights;
 - encourage the integration of China into the world economy and trading system, and support economic and social reforms; and
 - raise the EU’s profile in China, to aid mutual understanding.

UK policy towards China

24. The UK Government recently set out its policy on China in a framework document¹⁹, the first about a specific country. This recognises that China’s “impact on UK interests is already critical, and it is growing” in a wide range of areas such as trade and investment, sustainable development and reducing conflict. The UK’s response is based on three pillars: getting the best for the UK from China’s growth; fostering China’s emergence as a responsible global player; and promoting sustainable development, modernisation and internal reform in China, including respect for human rights. The Government’s strategy also sets out the tools at the UK’s disposal, such as regular interaction with Chinese counterparts and a growing network of diplomatic posts. The EU—“the most effective multiplier for the UK’s objectives”—and cooperation with partners within the EU both have a prominent place in the strategy. The United States and key players in the region are also seen as important partners for engaging China.

This report

25. We took evidence from experts in the UK and travelled to Brussels and China to hear from both sides. A picture emerged of different perceptions

¹⁷ COM(2006) 631 final, Brussels, 24.10.2006.

¹⁸ Source: European Commission: http://ec.europa.eu/external_relations/china/index_en.htm

¹⁹ “The UK and China: A framework for engagement”. Foreign and Commonwealth Office, 2009, <http://ukinchina.fco.gov.uk/en/working-with-china/uk-and-china>.

and attitudes and this is explored in Chapters 2 and 3. China's international responsibilities for security and stability are examined in Chapters 4 and 5, including its attitude to the UN and non-interference, and its role in Asia. Chapter 6 covers trade and investment and Chapter 7 deals with EU-China relations in the area of climate change. Chapter 8 looks at values and human rights. In Chapter 9 we consider European and Chinese approaches to international development, especially in Africa. Chapter 10 is on Hong Kong. Our conclusions and recommendations are listed in Chapter 11.

26. This Report was prepared by Sub-Committee C (Foreign Affairs, Defence and Development) whose members are listed in Appendix 1. Those from whom we took evidence are listed in Appendix 2. We are grateful to them all. We visited Brussels on 5–6 May 2009 and thank the UK Permanent Representative and his staff for their assistance. On 20–25 July 2009 we visited China and we are especially grateful to the UK Ambassador and the Consuls-General in Guangzhou and Hong Kong and their staffs; the note of our meetings is in Appendix 4. We are also particularly grateful to our Specialist Adviser, Dr David Kerr, of Durham University.
27. **We make this report to the House for debate.**

CHAPTER 2: THROUGH CHINESE EYES: THE SIGNIFICANCE OF THE EU FOR CHINA

A multi-polar world

28. We asked our witnesses how China saw the EU and how it fitted into Chinese perceptions of the world. Several outlined China's vision of a multi-polar world in which the EU would be a balancing factor to the US (see Professor Song²⁰ Q 493, Lillie QQ 2, 4, Grant Q 87). Wang Chong²¹ commented that the Chinese had now substituted "harmonious" for "multi-polar" world.
29. Ambassador Wu²² believed that Europeans had developed a complex because the centre of gravity had moved from the Atlantic to the Pacific. However, common ground between China and the EU was growing, which was more important than the differences; for example, the Chinese were attracted to European culture. Vice-Minister Zhang²³ thought that the challenges of globalisation were more pressing for the EU than for China. Reform in European markets had been slow and it would take several decades for the EU to adapt to the challenges of globalisation. National governments and political parties recognised that the European social model needed reform. Uncertainty and insecurity about where the EU was headed was increasing and government parties were being punished by the people.
30. Professor Breslin (Warwick University) thought that Chinese perceptions of the EU as an actor had diminished, particularly with the failure to lift the arms embargo²⁴, and they now had a more realistic understanding of the EU as one of the sites of governance in Europe but not the only one (Q 210). Charles Grant (Centre for European Reform) also thought that China was disappointed when the EU acceded to US demands that they continue the arms embargo (Q 87). Professor Mitter (Oxford University) thought that the Chinese were annoyed about the West's amnesia about China's role as a wartime ally (Q 148).

The EU as a political partner

31. Our witnesses said that China recognised that the EU was important but were uncertain about its influence and effectiveness as a political entity. Vice-Minister Liu Jieyi²⁵ told us that relations between the EU and China were some of the most important in the world. The EU and China agreed on the importance of multilateralism. China had always supported European integration and a larger role for the EU in international affairs (see also Song²⁶ Q 493, Lillie QQ 2, 4, Lord Mandelson QQ 723-4). China and the EU could cooperate in many of the hot spots of the world to advance

²⁰ UN University, Bruges and Renmin University, Beijing.

²¹ Director, China Weekly, Beijing, Appendix 4.

²² Senior adviser to the Ministry of Foreign Affairs, Beijing, Appendix 4.

²³ Ministry of Foreign Affairs, Beijing, Appendix 4.

²⁴ An EU "arms embargo" was imposed on China following the 1989 events in Tiananmen Square. See Chapter 5.

²⁵ International Department of the Communist Party, Beijing, Appendix 4.

²⁶ Professor Xinning Song, UN University, Bruges and Renmin University, Beijing.

development and peace and had much to gain from each other in trade and culture. However, the EU was a complex mechanism with Member States and European institutions and the Chinese public did not take a nuanced view of Europe's complexities. EU decision-making was not consistent, though the Chinese did not find any institutional difficulties dealing with it.

32. Professor Feng²⁷ thought that Chinese analysts had over-estimated European integration: the single currency and eastward expansion had led them to believe that a new superpower was emerging. The G20 summit had shown, however, that the EU was influential in projecting soft power. The EU's diplomacy had been successful during the French Presidency, but the EU's capacity for diplomacy fell away when smaller States held the Presidency. He did not think that the Lisbon Treaty would have a major impact on foreign policy; the Member States would not shift significant external decision-making to the European level.
33. Isabel Hilton (China Dialogue) believed the Chinese recognised the importance of the European economy and technology for their modernisation but thought that Europeans were "not very good at getting their act together on foreign policy ... they hope that we will grow up one day". The Chinese saw America as their peer group, rather than Russia or the EU, and took it seriously as a strategic actor because it had weapons, a single government and a single foreign policy. The EU was difficult to deal with because it was so complicated (Q 91). Professor Mitter thought that it was difficult for China to take the EU seriously until it was clear what the EU wanted from China (Q 158).
34. Professor Song also believed the Chinese would like to work with the EU on international issues, but questioned whether the EU had the capacity. On military matters China dealt with Member States (QQ 500, 501, 517). The strategic partnership with the EU was still being debated in China and not everyone agreed with it. There was no clear definition or common understanding of what the mutual strategic interests were. He thought that the EU-China relationship was a "collaborative partnership" rather than a strategic one. The EU and China should define how to work together, as the notion of a strategic partnership had a negative impact on the expectations of both sides (QQ 487, 490, 492).

The EU or Member States as partners?

35. Our witnesses commented on the Chinese difficulty in deciding whether to work with the EU or individual Member States. Professor Breslin thought it was not always clear for China where the locus of governance was in dealing with Europe, whether at EU or national level or locally (Q 183). Dr Brown believed that the Chinese did not understand the EU politically, particularly as the enlarged EU grouped together dissimilar countries. They saw that EU Member States fought among themselves to get contracts despite saying they were unified (Q 71).
36. Professor Song commented that China dealt with Brussels on trade issues and with Member States individually on investment. China invested resources in understanding and influencing the EU, including by working with the European institutions: "the only way to deal with the EU is to deal

²⁷ Chinese Institute for Contemporary International Relations, Beijing, Appendix 4.

with both the European level and the Member States” (QQ 493, 496, 517). Stephen Lillie (formerly Head of Far Eastern Group, FCO) agreed that the Chinese increasingly valued interaction with the EU but they also sought to influence it through their relations with individual Member States (QQ 3–4). Professor Feng commented that, before Maastricht, China had focused on the major States. After that it began to focus on Brussels, but attention had now returned to individual States, especially on hard security and strategic issues.

37. Vice-Minister Zhang²⁸ told us that Deng Xiaoping had stated 30 years previously that an integrated and powerful EU was in China’s interests; it was not China’s strategy to play national governments of the EU against each other or against the Union. Xing Hua²⁹ said that Chinese analysts rejected the idea that China favoured and exploited European division; on the contrary, China supported European integration. Patrick Child (then Commissioner Ferrero-Waldner’s Cabinet, Brussels) thought that China was less tempted than some other partners to exploit differences between national positions; they saw benefit in the EU being a strong component in a multi-polar system and valued the relationship. Robert Cooper (Director General, EU Council Secretariat) agreed (Q 411). James Moran (Director-Asia, RELEX) added that the Chinese understood the EU; they would consider playing one Member State off against the other for commercial advantage, but always against the background of the EU as a valuable partner. The relationship was complementary to and not competitive with relationships with Member States (Q 340).
38. By contrast, Dr Brown thought the Chinese government were very able to pick the Union apart (QQ 58–60). Isabel Hilton also commented that the Chinese found it easy to create disorder as the EU’s mechanisms were confused. The EU’s leaders were subjected to many pressures—anxieties from businessmen, concerns about the economy—which tended to weaken commitment to public messages to China on issues of concern (Q 95). Professor Godement (Centre Asie, Sciences Po) thought China would always pick the easiest interlocutor to deal with and “the big difference between the 1980s or the 1990s and today is that even the largest European Member State has a considerably weaker bargaining hand in dealing with China than it had 10 or 20 years ago” (Q 580).

Political and economic linkage

39. Our witnesses told us that there was evidence that the Chinese did not punish Member States commercially when political relations were in trouble. Lord Patten of Barnes said that it was wrong to think that political behaviour had an adverse effect on trade. The Chinese did business on the same basis as everybody else: “they buy what they want at the lowest price that they can get.” They constantly gave the impression that “unless you behave yourself on Taiwan, Tibet, China’s agenda, you will not be able to do business in China”, but this was not the case in practice. He cited a period during which British exports to China doubled despite tensions over Hong Kong (QQ 88, 101, 105, 557, also Hilton Q 101). Professor Godement said that China had criticised Denmark because the Prime Minister received the Dalai Lama, but

²⁸ Ministry of Foreign Affairs, Beijing, Appendix 4.

²⁹ Director, Centre for EU Studies, China Institute of International Studies, Round Table, Beijing, Appendix 4.

Denmark had for the past decade pursued a remarkable policy of cooperation with China at many levels concurrently with constant criticism on human rights; the Chinese seemed to have been able to live with it because they knew what to expect (Q 586). A dissenting voice was Robert Cooper who thought that, if one Member State acted on its own, it would find itself frozen out of some markets (Q 421).

40. Professor Godement pointed out that the French had not benefited commercially from past aid generosity and lenient treatment of the Chinese at the former UN Commission on Human Rights. "There was a belief among French leaders that good relations led to political trade. That has not paid off." The Chinese were able to define their commercial interests deal by deal and wanted to preserve competition among their main suppliers of goods and technologies (QQ 574, 575, 580, 582). Professor Song commented on China's view of Member States: China liked to work with Germany, its chief trade and economic partner, because it always followed the rules. Likewise, the Chinese paid more attention to the UK than to others because, although it criticised China, it would honour commitments once made (Q 497).
41. Charles Grant said the Chinese attached importance to long-term relationships with individuals. They had come to trust Commissioner Barroso when he was Portuguese Foreign Minister handling the Macao negotiations, and Lord Patten of Barnes when he was the EU External Affairs Commissioner (having disliked him in Hong Kong) (QQ 104, 105).
42. **China has difficulty with the political nature of the EU and its decision-making processes and finds it complex and incomplete as a system of governance. For this reason China often feels more comfortable with the Member States where lines of authority are clearer. This view may change if the EU becomes more effective following the implementation of the Lisbon Treaty. The Chinese do not think the Treaty will have a major impact on the EU's foreign policy but, until they see how the EU develops, the Chinese may blow hot and cold over the relationship. Since it is unlikely and undesirable that the EU will develop the strategic or defence capacity of a unitary State, the relationship will remain different from China's relations with other international actors, not least the United States.**
43. **It is unrealistic and undesirable that a single EU-China relationship will replace relations between China and individual Member States. The two will rightly continue in parallel. However, the EU and its Member States must be more consistent and not undermine each other. China will always pursue its own domestic and commercial interests single-mindedly. It will target individual countries and pick the easiest interlocutors to deal with to achieve its aims, particularly when it sees that Member States are not united.**
44. **The EU has to make hard decisions about which areas of its relations with China are best dealt with through a united EU approach. It is clear that disunity and lack of mutual support over issues such as the Dalai Lama weaken the position of both the EU and the Member States involved. The Lisbon Treaty will not be sufficient to enhance EU solidarity. Whilst respecting the division of competences, the EU and its Member States need to decide the key issues on which, in**

practice, the EU should stand firm on a united approach and then fully implement this approach.

45. **The Chinese will trade where they need to trade. Evidence given to us showed that good political relations have not necessarily led to commercial success with the Chinese. Conversely, difficult political relations have not necessarily entailed commercial damage.**
46. **The EU and its Member States should be forthright and consistent in their opinions and should not compromise on their principles for illusory short-term commercial gain.**

The view of the people

47. Professor Zhou³⁰ told us that her Institute's surveys on Chinese attitudes to Europe showed that a majority of people thought that Europe was a friend of China. Ambassador Chen³¹ echoed this: he claimed that the West was feeding China's insecurity by promoting Sinophobia which led some young Chinese to believe that China must be strong to resist.
48. At the people-to-people level Professor William Callahan (Manchester University) said the Chinese were generally unhappy with Europeans; this was reflected in Chinese tourist information about Europe (QQ 158, 161). Professor David Shambaugh (Director of the China Policy Program, George Washington University) wrote that Chinese understanding of the EU—both at the popular and expert levels—remained “relatively shallow and ill-informed” (p 308).
49. Professor Mitter thought, however, that there was considerable exposure to the outside world in China from commercial products, television, film and the large numbers of foreigners in China, which tempered more negative views (Q 163). To improve the situation he proposed closer EU engagement with China in higher education. Many young Chinese came to Europe, spent large sums on higher education and were concerned to get value for money. The UK had an advantage because of its language and the quality of higher education, but it was not alone. He questioned whether the EU would advance those links in a European way or whether Member States would act nationally (Q 162). Lord Patten of Barnes also commented on the value of university collaboration with China (Q 566).
50. The latest OECD figures³² show that 112,000 Chinese students were studying in the EU in 2007. Professor Shambaugh wrote that the number of Chinese students studying in EU universities (approximately 190,000) was quite impressive (p 308). While there is a discrepancy between these two figures, and the figure below, they nonetheless represent a significant flow of Chinese students to the EU.
51. Franz Jessen³³ told us in Brussels that cultural and civil society relationships were growing with increasing tourism both ways. Group visits from China

³⁰ Chinese Academy of Social Sciences, Beijing, Appendix 4.

³¹ Renmin University, Beijing, Appendix 4.

³² Education at a Glance 2009, www.oecd.org/edu/eag2009.

³³ External Relations (RELEX) Directorate General, European Commission, Brussels.

were now accepted into Europe with a fast-track visa procedure.³⁴ Student numbers were increasing with around 20,000 students from Europe studying in China and some 100,000 Chinese students studying in Europe. The EU-China Forum was one of the more formalised EU level dialogues which had taken place twice. A number of activities took place regularly under its umbrella bringing partners from Member States and different parts of China together for discussions. The EU intended to make this a more permanent activity. Think-tanks were developing cooperation, both among Europeans, and between Europeans and Chinese. Regular contacts also took place between Chinese and European Parliaments including the European Parliament (QQ 360–363).

52. Sukhdev Sharma³⁵ emphasised the importance of civil society relations as part of the EU-China partnership. The European Economic and Social Council had close relations with the Economic and Social Council of China (CESC). A Round Table with European and Chinese civil society participants was set up in 2007. Four topics had so far been addressed:
 - Sustainable development and climate change
 - Corporate social responsibility (CSR)
 - Trade and investment
 - Recycling industries
53. The Round Table meetings had led to practical results. The CSR series had been one of the most fruitful, leading to the endorsement of a broad definition of CSR and the adoption of several further commitments relating to rights and their implementation, the association of all interested parties, reporting and the exchange of best practices (pp 312–3).
54. Professor Callahan told us that most Chinese students studied science, engineering and business; growing numbers studied humanities and social sciences. A large proportion of influential people in China had studied in the West, in the US, UK and France in particular. Although many who had studied in the West were critical of it, “this is one way to influence China ... The more interchange we have, the better things are and will be”. Few people in the EU knew China, spoke a Chinese language or understood Chinese social sciences and humanities; more were needed. The Government had had to pump-prime the British Inter-University China Centre, a research and teaching body, which had been very successful. Think-tanks in Europe tended not to know about China and to take uncritically what their Chinese counterparts said (QQ 164, 165).
55. Professor Mitter believed that the way to influence China was not by telling it what to do. The way the EU dealt with expertise and education was one

³⁴ Council Decision 2004/265/EC of 8 March 2004 concerning the conclusion of the Memorandum of Understanding between the European Community and the National Tourism Administration of the People’s Republic of China on visa and related issues concerning tourist groups from the People’s Republic of China (ADS) (OJ L 83, 20.3.2004, p.12). This measure stipulates that designated travel agencies in China can act as authorised representatives of visa applicants from the People’s Republic of China who are travelling in a group. Such groups may be issued a Schengen visa, limited to a maximum of 30 days and bearing the reference “ADS” (Approved Destination Status). This is a Schengen-building measure and the UK is therefore not bound by or subject to this Council Decision’s application.

³⁵ Member of the European Economic and Social Committee (EESC) and President of the Follow-up Committee of the EU-China Civil Society Round Table.

method of demonstrating seriousness about China to the Chinese (Q 165). Professor Feng³⁶ believed the future of EU-China relations should be shaped by media, culture, education and civil society. The EU needed more experts on contemporary China, rather than on history and culture.

56. **We welcome the significant number of Chinese who study in Europe every year. However, we believe that the EU and the Member States should give greater encouragement and support to European students wishing to study in China to redress the imbalance in numbers and to expand the EU's capacity in government, business and the media to understand China as a country and an international actor. The EU and its Member States should also encourage the study of Chinese languages, culture and institutions within the countries of the EU.**

What China wants from the EU

57. The size of the Chinese Mission in Brussels demonstrates its importance for China. Professor Song told us that the Delegation to the EU was large, though smaller than the Chinese Embassy in the US. Only the Posts in Washington and the EU had a special group working with a parliament. China had Deputy Minister-level ambassadors to Germany, France, the UK and the EU. The EU Ambassador had been upgraded in 2002, having previously been combined with the Embassy to Belgium. The current Ambassador had been the Secretary to Premier Wen Jiabao. China put resources into understanding the EU and realised that they had to work with the Commission and the European Parliament. It was more difficult to work with the Council (QQ 496–499).
58. James Moran (Director-Asia, DG Relex) told us that there were 70–80 Chinese at the Mission in Brussels. They engaged with virtually every part of the institutional network, and had researched the EU thoroughly (Q 341). Professor Godement commented that China was becoming more efficient at many levels of government action, particularly international relations. The talent and training of their diplomatic cadre had improved over the past 20 years, as had their ability to coordinate their government machine (Q 579).
59. Lord Patten of Barnes summarised the Chinese strategy towards the EU: open markets for their goods; European investment; technology and research collaboration. “They want us to behave ourselves ... over Taiwan and Tibet.” They attached importance to the relationship and had produced positive documents on China’s relationship with the EU, and they sent more senior diplomats to Brussels than some other partners (QQ 551, 552). Lord Mandelson added the arms embargo, anti-dumping duties and market economy status to the list of important issues for the Chinese (Q 728). Vice-Minister Zhang³⁷ said that China had to respond if European speeches or acts harmed any of their core national interests: national unity, sovereignty, territorial integrity.
60. Dr Brown told us that the diversity of political and legal systems in Europe was “one key area where there has been actual tangible interest in what Europe has to offer.” The Chinese had sent delegations to look at social democratic systems in northern Europe and parliamentary democracy in the UK (QQ 63, 67).

³⁶ Chinese Institute for Contemporary International Relations, Beijing, Appendix 4.

³⁷ Ministry of Foreign Affairs, Beijing, Appendix 4.

Professor Song thought that “for China the most strategically important matter is China’s domestic development ... economic ... social and political ...” It was important for China to work with the EU in this area; the European experience was more relevant than America’s. He confirmed that the Chinese had for the last 10–15 years looked at European party political models (e.g. social democratic parties). He thought China should also work more closely with the EU on regional policy (QQ 487, 490, 492).

61. For internal reasons, the Chinese are interested in the EU’s social models. Professor Song told us that China faced a challenge on social security. In attempting to build a system, China preferred the European model of “social capitalism”, rather than free market capitalism as in the United States (Q 514).
62. China sees the EU as a source of knowledge and expertise, particularly in the field of technology. Professor Song commented that the EU was China’s prime provider of technology (Q 493). Dr Brown told us: “the EU offers what China wants from most modernised industrialised economies; ... intellectual property, expertise, management know-how and how to modernise its own economy.” It therefore looked to the EU for partners and models (Q 75). China saw the EU as a source of good technology, including clean coal technology. It believed this should be transferred as a gift, rather than as a commercial deal (Q 48). The Chinese government viewed the EU as a partner on the environment and energy; when speaking to the US, the discussion became politicised very early (Q 55).
63. **The Chinese are interested in social, political and regional models which might be useful for their own reform. When they show interest the EU should make efforts to help them with the aim of encouraging steady and peaceful change. In particular, assistance with the introduction of social security provisions may be one way to help the Chinese increase home consumption and re-balance their trade surplus.**

CHAPTER 3: EU PERCEPTIONS, EU ACTIONS

The significance of China for the EU

64. In the light of China's emergence as a major economic and political power, the EU has had to adjust its policies. As Lord Mandelson put it, "China's growing economic weight, and therefore its increasing political influence or power in the world, means that we have to come to terms with China as it is ... and not perhaps ... as we would like it to be" (Q 715). The public has become increasingly aware of China's commercial importance, not least through the presence of so many "Made in China" articles in European shops.

Current structures

65. We asked our witnesses for their views on the mechanisms operating in the EU-China relationship (see Chapter 1). For Stephen Lillie, the current structures represented a "huge architecture which reflects the breadth of the relationship" (Q 11). Europe Minister Chris Bryant MP argued, however, that the current institutional architecture was inadequate; a formal Council Decision should set the framework for the EU's policy on China, rather than the present working paper. He hoped that the new High Representative for Foreign Affairs created by the Lisbon Treaty would present the Council with proposals for a "more effective long-term, strategic relationship with China" (Q 758). The EU should be "more robust" in its relationship with China, and needed a "strategic vision" of that relationship (Q 766).
66. Michael Pulch³⁸ told us that the EU Delegation in Beijing was one of the largest and was growing, reflecting the importance of China. Its staff of 120, Brussels-based and locally-engaged, included people from the EU agencies, e.g. the European Patent Office. With the implementation of the Lisbon Treaty, the Delegation would become the embassy of the EU as well as the Commission, and would probably expand further. More reporting would be expected than current resources could probably deliver. Trade provided most of the Delegation's work but they also undertook political reporting.
67. Professor Ash thought that the way in which the EU talked to the central government and its agents posed a problem; there was no guarantee that policies formulated in central government were implemented when they reached provincial, sub-provincial and municipal governments (Q 184). Professor Breslin thought that the EU's Delegation concentrated its activities in the political centres, whereas the China-Britain Business Council, for example, operated offices in six or seven different cities and different regional activities. A more even representation in different parts of China would do no harm (Q 185).
68. We were told by James Moran (DG Relex) that strategic dialogues on East Asia had started in recent years involving the troika³⁹; one on transparency in military expenditure had gone well (Q 344). For Dr Gudrun Wacker (German Institute for International and Security Affairs), the added value of the sectoral dialogues was "far from clear". The recently-instituted High

³⁸ Chargé d'Affaires at the EC Delegation, Beijing, Appendix 4.

³⁹ Presidency, Commission, High Representative.

Level Economic and Trade Mechanism, modelled on the US Strategic Economic Dialogue, “could be helpful”. It was not clear who could negotiate for the EU on currency issues, given that not all Member States were members of the euro (p 325).

69. Patrick Child pointed out that the Chinese government had a longer time horizon in its planning than the EU and Member State governments, with the EU’s institutional cycle and changing national governments (QQ 338, 353).

Coherence and consistency

70. Professor Godement claimed that the EU’s diplomacy with China lacked focus. In some 50 summits between the EU and China, the same EU policy priority had never appeared twice and the language changed. This contrasted with the United States’ relationship with China, which was strategic and focused (Q 584).
71. Dr Wacker thought the annual summit meetings were important to build trust in the “long-term orientation” of the partnership, but that EU representation by the Commission, Council and rotating Presidency was cumbersome⁴⁰. It lacked consistency and continuity, as each rotating Presidency introduced something new, resulting in “nice words” in the summit statements but no follow-up. The EU should cover less ground with greater consistency; but Commission, Council and Member States would not subscribe to a common strategy, on paper or in implementation. Two 2006 Commission papers on economic and political relations with China were modified substantially by Council Conclusions. “The Member States are either not willing or not able to formulate their interests and priorities on China ... instead, national reflexes prevail” (p 326).
72. Professor Shambaugh wrote that the Commission and Council had formulated a series of well thought-through Communications on China since 1995. The problem was that the Member States did not follow the strategies and policy guidelines formulated by the Commission and Council, thus undercutting their authority as well as the substance and wisdom of EU policies. The incoherence of the “common” foreign and security policy had had a negative effect on how the EU was perceived in China. The diversity of the EU weakened its ability to gain China’s respect and to negotiate effectively on substantive concerns (p 309).

A strategic partnership?

73. In 2005 the EU began a strategic dialogue with China. Our witnesses were generally unimpressed with its development. The Europe Minister told us that it could be more strategic and coherent (Q 758). For Lord Mandelson, the best way to conduct the relationship was “at a high level, in a coherent way and with give and take”. Dialogue was valuable, but it should lead to “deliverables” (Q 728). The EU should refocus its efforts in the light of the Lisbon Treaty. The UK would argue strongly that “one of the places [the EU] needs to ... increase its reputation is in China” (Q 781). Professor Flemming Christiansen (Chair in Chinese Studies, Leeds

⁴⁰ EU-China summits are attended by the Chinese Prime Minister and other relevant Ministers and, for the EU, by the President of the Council of Ministers, the President of the Commission and the High Representative, as well as other relevant Ministers and Commissioners.

University) hoped that European political discourse on China would undergo a “reality check”. Obsolete perceptions should be discarded and shared understanding of China among European decision-makers built (p 247).

74. Lord Patten of Barnes criticised the EU: China had a clear strategy but the EU response was fractured and inconsistent. Channels for dialogue proliferated across the European institutions and the Member States, including six climate dialogues and approximately 28 dialogues on trade and economic issues. The EU did not always act collectively, even in areas of EU competence such as these (QQ 551, 558).
75. Professor Mitter believed that a “frank, honest and positive acknowledgement of ... differences may be ... more useful in terms of engaging with the policy makers and thinkers in China” rather than using phrases which attempted to overcome real differences in world view (Q 160). Professor Feng thought that in China the term “engagement” was not understood; “cooperation” should be used.
76. Professor Godement challenged as outdated the EU’s treatment of China as a developing country to be aided in transition towards a market economy and a changed political system. China still had underdeveloped areas, but the EU’s relationship with China was not typical of its relationships with other developing countries. Interdependence between the EU and China would not, by itself, lead to a convergence of norms or to democracy in China. “We are dealing with an interlocutor who is naturally stronger and more realist” and who saw the EU’s practice of engaging unconditionally with China as an opportunity to push further in many areas. Experience in negotiating with the Chinese on WTO entry had shown that the tough, united approach of the US had been more successful in gaining concessions than that of the EU (QQ 573, 574).
77. **The EU calls its relations with China a strategic partnership, but as yet this is a misnomer. In practice, the EU-China relationship is currently better described as a “collaborative partnership,” in which they collaborate on a limited range of issues. The EU must seek to build a genuine strategic partnership with China, increasing mutual understanding and broadening engagement. This will involve a two-way exchange. The EU may, for example, have lessons to learn from the Chinese on commercial competition and gaining markets.**
78. **The rotating EU Presidency, with its changing priorities, has not served the EU well in dealing with China. The EU must identify its key priorities for EU-China summits and pursue them with clarity, vigour and consistency so that China takes account of EU views. The Lisbon Treaty arrangements alone will not do this. It will also require strong political will and consistent determination.**
79. **Experience in negotiating China’s entry into the WTO showed that the tough approach used by the US produced the best results. The EU should not be afraid to use this approach if appropriate in negotiations with the Chinese. If the Chinese cancel a summit, the EU should demonstrate in other areas of the relationship that this is not cost-free.**
80. **The institutional framework for EU-China relations is highly developed, especially at the working level. Summits and sectoral discussions should focus on deliverable outcomes on real issues. The sectoral discussions should be used in future to discuss those issues**

which have dropped from the summit agenda but are still important to Member States.

81. **The EU needs to expand its representation beyond Beijing and Hong Kong and establish regional offices, in order to extend its influence and effectiveness, particularly in China's other major centres.**
82. **Apart from key climate change projects, the EU should ensure that funds disbursed under the development envelope focus on training in areas of governance such as the rule of law, human rights and social models.**
83. **In discussions with China the EU should endeavour to ensure clarity in the language used, and that each side knows what the other means when using terminology, such as "strategic" and "engagement."**

The interests of the Member States

84. Dr Brown said that the UK, Germany and France had tended to take a lead within the EU on policy towards China; they were the biggest investors in China and recipients of investment from China (Q 78). On the other hand Matthew Baldwin (Cabinet of EU Commission President Barroso) thought the EU was increasingly acting as a union though there would always be a parallel set of contacts between the larger Member States and China. The EU was working on a multiplicity of contacts: parliamentary, business-to-business, NGO (QQ 322, 328).
85. Professor Shambaugh wrote that perspectives on China varied greatly among the Member States. Some central European countries were quite hostile to China; some Mediterranean countries were naïve about China; France, Germany, and the Netherlands were quite sceptical of China; whereas the UK and the Scandinavian states were much more positive towards China. Only Germany and the UK had national "strategies" for managing relations with China (p 310).
86. Robert Cooper (Director General, EU Council Secretariat) commented that there would always be different interests and points of view among 27 countries; the question was whether there was sufficient solidarity and common interest to get more from cooperative behaviour than from trying to make gains as individuals (QQ 411–412).
87. Professor Godement said that several countries had faced difficulties in their relations with China: the Netherlands in the early 1980s, and the UK in the run-up to the 1997 handover of Hong Kong. France had alternated between "honeymoon diplomacy" and sudden crises. Currently the UK, Germany and France were caught in a "prisoner's dilemma" in their relations with China, each seeking advantages from the difficulties encountered by others (QQ 573–575, 580, 582).
88. Charles Grant also commented that Europeans sometimes undermined each other: when the German Chancellor had got into trouble over the Dalai Lama in 2007, the British and French had not shown solidarity; nor had the French received solidarity when President Sarkozy had got into trouble on the same subject⁴¹. "If only we could ... get our act together and concert our diplomacy—not unify with one voice but concert it so we support each other—

⁴¹ In 2008, during the French Presidency, the Chinese cancelled the summit following President Sarkozy's meeting with the Dalai Lama.

we would be much stronger in dealing with the Chinese. They would have more respect for us” (QQ 87, 100–1). Lord Patten of Barnes agreed: when European leaders decided to meet the Dalai Lama, China found it easy to pick them off. “Not a single Member State comes to the defence of the others ... everybody hopes that they will gain some imagined commercial benefit from the embarrassment caused to a fellow Member State” (QQ 551, 558).

89. **Although Member States will continue to pursue their own interests for political and commercial reasons, unwarranted Chinese political or economic action against any Member State must be seen as an affront to all EU Member States. There should be a presumption that the EU and its Member States should take action promptly in such cases to uphold solidarity across the EU. This would be one of the most effective measures to rebalance the relationship.**

The Partnership and Cooperation Agreement

90. Patrick Child told us (in May 2009) that discussions on a Partnership and Cooperation Agreement were making good progress. James Moran said that updating the 1985 Agreement was suggested by the Chinese. The new Agreement would be more comprehensive. As of May, agreement had been reached on a number of difficult areas, for example non-proliferation (on which the Council was in the lead). With the new Agreement, the EU aspired to engage the Chinese at the level of their State Council. Trade had however been more difficult as the Chinese would not go beyond their WTO commitments (QQ 337, 340). Franz Jessen at the Commission added that crime, terrorism, corruption and migration were four major chapters in the PCA negotiation and progress had been made on the first three (Q 365).
91. Stephen Lillie told us that the PCA was being pursued as two parallel negotiations: on trade, which was moving more slowly; and on other areas including environment, tourism, culture and transport, which were moving slightly faster. There was also an article on terrorism. Points of divergence remained, including many difficult market access issues from the European perspective⁴². One of the sensitive negotiations concerned Taiwan which was politically very important for the Chinese but raised difficulties for the European side (see Chapter 5) (QQ 11, 33).
92. Lord Mandelson believed that the PCA would be an appropriate framework within which to address economic and political relations between the EU and China, covering the whole range of issues. Negotiation was making steady but slow progress. While agreements such as these appeared to be time-consuming, they allowed issues to be raised and compromises made for mutual benefit. A trade agreement was different and should focus on trade (Q 749, 750).
93. **We support the EU’s efforts to negotiate a PCA with China to replace the outdated 1985 Trade and Cooperation Agreement. The new Agreement must underpin the new wide-ranging strategic relationship but the EU should be careful not to dilute the long-standing political aims such as language on human rights, for progress on commercial relations. The time-frame should enable a good result rather than a rushed one.**

⁴² Evidence given in March 2009.

CHAPTER 4: CHINA AND INTERNATIONAL RESPONSIBILITY: STABILITY AND WORLD ORDER

China on the global stage: ambitious to rise but reluctant to commit

94. China is one of the five Permanent Members (P 5) of the UN Security Council. It is a member of other international organisations but, significantly, given its recent emergence as a major economic player, is under-represented in international financial organisations⁴³. Dr Brown commented that this accounted for China's reluctance to help in IMF bailouts (QQ 42–43).
95. Professor Breslin agreed that the structures of the major financial institutions were based on a balance of power from a different age. Demand had grown in China for reform of voting power in the IMF and World Bank and for an end to the dominance of the dollar as a global reserve currency, to reflect the growing significance of Chinese financial power, foreign reserve holding and overseas currency accounts. The Chinese were reluctant to bail out the West, though they wanted western growth given the importance of western consumers (Q 187).
96. Isabel Hilton thought that the Chinese were “joining a world in which all the rules were made by us essentially,” and trying to find their place. China was evolving into a responsible international player, although more slowly than many would wish (Q 88). Professor Godement commented, however, that China was not yet contributing much to the international order and was leaving to the industrialised countries the burden of enforcement (Q 589).
97. Charles Grant told us that China had never taken a leadership role in global governance but had seen itself as a developing country exploited by developed countries. The Europeans had to help the Chinese understand that they were now at the world's top table. The Chinese were afraid of responsibility, did not want to join the G8 and worried that, if they did, they would have to deliver painful outcomes on climate change involving more aid to developing countries. “They are a kind of adolescent: they know they are growing up ... but they do not want to do the things that adults have to do.” The G20 was a good forum in which to encourage the Chinese to take responsibility for global governance. The rules in the International Energy Agency should be changed to encourage the Chinese to join (QQ 93, 102).
98. Dr Bates Gill (Stockholm International Peace Research Institute) saw China emerging as a responsible stakeholder. On non-proliferation, peacekeeping and arms transfers it had taken decisions which were converging with other major actors, especially the US and the EU. China realised that, as an increasingly globalised player, it had a strategic stake in assuring that regional and international problems were dealt with. The trends were right, but it remained to be seen how far China was prepared to go (Q 630).
99. Professor Callahan saw in some Chinese thinking an emerging interest in imperial concepts that placed China at the centre of the world and saw China as superior to the western value-based world. China was currently pursuing parallel policies of engaging with the West and multilateral organisations, and of following a separate path as a leader in Asia, Africa and Latin America

⁴³ IMF figures give 3.66% of voting rights for China, compared with US 16.77%, Japan 6.02%, UK 4.85%, France 4.85%, Germany 5.88%.

(QQ 146, 147). Dr Steve Tsang (Oxford University) commented that the political system in China, which he described as “consultative Leninism,” was the key to understanding the Chinese government’s approach to the rest of the world. The government was currently focused on domestic stability and it was impossible to foresee its longer-term intentions on the international stage. It was likely at times to accommodate nationalist sentiments by tactically putting aside its “peaceful rise policy”. This uncertainty provided a “particularly strong case” for the EU to adopt a policy of engagement with China (pp 320–3)

100. China’s quest for natural resources is a major driver of its foreign and commercial policy (see Chapter 9). Professor Shambaugh noted four principal goals of China’s foreign policy:

- maintaining stable relations with other major powers, particularly the United States;
- peaceful relations with China’s neighbours;
- securing access to foreign technology, capital and markets; and
- contributing to global governance while attempting to redress perceived inequities in the international system.

He agreed with our other witnesses that China’s external policies were largely oriented towards furthering its internal development (p 307).

101. We asked who made foreign policy, particularly on the EU. Professor Song said that the Foreign Ministry undertook the basic daily work of formulating foreign policy but most important strategic decisions were made by the Politburo or the Standing Committee. Premier Wen Jiabao focussed more on Europe and President Hu Jintao on the US, though the division of responsibilities was not clear. The Americans had a “hotline”; the Europeans did not. The 1985 EU-China Agreement had specified the Ministry of Commerce as the lead department for EU-China programmes or agreements, rather than the Foreign Ministry (QQ 482, 484, 486).

102. The basic governmental decision-making structure comprised a small group which limited the role of think-tanks and universities. Few people knew how the 2008 postponement of the EU-China summit had been decided. The role of think-tanks was increasing but they were difficult to define: the China Institute of International Studies and the China Institute of Contemporary International Relations, for example, were basically governmental institutions and had a channel to the top leaders. Universities too were now more active and European Studies had developed over the past 10–15 years with some 30 research centres, mostly in universities. Professor Song’s institution produced policy reports which sometimes differed from the Government’s views, but in most cases the Government sought its views. Experts were occasionally invited to meet the President, but mainly to discuss US-related policy. The role of public opinion was not strong but was increasing through newspapers, especially local newspapers, and through the internet (QQ 482, 484, 486).

103. **The EU should accept China’s wish for greater representation in international organisations, and especially financial institutions, commensurate with its increased economic weight. At the same time, the EU should emphasise in its dialogue with China that China cannot commit only to those institutions and agreements that fulfil its perceived national interests, and that it is in China’s real interest to**

increase its commitment to upholding the rule of law and maintaining international stability, alongside other major nations.

Non-interference and the UN umbrella

104. China has consistently promoted the concept of non-interference in the internal affairs of others and the role played by the UN as “a multilateral actor to help bring development and stability to the world.” It believed a stronger UN role, where it had a bigger voice, was in its interests (Gill⁴⁴ Q 634). Vice-Minister Zhang⁴⁵ maintained that China had a greater awareness of the position of smaller, weaker countries than large powers, who should respect the feelings of smaller countries.
105. Professor Callahan thought the Chinese position on non-interference was influenced by their own situation and their historical relations with Japan and Europe. Some Chinese saw parallels between Kosovo and Xinjiang (Q 155). Ambassador Chen⁴⁶ said that China shared with developing countries a concern for national sovereignty due to its experiences. China would make a contribution to international peace and security whilst defending the principle of non-interference, and would always favour persuasion rather than coercion. This would complement the actions of the US in a kind of pull and push effect.
106. Robert Cooper⁴⁷ thought that the “the general behaviour of China as an international actor historically has been striking for its responsibility ... What they will do when they have become larger and stronger we do not know, but by the standards of history they are a remarkably responsible power.” They had made particular efforts to reassure their neighbours in Asia (Q 392).
107. Isabel Hilton, however, thought that non-interference was rhetorical; China’s attitudes were slowly changing, reflecting China’s long-term interests (Q 133, see also Grant Q 143). Human Rights Watch, commenting on how Chinese diplomats often blocked UN Security Council resolutions on sanctions against offenders, such as Burma, noted that in two situations on which the EU had engaged China at the highest level⁴⁸ China had been willing to show support or abstain (p 304).
108. Stephen Lillie told us that the international community had expanded its dialogue with China on international issues because China’s overseas investments had increased its external interests. Intensive dialogue took place between the EU, as well as individual countries, and China where China could exercise its economic influence in helpful ways. In general China did not favour sanctions in any situation and would always emphasise dialogue (Q 21).

Chinese involvement in peacekeeping and countering piracy

109. Stephen Lillie told us that China was the largest supplier of peacekeeping troops amongst the P5 (Q 21)⁴⁹. Professor Mitter told us that, where

⁴⁴ Dr Bates Gill, Stockholm International Peace Research Institute (SIPRI).

⁴⁵ Ministry of Foreign Affairs, Beijing, Appendix 4.

⁴⁶ Renmin University, Beijing, Appendix 4.

⁴⁷ Director General for External and Politico-Military Affairs, Council of the EU, Appendix 4.

⁴⁸ Security Council resolution 1593 of 2005 referring Darfur to the International Criminal Court and resolutions on the Middle East.

⁴⁹ See Appendix 6 for details of China’s contribution to peace-keeping.

possible, China tried to take part in multilateral political and military operations that enabled it to be present without seeming assertive. The presence of their military engineers in peacekeeping operations was a useful symbol that China wished to take part in international endeavours. China would probably continue to use its economic power and project a peaceful image rather than using its military capabilities in an assertive way. “Responsibility to protect⁵⁰” was a troubling term for the Chinese as it seemed to spell liberal intervention, which they opposed. Their participation in peacekeeping operations suggested, however, that there was some flexibility in their position (Q 155).

110. Dr Gill said that there was “great praise and appreciation” from the UN for China’s contribution to peacekeeping in Haiti, the Democratic Republic of Congo (DRC) and Liberia. The Chinese were disciplined, hard-working and making important contributions in certain areas: medical missions, transport and engineering. In the DRC they had supplied all the logistical needs of the UN operation. The next step, which China had so far avoided, would be to contribute combat troops (QQ 631–2, 635). Robert Cooper told us that he had asked the Chinese whether they might at some stage join an ESDP operation; they were thinking about it (Q 410).
111. Charles Grant thought that Chinese naval involvement in combating Somali piracy was an example of China’s becoming a more responsible global stakeholder (Q 95). According to Professor Song, China had a clear interest in protecting its overseas economic interests and Chinese citizens. This had been debated in the last 4–5 years, as had the question whether China should send ships so far away. The leadership still worried about how the outside world perceived this kind of action, the “China threat”, and preferred to keep a low profile in the international arena (Q 503). Dr Brown commented that China had become very proactive. They had sent 3,000 peacekeepers to the Sudan through the UN, though it was not clear whether this was to protect the considerable Chinese assets or concealed some bigger geopolitical ambition (Q 82).
112. Dr Gill thought that the increased contribution to UN peacekeeping and the deployment of three ships patrolling the Gulf of Aden had been the two most important projections of Chinese military power in recent years. “China has never, in its contemporary history, projected its naval forces so far and for so long. They are demonstrating the capacity” (Q 602). China’s construction contracts in the Indian Ocean should, however, not be interpreted as a deliberate programme of strategic projection. Like other nations in peacetime, China relied on normal commercial forms of logistical support. In the event of war, it would be very unlikely that the same countries with which China had commercial agreements would offer safe harbour and supply to Chinese military vessels (Q 606).
113. **China looks to the UN as the framework for conducting international affairs. However, its policy of non-interference in the internal affairs of other countries has at times hindered the effectiveness of the UN in dealing with conflicts and abuses of human rights in countries such as**

⁵⁰ This concept, adopted by the UN in 2005, holds that states have a responsibility to protect their own populations from genocide, crimes against humanity and other threats; and that if a state is unable or unwilling to do so, the international community has the obligation to take action, including through the use of military force as a last resort and if appropriate.

Burma. There are signs that this is changing, mainly because of China's increasing need for stability in the world as its economic interests drive it further afield in search of resources. The EU should demonstrate to the Chinese that good governance leads to the stability in which they and the EU have a mutual interest.

114. **China has provided non-combat troops and significant logistical support to UN peacekeeping operations. The EU should encourage China along this path and urge them also to contribute combat troops. The EU should also explore whether China could assist the EU with logistical support for its missions in Africa and Asia.**
115. **Chinese projection of naval forces to protect its shipping from Somali piracy is significant as a demonstration of capacity and as an acknowledgement that its domestic concerns can best be served in cooperation with others. Further cooperation with the EU's Operation Atalanta should be encouraged.**
116. **We note that Chinese efforts to establish port facilities in a number of countries in the Indian Ocean appear to be primarily motivated by commercial considerations. The EU should accept that these are a normal part of the expansion of China's regional economic relations and do not represent an attempt to change the strategic balance in the Indian Ocean at this time.**

G2, G20 and the triangular EU-US-China relationship

117. We asked our witnesses for their views on the possible emergence of a US-China G2. Isabel Hilton thought that, on an informal basis, this was "a very powerful partnership in which there are very strong mutual interests," in stabilising the world economy and climate change. Under President Obama the dialogue was opening up, but both sides recognised that the global dialogue was what counted (Q 108). Other witnesses also thought that the Chinese would not accept the concept of a G2 (Song QQ 491, 492, Ash, Breslin QQ 192, 208, 209). Matthew Baldwin⁵¹ thought the jury was out on the G2, but the role the Chinese played in the 2009 G20 meeting showed that China had a stake in geopolitical stability (QQ 316, 320). Lord Mandelson and DFID Minister Gareth Thomas MP confirmed that China had become an important player in the G20 (Q 535). Professor Breslin thought, however, that the Chinese would prefer participation in an expanded G8 as the G20 appeared "too big and ... diverse to be able to make the decisions that will affect them" (Q 192).
118. For Professor Callahan, the US was a constant factor in the EU-China relationship (Q 176). Dr Gill thought that resolution of most of the major global challenges would need cooperation between the EU or major EU states, the US and China (QQ 614-616). Professor Feng⁵² believed that China's problem might be that relations with the EU moved closer only when the transatlantic relationship was difficult. By contrast, Charles Grant thought that problems in the EU-China relationship reduced when China and America got on well; conversely bad China-US relations led to divisions among the Europeans because some European governments wanted to keep America happy (QQ 108,

⁵¹ Then a member of President Barroso's Cabinet.

⁵² Chinese Institute for Contemporary International Relations, Beijing, Appendix 4.

109). Lord Mandelson warned that the EU should not be played off against the US as they had similar if not identical values and interests (QQ 723–724).

China's growing interest and engagement in its region

Regional organisations

119. Professor Breslin described the change in China's policy towards the East Asia region as "astonishing". Until recently China had not had diplomatic relations with a number of states and believed that the Association of South East Asian Nations (ASEAN⁵³) was an ally of the US, hostile to Chinese interests (Q 211). Robert Cooper, too, had observed the change in the way China dealt with other Asian countries; they were readier to discuss security matters than 10–15 years previously and now worked actively in ASEAN and ASEAN+3 (China, Japan and South Korea) (Q 407). Professor Song told us that "China's major strategic concern is the neighbourhood policy"—its neighbours, regional security and Taiwan (Q 489). Charles Grant thought the Chinese were more sympathetic to regional than global governance, which they were better able to dominate, and in which America was not involved. They therefore favoured the ASEAN+3 format and the Shanghai Cooperation Organisation (QQ 113, 116).
120. While the EU accounts for 17% of China's foreign trade, East Asia (defined as the 10 ASEAN countries, plus Japan, South Korea, Hong Kong SAR and Taiwan) together account for more than 40% of China's trade (Song Q 510). Professor Ash commented that China's trade with ASEAN, Japan, South Korea and Taiwan put together was greater than its trade with the US (Q 211).
121. The EU works with Asia in the ASEM⁵⁴ (Asia Europe Meeting). Charles Grant did not think the meetings held in this forum achieved much (QQ 113, 116). However, James Moran, in Brussels, told us that common ground had been found with China in ASEM, particularly on the financial crisis. The EU cooperated with ASEAN and SAARC (South Asian Association for Regional Cooperation). It followed the Shanghai Cooperation Organisation closely but was not formally associated (QQ 351, 352). Professor Mitter thought it unlikely that China would tie itself down into any one set of alliances, or that there would be a special relationship between China and any other entity or body. This was an opportunity as well as a problem for the EU (Q 170).
122. Professor Callahan told us that China had worked to settle border disputes with Russia, the Central Asian states and Vietnam. A dispute with India remained but was being pursued in a non-violent way. The general trend had been towards using diplomacy rather than warfare (Q 157). However, the Chinese-Indian dispute has recently become more active over the Chinese claim that the state of Arunachal Pradesh in the Himalayan region of North East India is part of China (see Appendix 9).
123. **China's trade and political relationships with the countries in East Asia have intensified in recent years. China is now a major regional**

⁵³ ASEAN nations: Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam.

⁵⁴ The ASEM was established in 1996 and currently comprises the 27 EU countries and the Commission, and Brunei, Burma, Cambodia, China, India, Indonesia, Japan, Republic of Korea, Laos, Malaysia, Mongolia, Pakistan, the Philippines, Singapore, Thailand, Vietnam and the ASEAN Secretariat.

player. The EU should note the increasing role of China in the region and engage in more frequent consultations with regional powers about China's role. The EU should explore ways in which to develop ASEM as a major forum for dialogue and cooperation between European and Pacific Asian countries.

Iran, North Korea, Burma

124. On Iran, the EU 3 (UK, France, Germany) work with China as well as the US and Russia (the E3+3) in a group aimed at containing Iran's nuclear ambitions. Vice-Minister Liu Jieyi⁵⁵ told us that China welcomed this cooperation and Professor Jin⁵⁶ thought that the EU and China shared a common interest in the nuclear hot-spot of Iran. Stephen Lillie also said China shared the same ultimate objective as the EU in not wanting to see a nuclear-armed Iran (Q 21). Robert Cooper (Director General, EU Council of Ministers, who chaired a New York meeting of the E3+3 in January 2010⁵⁷) told us he had tried to persuade the Chinese that the EU and China shared a similar need for stability in the Middle East, not compatible with Iranian nuclear weapons; they had extensive commercial interests in Iran and were not enthusiastic about sanctions (Q 395). Charles Grant said that China did not like the pressure the West was forcing them to put on Iran, but had nonetheless signed up to three rounds of sanctions so far (QQ 113, 116).
125. Unlike China, the EU is not involved directly in the six-party talks on North Korea⁵⁸. However, Dr Gill thought some Member States with an active diplomatic presence played a role providing information, insight and understanding to allies about developments in North Korea (Q 612).
126. Lord Patten of Barnes thought the EU should put greater pressure on the Chinese over regional stability. On Burma the Chinese had concluded that the junta was more likely to provide stability than any democratic elections. They had, however, "in a quiet way" tried to encourage political change (Q 560). Lord Mandelson agreed that China exercised its influence in a welcome way (Q 720). Isabel Hilton believed that China had moved a little on Burma. She was unsure if this was due to EU high-level engagement (QQ 95, 98, 117, 118). Robert Cooper thought that China was concerned about the possibility of Burma's becoming even more of a failed state than it was at present. Perhaps China would be best engaged by focussing more on the risks emanating from the country than on human rights questions (Q 409).
127. **China's performance is improving on non-proliferation and arms transfers as it increasingly appreciates that it has a strategic stake in regional and international stability. The EU should encourage China along this path in collaboration with the US which will remain China's principal interlocutor on non-proliferation issues. The EU should also seek China's support in other arms control measures, such as engagement in the EU Strategy on Small Arms and Light Weapons, where it can also play an important role.**

⁵⁵ International Department of the Communist Party, Beijing, Appendix 4.

⁵⁶ Renmin University, Beijing, Appendix 4.

⁵⁷ The Times, 18 January 2010, reported that China had sent a junior diplomat to meet the Political Directors of the other five, and had blocked a new round of sanctions against Iran.

⁵⁸ The six-party talks bring together China, South Korea, North Korea, the US, Russia and Japan.

128. **China and the EU share non-proliferation objectives in Iran and North Korea, but China has a different approach. In Iran it has economic interests to protect and it dislikes sanctions in principle. The EU should persuade China that it is in its interests to engage seriously in joint actions as part of the E3+3 (UK, France, Germany, US, Russia, China). In North Korea the EU, which has no direct role in discussions, should encourage China to continue to play a leading role in the talks, despite its fears of possible instability on its border if the regime were to change suddenly.**

Pakistan, Afghanistan

129. China and the EU share a common concern about stability and terrorism in two of China's near neighbours, Pakistan and Afghanistan, where China has invested heavily. Professor Jin⁵⁹ thought that the EU and China shared a common interest in security in Pakistan and Afghanistan. Professor Godement told us that the Chinese had invested US\$3 billion in the world's second-largest copper mine in Afghanistan and coalition troops were defending it (QQ 590, 598). Isabel Hilton agreed that China was a long-time ally of Pakistan and had made enormous infrastructural investments including a deep water port and pipelines. Therefore the Taliban and destabilisation in Pakistan were a concern (QQ 95, 98, 117, 118).
130. Professor Godement thought that China might be prepared to cooperate with the Allies if it thought there was a grave threat to Pakistan's integrity in the future; if the regime toppled, it "would be a catastrophe" for China. However, he was sceptical about potential cooperation on counter-terrorism unless Chinese interests were directly threatened. China had been able to contain terrorism from Pakistan and Afghanistan and was never mentioned in Al Qaeda literature. On the other hand "China has set itself up very cleverly after 2001 as another victim of terrorism" (QQ 590, 598). Dr Gill told us that China was concerned that Afghanistan and potentially other central and south-western Asian countries could become homes for separatist movements in its own north-west Muslim regions. China would be reluctant to take proactive and high profile positions, but "needs to be a more active partner in our thinking about this region" (Q 613).
131. Vice-Minister Liu confirmed the Chinese view that China was the victim of terrorism and supported counter-terrorist activities, though there should be a single standard for what was a terrorist anywhere in the world⁶⁰. Ambassador Chen⁶¹ also thought that some in the West had double standards: terrorist actions in China were not described as such, which threatened the international consensus. Lord Patten of Barnes believed the Chinese would wish to avoid getting drawn into a global debate on Islam because of their concern about the position of the Uyghurs in Xinjiang (see Chapter 8) (Q 560).
132. **China and the EU share concerns about stability and terrorism in Afghanistan and Pakistan where China also has a considerable economic stake. The EU should explore the potential for sharing information and even intelligence with China on both countries, and on insurgency and terrorism, recognising that there will be problems reaching common definitions of, and responses to, terrorism.**

⁵⁹ Renmin University, Beijing, Appendix 4.

⁶⁰ Beijing, as above, Appendix 4.

⁶¹ Renmin University, Beijing, Appendix 4.

CHAPTER 5: CHINA AND INTERNATIONAL RESPONSIBILITY: SECURITY

Security relationships

133. The EU adopted Guidelines on the EU's Foreign and Security Policy in East Asia during the 2005 UK Presidency, which added a security policy dimension to the EU's relations in East Asia. They demonstrate the EU's interest in fostering China's emergence as a "responsible global player" (p 270). However, the EU-China security relationship is not well-developed and the EU relies on its relationship with ASEM (see Chapter 4). Dr Gill told us that the EU had no alliances or traditional security commitments in the region. Individual Member States (UK, France, Germany) had a regular security dialogue with China, but the EU should try to establish a more formalised effort to engage China on energy and environmental security. Any EU dialogue should be placed in a broader East Asian context and include consultations with the US, Japan, South Korea and Australia (Q 608). The EU and its Member States had the potential to make a great contribution within China on "soft security questions" in helping China to become "more open, more pluralised, more just, more equitable and that that process unfolds in a stable way" (QQ 617–9, 620).
134. Dr Gill did not believe that the EU took the regional dimension sufficiently into account. The EU should consult partners with experience of dealing with the Chinese, such as the US, Japan, Australia and South Korea, if it wished to engage on security issues. "The risk is that we see China as some sort of unique and overwhelmingly important actor ... in the region to the detriment of maintaining important relationships" (Q 621). Patrick Child supported an increased EU presence in discussions of hot security issues in Asia to influence how EU funds and other instruments were used (Q 344). However, Professor Godement did not believe the EU had the leverage of the US in the region (QQ 589, 590). Dr Wacker agreed: the US had strategic interests in the Asia-Pacific region, a strong military presence, alliances and commitments; the EU had none (p 327).

China's Armed Forces, capability and power projection

135. Dr Gill told us that the Chinese military were far more capable now than they had been 10–15 years previously and were the largest standing army in the world.⁶² The Chinese threat perception had changed from its land borders (Soviet Union, India, Vietnam) to the East (the US, a more robust Taiwan independence movement and Japan). This had caused a rethink on doctrine and types of weapons and technologies required. Their aim was "active defence" or the achievement of a capacity where a potential adversary would wish to avoid a confrontation that might escalate, particularly over Taiwan (QQ 601, 603, 605). Ambassador Chen⁶³ told us that a declaration of independence by Taiwan would force China to take military action even if the US were to intervene.

⁶² Dr Gill gave the numbers of the army as 2.185 million, of which 1.6 million (about two thirds) are army (land-based forces); navy 250,000; air force some 300,000. The remainder are domestic paramilitary forces (Q 603).

⁶³ Renmin University, Beijing, Appendix 4.

136. China's military modernisation is transforming its capacity to project force in East Asia and beyond⁶⁴. In time this might be interpreted by China's neighbours, and by the United States, as a challenge to regional stability. Stephen Lillie commented that the lack of transparency in China's defence expenditure was a concern to many countries but defence was not an area of EU competence and was not much discussed (QQ 22–25). Ambassador Chen⁶⁵ told us that the only goal of China's military modernisation was to sustain national unity. It was possible that China would favour transparency when it was strong enough.
137. **The EU does not have a direct security role to play in East Asia, except on environmental and energy security issues, on which it should establish more formal discussions with China. On other security issues the EU will have to exert its influence through other regional actors, such as the USA and Japan, and through ASEM.**
138. **We support regular dialogue between the EU and the United States on East Asian strategic and security matters.**

Science and Technology collaboration and China's space and cyber programmes

139. Dr Gill told us that the Chinese were putting significant resources and effort into cyber security and interference. In some ways this reflected conventional weakness rather than an aggressive offensive capacity or intention, but was of increasing concern, especially for the US military (Q 607). Professor Callahan added that China saw cyber warfare as an internal issue. Their expertise in developing the so-called Great Firewall of China to keep foreign websites out had helped them to develop the capability to attack sites outside China (QQ 167, 171).
140. The relationship between internal political control and external cyber security was further revealed in January 2010 after US corporation Google reported "a highly sophisticated and targeted attack on our corporate infrastructure originating from China," aimed at the email accounts of human rights activists in China. The US State Department called on the Chinese government to investigate the sources of the attack. There have also been allegations of industrial espionage.⁶⁶
141. In its 2006 policy document on China,⁶⁷ the Commission recognised that scientific and technological cooperation was one of the flagship areas in EU-China relations. Dr Nicola Casarini (European University Institute, Florence) noted that the EU was now "China's most important source of scientific expertise and advanced technology". For example, the Galileo satellite navigation programme, in which China was the largest non-EU contributor, was intended to benefit both sides by sharing costs, facilitating the entry of European businesses into the Chinese aerospace market, and allowing Chinese companies to obtain know-how and advanced space

⁶⁴ On March 5 2010 the official Chinese News Agency (Xinhua) reported that China planned to increase its national defence spending by 7.5 percent to 519 billion yuan (about US \$76 billion) in 2010, according to a draft budget report. This would be a lower rate of increase than in previous years.

⁶⁵ Renmin University, Beijing, Appendix 4.

⁶⁶ The Sunday Times, 31 January 2010.

⁶⁷ European Commission, EU-China: Closer Partners, Growing Responsibilities, Brussels, COM(2006) 632, 24 October 2006.

technology. However, the EU should be concerned that China's interest in collaborative projects such as this had served to advance its own strategic capacity.

142. In 2007 the Chinese government unveiled plans to build a Chinese competitor to Galileo for both civilian and military purposes. The EU countered by limiting the tendering process for the second phase⁶⁸ of Galileo to States party to the WTO Agreement on Government Procurement (GPA), effectively excluding China. This had been a “slap in the face” for the Chinese, who had always regarded space and satellite navigation cooperation with the EU as a model for their large-scale international S&T cooperation.
143. Thanks to domestic programmes and international cooperation, particularly with the EU, China has succeeded in closing the scientific and technological gap with developed countries and Beijing is now in a position seriously to challenge the EU in high-tech sectors such as satellite navigation. Dr Casarini argued that EU policy-makers were faced with “the challenge of how to develop further cooperation with China in science and technology and, at the same time, seek to manage China's emergence as a strategic competitor in high-tech sectors.” The Europeans were increasingly concerned at China's lack of progress on the protection of intellectual property rights (IPR) and the risk that the Chinese would use European advanced space technology to develop their own satellite system and challenge Galileo itself. The Chinese system (“Beidou”) was now expected to be completed before 2015. Moreover, the Chinese satellites currently in orbit seemed to be using frequencies previously allocated to Galileo by the International Telecommunication Union (ITU) (pp 243–5).

BOX 1

EU-China Science and Technology Cooperation

Sino-European cooperation in S&T has a long history and has improved significantly in recent years. In 2004 the EU-China Agreement on Scientific and Technological Cooperation was renewed; it aims to link research organisations, industry, universities and researchers in the framework of projects supported by the EU budget. In 2005 the two sides further strengthened these ties by signing a Joint Declaration on EU-China Science and Technology Cooperation, with the aim of building a “knowledge-based strategic partnership”. More recent initiatives include European participation in Chinese projects and the possibility of joint European and Chinese funding for research, especially in areas of mutual interest.

At the same time China has made huge progress in S&T: in its 2020 S&T Plan, adopted in 2004, China set the objective of catching up with the developed countries by 2020; and in 2008 it invested 1.45% of GDP on research and technological innovation (Casarini pp 241–3).

144. Dr Gill thought that Chinese investment in its space programme had resulted in remarkable achievements. The programme was military, primarily operated by the PLA, and had a strategic purpose beyond the political and economic. However, technology of high intellectual property value, high

⁶⁸ Phase two comprises the manufacturing, services and launch of the remaining 26 satellites of the European satellite system.

financial value and potential military value being developed for Galileo was being “black boxed” and was not available to the Chinese for either military or commercial reasons. The PLA’s action in shooting down one of its satellites⁶⁹ was their effort to demonstrate their ability to do so and “signal to countries who are very reliant, like the United States, upon space-based assets for their military activity, that in relatively inexpensive ways China can counteract some of the advantages that more powerful countries could have” (QQ 628–9).

145. European companies had sold telecommunication satellites and other space technologies to Beijing. European remote sensing companies had sold spatial imagery to China, as had their American counterparts. France had sold some low-resolution micro-satellites to China (Casarini p 244). The Government told us that the UK had sold a small satellite to China through Surrey Satellite Technology Limited to operate part of a global disaster management constellation. Discussions on the sale of a second satellite had begun. The Government would welcome the Commission “setting out how they might oversee interaction with China on space issues” (p 273).
146. **The EU’s engagement with China in the field of science and technology, including projects such as the Galileo satellite programme, is to be commended. EU-China S&T cooperation has brought benefits to both sides through, for example, the sharing of expertise and joint research. However, the EU should be aware that China is probably collaborating to compete. This is particularly the case for dual-use projects with both military and civilian potential, of which the space and satellite programmes are the most significant. The EU should be cautious about sharing technology with China that might involve commercial or strategic risk for the EU and its partners in the future.**
147. **The development by China of a cyber capability has potentially serious commercial and communications implications for EU Member States⁷⁰. The attack on the Google corporation exemplifies the rising capacity in China to use technology for political control at home and cyber attacks internationally. When attacks emanate from China the EU should make strong representations to the Chinese government and be prepared to take strong counter-measures including the curtailment of collaborative technology programmes. The EU should begin by engaging the Chinese authorities in discussions on the proper development and employment of cyber capability. This is an area where the EU should work closely with the United States through NATO and other relevant organisations.**

The arms embargo

148. The EU imposed an “arms embargo” following the brutal repression of pro-democracy demonstrations in Tiananmen Square in June 1989. However, it is not an arms embargo in the traditional sense, and does not include a list of proscribed technologies or weapons which would normally form part of a serious embargo (Dr Gill Q 623). It consists of two lines in a European

⁶⁹ In January 2007 China destroyed one of its weather satellites using a ground-based medium-range ballistic missile. Source: BBC News 23 January 2007 quoting Chinese Foreign ministry spokesman Liu Jianchao.

⁷⁰ See our 5th Report (2009–10) *Protecting Europe against large-scale cyber-attacks* (HL Paper 68).

Council Declaration⁷¹, calling for the “interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China ...” It is not legally binding and each country applies it differently.

149. The scope of the embargo is limited to goods that might be used by the Chinese for internal repression, and it has not stopped arms sales by EU Member States to China (FCO pp 273–4) (see Box 2). In addition, the UK Government does not permit the export of goods if there is a clear risk that the export could be used for external aggression or to introduce new capabilities into the region (Lord Mandelson, footnote to Q 738).
150. The embargo is an acutely sensitive and symbolic issue for the Chinese and a constant irritant in EU-China relations. The Chinese feel humiliated to be treated in the same way as Sudan or Zimbabwe. They do not understand why the EU refuses to lift the embargo and regularly raise the issue (Lord Patten of Barnes Q 563). Professor Song believed, however, that the Chinese should not allow the embargo to be a major issue (Q 523).
151. Most of our witnesses commented that the embargo was not in fact the main instrument for regulating arms exports to China. While lifting the embargo would be politically symbolic (Lillie Q 27), the EU has more effective legislation in a Common Position on arms exports⁷², which is legally binding on all Member States. It applies to exports to third countries and does not therefore single out China (Cooper Q 413). The EU also has a Dual-Use Regulation⁷³ which controls the export of sensitive technologies to China and other countries. James Moran in Brussels thought this Regulation was “extremely significant,” although difficult to implement (Q 359).
152. Former deputy defence minister of Taiwan Professor Chong-Pin Lin of Tamking University believed the embargo had slowed down China’s attempts to acquire “critical technologies” for its military modernisation. This was “vital” for regional security (p 246).

The 2003 attempt to lift the embargo

153. In 2003, the French President, Jacques Chirac, and German Chancellor, Gerhard Schröder, indicated to the Chinese that they favoured lifting the embargo, even though there was no consensus within the EU. This caused alarm in the US, where many feared the lifting of the embargo would lead to a surge in arms sales and the transfer of sensitive, including American, technology to China. The embargo was not lifted, and Lord Patten of Barnes attributed this to American pressure (Q 563). Robert Cooper, on the other hand, thought the EU had not arrived at a situation where the US exerted pressure “because we never got very close to lifting the arms embargo” (Q 413).
154. According to Professor Godement, the Chinese were disappointed by the EU’s decision, and perceived that the EU could not deliver on its promises.

⁷¹ Presidency Conclusions, Madrid European Council, June 1989.

⁷² This is the 2008 Common Position Defining Common Rules Governing the Control of Exports and Military Technology and Equipment, which replaced the 1998 EU Code of Conduct on Arms Exports. It applies to all countries outside the EU and does not therefore single out China.

⁷³ The Dual-Use Regulation 428/2009 sets out controlled items which may not leave the EU customs territory without an export authorisation. Goods and technologies are considered to be dual-use when they can be used for both civil and military purposes.

This was a turning point in EU-China relations. China realised that the EU would always side with the US (Q 591).

BOX 2

EU Member State arms sales to China⁷⁴

Total value of sales
2005 : €113.2 million
2006 : €133.9 million
2007 : €91.6 million

The current position

155. Since 2003 the arms embargo has been under review. The December 2004 European Council Presidency conclusions reaffirmed:

“the political will to continue to work towards lifting the arms embargo ... It underlined that the result of any decision should not be an increase of arms exports from EU Member States to China, neither in quantitative nor qualitative terms. In this regard the European Council recalled the importance of the criteria of the Code of Conduct⁷⁵ on arms exports, in particular criteria regarding human rights, stability and security in the region and the national security of friendly and allied countries ...”

156. Stephen Lillie said that the UK’s position was that the time was not right to lift the embargo but “it should rightly remain under review”. There was consensus across the EU on this position (Q 27). Robert Cooper in Brussels thought consensus on lifting the embargo unlikely unless there was an improvement in China’s human rights record; some Member States believed that lifting should be linked to China’s ratification of the International Covenant on Civil and Political Rights (Q 413) (see also Chapter 8 on human rights). A 2003 European Parliament Resolution⁷⁶ linked the lifting of the embargo to human rights and Chinese threats against Taiwan. More recently, Resolution 2008/2031 said that since the EU had not received any explanation about the “Tiananmen massacre” there was no reason to lift the embargo⁷⁷.
157. The US, Japan and Taiwan oppose lifting the arms embargo. Dr Gill thought the embargo was “a woefully misunderstood aspect of EU-China relations”, primarily in Washington (Q 623). An official EU-US dialogue on China had been initiated following the attempt to lift the embargo in 2003, and this had been at least one good outcome of the “arms embargo imbroglio” (Q 619). The EU might be able to persuade the US government and Congress that the Common Position was “far more effective” than the embargo. If the EU prepared the ground properly, it could achieve the lifting of the embargo in a way that would receive concessions from the Chinese on certain issues (Q 625).

⁷⁴ FCO written evidence p 273. Figures for the EU as a whole.

⁷⁵ The Code of Conduct was not legally binding and preceded the Common Position on arms exports.

⁷⁶ European Parliament Resolution on Removal of the EU embargo on arms sales to China (P5_TA(2003)0599).

⁷⁷ European Parliament resolution of 4 September 2008 on the evaluation of EU sanctions as part of the EU’s actions and policies in the area of human rights (2008/2031(INI)).

158. Dr Wacker⁷⁸, however, thought that the US, Japan and Taiwan were unlikely to be convinced that the Common Position was enough (p 326). The Taipei Representative Office to the UK commented that the embargo should remain in place until China had met conditions including: ratification of the ICCPR; removal of the 1,500 missiles targeted at Taiwan; and the renunciation of the use of force against Taiwan (p 317).
159. **The EU arms embargo was imposed as a symbolic sanction to express concern about human rights in China following the suppression of the Tiananmen Square demonstrations in 1989, and it still retains this character. The 1989 embargo is limited in scope and has had little effect on the volume of arms sales by EU Member States to China. These are regulated at the EU level by a 2008 legally-binding Common Position on arms exports.**
160. **The embargo is a sensitive and symbolic issue for the Chinese and an irritant in EU-China relations. It requires cautious and tactful handling by the EU. The Chinese were disappointed that the EU did not lift the arms embargo in 2003, and they were seen to have lost face because of the confidence they placed in European diplomacy to deliver the lift. The Chinese perceived the EU decision as driven by the US, even though it might have been derailed by European parliamentary and public opinion on human rights grounds. The Chinese perception that the EU is the weak partner in relation to the US, rather than a strong partner for China, still affects EU-China relations. The EU must avoid public division and policy reversals in future, which only serve to undermine its credibility.**
161. **The embargo is understandably a sensitive issue for the United States, Japan and other partners. The EU must consult closely with these partners on any future proposal to lift the arms embargo. Regional stability and security in East Asia must be safeguarded. The EU would need to convince the United States and its East Asian partners that the arms embargo is mainly symbolic and that the Common Position on arms exports is sufficiently robust and enforceable to prevent the export of offensive weapons systems and sophisticated military technologies.**
162. **The EU should be prepared to lift the arms embargo only when the international conditions above have been fulfilled and if the Chinese government makes progress on human rights and regional security. Specific conditions should include ratification of the International Covenant on Civil and Political Rights, greater transparency on military modernisation and the removal of the military threat to Taiwan.**

Taiwan

163. China's desire to reunite Taiwan with the mainland, and opposition to the independence movement there, steer a number of Chinese policies, including political and economic relations with third countries and how its armed forces are deployed. Chinese extreme sensitivities about Taiwan were demonstrated in their strong protest about US arms sales to Taiwan and

⁷⁸ Stiftung Wissenschaft und Politik (SWP), Berlin.

their threat of retaliatory measures in January 2010. Stephen Lillie thought that China's purpose in projecting power was to use the threat of military intervention to deter a Taiwanese declaration of independence and to defend their territorial claims in the South China Sea⁷⁹ (Q 25).

164. Isabel Hilton told us in March 2009 that China's relations with Taiwan were in "rather a good phase". The recent Taiwanese elections had brought to power Ma Ying-Jeou of the Kuomintang (KMT) who saw the Taiwan issue in the same way as Beijing on the "one China" issue. The Chinese had "given themselves the right to invade Taiwan" if they wished but, provided Taiwan did not do anything to change the international legal order, the Chinese did not see it as in their interests to go to war (Q 134). Dr Gill thought that the US and China had reached an understanding over the heads of the leaders and people of Taiwan to do everything possible to avoid Taiwan taking steps which would lead to conflict (Q 612).
165. Stephen Lillie told us that the Commission had a non-diplomatic trade office in Taiwan to maintain its interests. He thought that the EU could play a role in supporting reconciliation and dialogue across the Taiwan Strait. The EU-Asia Policy Guidelines set out a basic approach for the EU, to support positive moves between the two sides and express concern at moves which would increase tension. He agreed that, since May 2008, the China-Taiwan dialogue had increased substantially including direct flights and shipping links which the EU had welcomed publicly (Q 31). Lord Patten of Barnes commented that, following the conclusion of discussions on Chinese and Taiwanese accession to the WTO, China had reluctantly accepted the establishment of an EU office in Taiwan, as well as in Beijing, as a necessary part of the trade relationship. He had explained to the Chinese that this did not constitute recognition of Taiwan's sovereignty (Q 556).
166. Dr Gill thought that in recent years the EU had spoken more forcefully in stating its interest in a peaceful solution on the Taiwan Strait: "diplomatic language for letting China know that it should not use force to resolve those differences". Neither side should take unilateral actions that would disrupt the *status quo*. The EU had quietly supported efforts to grant Taiwan greater international space, e.g. allowing Taiwan to participate in various international organisations such as the World Health Assembly as an observer. The EU should join the US in encouraging China to be more flexible (Q 612). Robert Cooper thought that the EU had a serious interest in cross-Strait relations as the disruption of a conflict would be enormous and one could never exclude being dragged in. The best insurance was to develop political and commercial people-to-people exchanges, which were currently going well (Q 415).
167. The Taipei Representative Office in the UK commented that Taiwan was strategically important for the EU. Taiwan could serve as a "role model and catalyst" for China's democratisation. EU-Taiwan trade amounted to €40 billion, making it the EU's 13th largest trading partner. Taiwan was a major contributor to China's economic modernisation, with 5 million jobs in China created due to investments totalling \$76 billion. Taiwan was a unique partner for EU investors in China. China still had 1,500 missiles targeted at Taiwan. However, Taiwan's government sought improved ties with Beijing,

⁷⁹ These include the Spratly and Parcel Islands, the Macclesfield Bank and Scarborough Shoal.

and was willing to learn from the EU's experience of gradual economic and then political integration.

168. Taiwan would like the EU to:

- maintain its arms embargo against China until “relevant conditions” were met, including ratification of the International Covenant on Civil and Political Rights;
- maintain a “balanced policy” on cross-Strait relations; make no reference to the issue of Taiwanese sovereignty in the PCA currently being negotiated between the EU and China; and consult Taiwan before the EU conducts talks with China about Taiwan;
- continue to support Taiwan's “meaningful participation” in UN Specialised Agencies, building on the recent invitation to the World Health Assembly as an observer;
- recognise Taiwan as an “international legal person” (but not a sovereign state), reflecting an arrangement in the WTO in which Taiwan participates as a “separated customs territory” but with full membership; and
- agree to negotiate an EU-Taiwan Free Trade Agreement (p 316).

169. **China's perception of the threat of a unilateral declaration of independence by Taiwan has risen since the 1990s due to democratisation on the island and rising nationalism on the mainland. This has resulted in intense military preparation to deter or confront a possible Taiwanese *de jure* independence. Despite China's repeated claims that Taiwan is an internal issue, it is a potential flash-point for the whole region, which could bring the US and China into open conflict. Despite the EU's lack of a defence capacity in East Asia, it would face serious consequences from a conflict across the Taiwan Strait and its regional repercussions. Close consultation with the US and Japan is needed on the subject.**

170. **Current policies in Taiwan and China mean that the situation remains stable. However, the latest US arms sales to Taipei have rekindled tension between Beijing and Washington. The EU should state its support for the one China policy but its rejection of reunification by anything other than peaceful means. It should discourage China and Taiwan from taking any unilateral actions that would infringe these principles.**

171. **The EU should continue to support Taiwan in areas which China would regard as non-threatening and should encourage the Chinese to be more flexible, seeking to persuade them that Taiwan's participation in some international organisations, such as observer status at the World Health Assembly, will not damage the Chinese case on reunification.**

CHAPTER 6: TRADE AND INVESTMENT

172. Trade and investment have traditionally been the core of the EU-China relationship. They were the rationale for the original 1985 agreement and remain a key feature of the relationship today. We deal with them here as part of the total relationship. EU-China trade has increased dramatically in recent years, and China is now the single most important challenge for EU trade policy⁸⁰. China has emerged as one of the world's largest economies, and is now the EU's second trading partner and the biggest source of imports, with the EU being China's largest trading partner.

BOX 3

EU-China Trade and Investment

Trade in goods

EU exports to China: €78.4 billion

EU imports from China: €247.6 billion

Trade in services

EU exports to China: €20.1 billion

EU imports from China: €14.4 billion

Foreign Direct Investment

EU investment into China: €4.5 billion

Chinese investment into the EU: €0.1 billion

(All figures for 2008)

Source: European Commission Directorate-General for Trade, see footnote.

173. Baroness Ashton of Upholland, giving evidence to us as Commissioner for Trade, took a generally positive view of the EU-China economic and trade relationship. China had acceded to the World Trade Organization (WTO) in 2001. Competitively priced goods from China had contributed to lower inflation in the EU, and China was a growing market for EU exporters. However, although the EU had a surplus in services exported to China, the EU overall had a trade deficit (€169 billion in 2008). This trade imbalance of “very serious magnitude” was not sustainable, even though many of the goods “exported” from China were from EU-owned firms or factories to which production had been outsourced (pp 239–41).
174. The EU-China economic and trade relationship had matured considerably in the last ten years. The well-developed framework of dialogues now included a High Level Economic and Trade dialogue, which brought together *inter alia* Chinese ministers and European Commissioners (p 239). The purpose of the Dialogue is to address the trade imbalance⁸¹. The first meeting took place in April 2008.

⁸⁰ European Commission Directorate-General for Trade
(<http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/china/>)

The EU's imports from China are mainly industrial goods: machinery, transport equipment and miscellaneous manufactured articles. The EU's exports to China are mainly machinery, transport equipment, and miscellaneous manufactured goods and chemicals.

⁸¹ FCO, China country profile. <http://www.fco.gov.uk/>

175. Baroness Ashton of Upholland highlighted non-tariff barriers to trade as the main obstacle to market access for the EU. In particular, protection of intellectual property rights (IPR) in China was an area of “major concern”. Although China’s legal framework for intellectual property protection had been largely aligned to WTO standards, “much remained to be done” to improve enforcement. The EU held a regular dialogue with China on IPR in which the EU raised not only instances of specific concern but also the broader question of the key role a sound IPR system had in an economy. The EU was providing technical assistance to improve the effectiveness of IPR protection and enforcement in China (pp 239–40).
176. Jonathan Peel (European Economic and Social Committee) noted that there were profound cultural and ideological differences between the EU and China, and disputes often arose through a lack of understanding. The Chinese perception was that the EU applied “double standards” including on the question of Market Economy Status (MES)⁸². A solid framework was needed to address issues fairly and on a “win-win” basis. IPR was a major concern. The major issues faced by EU businesses in China occurred below the surface, notably due to the absence of effective and consistent implementation and enforcement of IPR legislation. The EU’s concerns about IPR and its reluctance to export high-tech and other sensitive products to China were strongly linked (pp 264–70).
177. Baroness Ashton of Upholland thought that the best way to deal with market access and China’s WTO obligations was through dialogue. But “where dialogue does not bring results, and we believe there is sufficient evidence that China is in breach of its WTO obligations, we can—and do—resort to the WTO Dispute Settlement Mechanism” (pp 239–40).
178. Ambassador Wu⁸³ stressed that China had acceded to the WTO and its rules, and should therefore be treated on an equal footing with others. Market economy status had been granted to Russia, but not to China, despite its economy being more market-oriented than Russia’s.
179. The European Chamber of Commerce in China’s comprehensive report⁸⁴ on EU trade with and investment in China details the areas where China has made progress but also problems such as non-tariff barriers to trade. The European Chamber told us⁸⁵ that China had not fulfilled all the commitments it had entered into upon accession to the WTO in 2001. Transparency and speed in addressing problems faced by European firms were particular issues. European companies investing in China found it difficult to obtain 100% ownership. Where problems could not be resolved satisfactorily through dialogue, one method of recourse was legal action against China through the WTO. The EU, with approximately 500 million people, was a larger market than the United States and therefore had considerable leverage, but competition between Member States and the lack of a single EU voice hampered the EU in using it. Some Member States,

⁸² This is a highly technical issue related to anti-dumping cases arising from China’s WTO accession agreement. China agreed to be considered a non-market economy until 2016, because its economy is such that it is impossible to ascertain the true price of goods, critical for anti-dumping investigations.

⁸³ Adviser to the Ministry of Foreign Affairs, Meeting Beijing, Appendix 4.

⁸⁴ EU Chamber of Commerce in China, “European Business in China Position Paper”, 2009, available at: <http://www.euccc.com.cn/view/media/publications>

⁸⁵ Meeting with the European Chamber of Commerce in China, Beijing, Appendix 4.

including Cyprus, Romania and Bulgaria, were generally more favourable towards China than others. Spain, Poland and Germany were more outspoken when China cut corners on the environment and labour laws and produced cheap goods with which the EU could not compete.

180. Professor Ash (School of African and Oriental Studies) judged that the EU's trading and economic relations with China were a "very mixed picture". While closer economic ties had benefited both sides, China's "massive" trade surplus with the EU was an important challenge. The maintenance of Chinese non-tariff barriers and other kinds of restrictions prevented a genuinely reciprocal trading relationship (Q 183).
181. Stephen Phillips, Chief Executive of the China-Britain Business Council (CBBC), outlined several challenges for businesses operating in China. The Chinese market was complex and could not be treated as a single market. China was not well understood by the business community in the EU, and a major challenge was that it was changing rapidly. The regulatory environment was the main obstacle to increased investment into China. Some of the main sectors in which European businesses had invested were:
 - the UK: banking and financial services, advanced engineering, oil and gas and increasingly creative industries;
 - Germany: manufacturing, automotive and chemicals;
 - The Netherlands: manufacturing, consulting and agriculture;
 - France: engineering, nuclear, cement and retail (QQ 640–2, 671).
182. Scott Wightman (Director for Asia Pacific, FCO) said that the EU needed to identify its market access priorities, on which the Commission and Member States could focus their diplomatic efforts in order to increase the EU's effectiveness. Financial services were one priority (Q 768). He advocated an approach based on partnership with the Chinese. However, the EU could use trade defence mechanisms to protect against unfair Chinese competition. The EU could also explain to the Chinese that where Chinese competition was seen as unfair it would be harder for European political leaders to justify maintaining open markets (Q 766).
183. Professor Godement noted that the EU was not in the same situation as the United States with regard to China. The EU compensated for its trade deficit with China through a trade surplus with other parts of the world. The bulk of China's surplus was transferred into US dollar holdings, not euros. The result was that the EU did not have the mutual dependence that existed between the United States and China. It was crucial for the Chinese to keep the EU market open but there was little reciprocity in the process (Q 577).
184. Charles Grant told us that one reason for the EU's trade deficit with China was the deliberate undervaluation by China of its currency. It was in China's own interests for its currency to increase in value, which would rebalance its economy (Q 93).
185. Lord Mandelson believed that engaging with China was the right way to tackle the currency issue; the US had adopted that view. The financial imbalances created by Chinese trade surpluses had been harmful and the EU was entitled to point them out. Many commentators believed that the imbalances were responsible for the current instability in the world's financial system. Without refuting that view he nevertheless rejected the notion that

China could be held specifically responsible for the international banking crisis. There was scope for a quicker adjustment of the exchange rate and for a continued, and expanded, diversification of Chinese official reserves into the euro (Q 731).

186. This was confirmed by Lord Patten of Barnes, who told us that although the Chinese were probably disappointed that the integration of the eurozone had not gone further, they were content with the recent strength of the euro because of their substantial euro holdings. The Chinese also had large holdings in US dollars. This meant that they were “in a bit of a bind” because they had to be careful not to take any action which would have the effect of devaluing the dollar (Q 556). Professor Breslin thought that the Chinese were uncertain about moving into the euro until its stability had been confirmed (QQ 189–190).
187. Mr Phillips said that in the three years he had worked for the CBBC no company had raised the issue of the valuation of the Renminbi. Companies saw foreign exchange movements as a risk of doing business and managed it in the same way as they would in another country. The Renminbi was not a freely traded currency and therefore did not float; it was pegged to a basket of currencies but nobody knew exactly what the basket was (QQ 675–9).
188. **China is a key trading and investment partner for the EU and its importance will grow. An important objective for China is EU recognition of its status as a market economy. Yet China is not meeting many of its existing obligations. The EU expects China to open its market to fulfil its WTO treaty obligations, address non-tariff barriers and protect intellectual property rights. The EU should not consider granting market economy status until China meets its obligations.**
189. **Meanwhile the EU should take firm action when dialogue does not produce results, including use of the World Trade Organization dispute resolution mechanism.**
190. **The EU and its Member States should define their priorities for Chinese market opening and focus on these in all negotiations with the Chinese government.**
191. **The vast trade imbalances between China and the West are not sustainable. They contributed to the recent failure of global financial systems. The continued undervaluation of the Renminbi will be an increasing source of friction between the USA and China and will inevitably come to a head in the near future. Any consequent fall-out between the US and China in terms of trade or protection will inevitably have major effects on EU trade and its markets. The EU, in partnership with the United States, must address this issue firmly with China through the G20.**
192. **The EU, and the European Central Bank, should find ways of encouraging the Chinese authorities to hold a higher proportion of their reserves in euro-denominated instruments.**
193. **The EU needs to have a trade presence in major industrial centres outside Beijing, in order to extend its influence and effectiveness.**
194. **The EU must consider what needs to be done to enhance its competitiveness and maintain its global position in the light of the economic challenge from China and emerging markets.**

CHAPTER 7: CLIMATE CHANGE

195. China is the world's largest emitter of greenhouse gases. In 2007, China was building the equivalent of one 500 megawatt coal-fired power plant every two-and-a-half days⁸⁶. Its participation in any global agreement to combat climate change is therefore essential. China continues to see itself as a developing country and is unwilling to compromise on economic growth to tackle a problem it sees as having been caused by the western industrialised countries. However, China has taken important steps to address climate change in recent years with a predominant emphasis on energy efficiency.
196. China and the EU cooperate widely on climate change (DECC pp 249–50). The EU-China Partnership on Climate Change was agreed at the 8th EU-China Summit in September 2005 under the UK Presidency. It provides a high-level political framework to strengthen cooperation by setting out new actions to tackle climate change. The partnership complements the UN Framework Convention on Climate Change and the Kyoto Protocol. It strengthens cooperation and dialogue on climate change including clean energy, and will promote sustainable development. It includes cooperation on the development, deployment and transfer of low carbon technology, including advanced near-zero-emissions coal technology through carbon capture and storage.

China's role and approach

197. Despite its economic achievements, China continues to see itself as a developing country which should not have to sacrifice its economic growth to combat climate change. China holds the developed world responsible for causing anthropogenic climate change, and therefore believes that the developed world, including the EU, should lead efforts to tackle it.
198. China is investing capital and building infrastructure faster than any society ever has. Its estimate of the investment needed in its energy infrastructure over the next 12 years is in the order of US\$2 trillion. Therefore it needs to make a bigger and faster shift in its economic direction than any other economy in order to achieve a successful global response to climate change (John Ashton⁸⁷, Q 228).
199. Nevertheless, China is taking action on climate change. In November 2009, Premier Wen Jiabao stated China's intention to reduce energy intensity (carbon dioxide emitted per unit of economic output) by 40–45% by 2020 compared to 2005 levels. In 2007 the Chinese government established a National Leading Group on Climate Change, led by Premier Wen Jiabao and comprising 14 Ministries. China's National Climate Change Programme sets out a number of substantial mitigation actions on energy efficiency, renewables and reforestation. These include a programme to improve energy efficiency in China's 1,000 largest enterprises, which account for 37% of China's primary energy and 50% of industrial energy consumption; retiring inefficient power and industrial plants; energy efficiency standards for buildings; and vehicle fuel consumption standards (DECC pp 250–1).
200. The Programme provides for the implementation of a wide range of energy and industrial policies that, while focused on energy security, contribute to

⁸⁶ Communication from the Commission to the European Parliament and the Council—Demonstrating Carbon Capture and Geological Storage (CCS) in emerging developing countries: financing the EU-China Near-Zero Emissions Coal Plant project. Ref. 11488/09, COM(2009) 284 final, Brussels 26 June 2009.

⁸⁷ The Foreign Secretary's Special Representative on Climate Change.

emissions reductions. The Chinese government estimates that these policies will result in the mitigation of 1.85 billion tonnes of carbon dioxide over 2006–2010, which is equivalent to around 36% of total EU emissions in 2006 (DECC p 250).

201. One impetus for action is that China is itself vulnerable to climate change. According to the Intergovernmental Panel on Climate Change (IPCC), currently observable effects include increases in flooding in the north east and eastern regions of China; an increase in the frequency of glacial lake outbursts due to the retreat of glaciers in the Tibetan Plateau; and water shortages. The IPCC has indicated that future temperature increases in China are likely to be greater than the global average increases. If emissions continued unabated, temperatures in China could rise to about 2°C above pre-industrial levels by 2050, or 4°C by 2100. An estimated one billion additional people would be at risk from water stress by the end of the century (DECC p 250). Much of the Chinese population lives on the eastern coast of China and would be very vulnerable to an increase in sea level.
202. Ambassador Wu⁸⁸ underlined the importance of climate change in EU-China relations. He thought that developed countries should find a formula to help developing countries, including through the transfer of advanced technologies which the Chinese could not afford. In contrast, the EU Chamber of Commerce commented that China held US\$ 2.4 trillion in foreign exchange reserves which could be used to purchase such technologies⁸⁹.
203. Jiang Kejun⁹⁰ thought that China should set high targets for the reduction of carbon emissions but this could not be achieved through targets alone. There were many possibilities for international collaboration.
204. **China is the world's largest emitter of greenhouse gases. Nevertheless, its overriding concern is delivering economic growth. The Chinese Communist Party sees continued economic development across China as the basis of its legitimacy. All other policy considerations, including climate change, take second place.**
205. **China has set a target for reduction in energy intensity of 40–45 per cent by 2020 compared to 2005 levels. This is welcome. However, China's refusal to set targets for emission reductions means there is no realistic prospect of its transition to a low carbon economy, without which limiting global average temperature increases to 2°C will become impossible.**

The EU and China: partners in addressing climate change?

206. John Ashton (the Foreign Secretary's Special Representative on Climate Change) told us in April 2009 that the EU, the world's largest single market, and China, the world's fastest growing large economy, were "absolutely critical" to achieving a low carbon global economy (Q 216). Nancy Kontou, then head of cabinet to the Environment Commissioner, agreed that the EU's relationship with China was one of the most important in the context of the international climate change negotiations (Q 441).
207. John Ashton thought that it was difficult for the Chinese to see how they could contribute to the global response without adding to the existing risks to their own stability and prosperity. The security and prosperity of the EU depended

⁸⁸ Meeting with Ambassador Wu, Beijing, Appendix 4.

⁸⁹ Appendix 4.

⁹⁰ Meeting with Jiang Kejun, Roundtable on EU/China climate change cooperation, Beijing, Appendix 4.

on building a more transformational engagement with China. The Obama administration had declared its interest in building a transformational strategic relationship with China on energy and climate. The EU should seek to do the same. However, the EU's record in engaging China on climate change was drowned out by Member States competing against each other for short-term, partly illusory, commercial advantage (QQ 218–21) (see also Chapter 3).

208. **We are concerned that competition for short-term commercial advantage between the Member States is undermining EU engagement with China on climate change. We recommend that the Member States put collective EU interests before short-term commercial advantage in the area of climate change.**
209. Michael Pulch⁹¹ explained that the EU had invested a great deal in green technologies and China was a growing market for EU goods. However, the EU should be cautious about transferring technology to China because of the limited usage of licensing in the Chinese system. At the EU-China summit on 30 November 2009 the two sides had agreed to upgrade the current EU-China Partnership on Climate Change⁹².
210. The European Chamber of Commerce in China⁹³ told us that the Chinese system did not support green thinking on climate change and the environment. A key issue was that China was keeping electricity prices down through state subsidies. This reduced price incentives to reduce energy usage.
211. **The EU should raise the issue of state subsidies for electricity with the Chinese government and highlight that this practice creates a disincentive for energy efficiency.**

Cooperation on energy and low carbon technologies

212. The EU-China Partnership on Climate Change includes activities to reduce the cost of energy technologies and promote their deployment and dissemination. In November 2007, the European Investment Bank signed a Climate Change Framework Loan of €500m to fund projects in China that contribute to combating climate change. The China-EU Action Plan on Energy Efficiency and Renewable Energies aims to enhance dialogue and promote industrial cooperation, including through cooperation on energy markets; security of supply; and protecting the global environment. The Plan provides policy advice and capacity building to national and local authorities, and promotes the deployment of technology. The biennial EU-China energy conference brings together high-level representatives from European and Chinese industries and governments.
213. The EU-China Clean Development Mechanism (CDM) Facilitation Project⁹⁴ which ended in January 2010 provided assistance to China in strengthening its

⁹¹ Meeting with Michael Pulch, of the then Commission delegation to China, Beijing, Appendix 4, p.2.

⁹² Joint statement of the EU-China summit: http://www.delchn.ec.europa.eu/?item=news_view&nid=665#

⁹³ Meeting with the European Chamber of Commerce in China, Beijing, Appendix 4.

⁹⁴ The Clean Development Mechanism (CDM) is a market-based mechanism established by the Kyoto Protocol to the UN Framework Convention on Climate Change (UNFCCC) to enhance cooperation between developed and developing countries on carbon emission reductions. The EU-China CDM facilitation project, which started in February 2007, aims to strengthen the role of the CDM to help China's path to sustainable development. It is being implemented by Chinese and European partners, supported by grants from the European Commission. Through a series of activities including policy research, capacity building and training programmes, the project focuses on China's policy and regulatory regime for CDM development and will provide policy recommendations to CDM policy-makers in Europe and China. It brings together a range of public and private sector stakeholders involved in CDM projects.

policy and regulatory regime for CDM development. This has facilitated China's participation in the carbon market and its transition to a low carbon economy. However, project-based offsetting mechanisms are limited in terms of their scale. DECC wrote: "Advanced developing countries such as China need to build on their success in attracting CDM investment by moving towards sectoral crediting and trading mechanisms that will make a net contribution to emission reductions and achieve financial flows and emission reductions ...". The Government supported the Council of Ministers Conclusions of 2 March 2009, which included a proposal to "build, as soon as practicable and preferably by no later than 2015, a robust OECD-wide carbon market through the linking of cap-and-trade systems, to be extended to economically more advanced developing countries by 2020" (DECC pp 253–4).

214. One important area for practical cooperation between the EU and China is clean coal technology. The UK-led EU-China Near-Zero Emissions Coal (NZEC) initiative aims to build demonstration plants in China to test the feasibility of Carbon Capture and Storage (CCS) technology at the industrial scale. CCS is the only set of technologies with the potential to reduce emissions from coal-based power generation (DECC pp 252–3). Jiang Kejun⁹⁵ thought that China should move to CCS by 2020 but there was strong resistance from special interests in the Chinese industrial hierarchy who feared that this would choke economic growth.
215. Nevertheless, Lord Hunt of Kings Heath, Minister of State at the Department of Energy and Climate Change, wrote that the initiative was making progress⁹⁶. This cooperation was taking place under the EU-China Partnership. Several UK-China and EU-China clean coal projects concluded in particular that:
- there was potential for CCS in China;
 - once CCS was established, the cost of deployment in China could be relatively cheap (approximately £25 per tonne of carbon dioxide); and
 - there may be significant storage in saline aquifers though further assessment was needed.

According to Lord Hunt, these projects had built a "significant amount of institutional capacity, expertise, and business interest in CCS in China".

BOX 4

EU China CCS initiative: phases II & III

Phase II of the initiative (2010–2012) will examine the site-specific requirements for and define in detail a demonstration plant and accompanying measures. Phase III for the construction and operation of a commercial-scale demonstration plant in China should commence after 2012.

Lord Hunt recognised that no funding had been found for Phase III, apart from the Commission's contribution of €50 million. The Government's immediate objective was to find funding for Phase II. They had pledged £6 million and the Commission €7 million, on the condition that other European countries contributed.

⁹⁵ Meeting with Jiang Kejun, Roundtable on EU/China climate change cooperation, Beijing, Appendix 4.

⁹⁶ Appendix 5, letter from Lord Hunt to Lord Roper dated 2 December 2009.

216. **Although we strongly support the concept of the EU-China Near-Zero Emissions Coal (NZEC) initiative, based on Carbon Capture and Storage (CCS) technology, we are sceptical that the current pace of development, and the lack of committed funding, will lead to a successful and timely outcome. There needs to be a much stronger determination by the UK, the EU and China for this initiative to work.**⁹⁷

The Copenhagen conference

217. The December 2009 Copenhagen conference was “disappointing in a number of respects”, according to the Government⁹⁸. The EU did not achieve its objectives. However, in the margins of the conference, 49 developed and developing countries, including China, adopted a “Copenhagen Accord”, which:

- Endorses the limit of 2°C of warming as the benchmark for global progress on climate change; developed and leading developing countries agreed to make specific commitments to tackle emissions, to be lodged in the agreement by 31 January 2010;
- Contains commitments by developed countries to provide finance for developing countries, such as \$10bn of fast-start finance a year by 2012 and specific support to tackle deforestation;
- Refers to the measurement, reporting and verification of progress.

In February 2010, China confirmed its voluntary commitments under the Copenhagen Accord. These are to: endeavour to lower its carbon dioxide emissions per unit of GDP by 40–45% by 2020 compared to the 2005 level; increase the share of non-fossil fuels in primary energy consumption to around 15% by 2020; and increase forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic metres by 2020 from 2005 levels.

218. Based on the internationally-agreed principle that countries have common but differentiated responsibilities to fight climate change, the EU had not been seeking a commitment by China to cut its emissions in absolute terms. The EU did, however, want China to commit to capping the growth of its emissions to between 15 and 30 per cent below “business as usual”—i.e. the current rate of increase—by 2020. This figure was based on the objective of keeping the rise of global average temperatures to 2°C above pre-industrial levels (Nancy Kontou, Q 441).
219. The Government (in their 5 January statement) recognised how far major developing countries such as China had come, but noted the need to allay their concerns that they would be constrained from growth and development by the demands of a legally-binding treaty. In an attempt to present the outcome of the conference positively, the Government stated that “every major economy of the world now has domestic policy goals and commitments to limit their greenhouse gas emissions: the US, China, Japan,

⁹⁷ We have already commented publicly on this point (“Lords EU Committee criticise Government and European Commission’s slow progress on Carbon Capture and Storage Project”, press statement dated 20 October 2009).

⁹⁸ HL Statement 5 January 2010, col 49–50.

Russia, Brazil, India, Indonesia, South Korea, Mexico, South Africa, and of course the EU. Throughout the world, policy is now set to improve energy efficiency, to increase investment in low-carbon power, to develop hybrid and electric vehicles and smart grids and to reduce deforestation”.

220. **We are deeply concerned about the failure of the Copenhagen conference on climate change in December 2009. The EU made a concerted effort to achieve agreement on a legally-binding treaty on climate change in the negotiations leading up to the conference. However, China and other developing countries were successful in opposing this.**
221. **The adoption by some participants of a Copenhagen Accord outside the UN framework is a positive first step but falls short of the EU’s objectives.**
222. **Copenhagen illustrated a marginalisation of the EU, even when united; the Chinese leadership of the developing world; and its direct challenge to the United States as an equal.**
223. **The EU should be prepared to set an example on carbon emission cuts which is in the interests of the Member States and the world. It must reassess its negotiating strategy prior to the UN meetings in Bonn and Mexico City in order to re-enter the negotiations as a player rather than as a spectator. The Government should consider whether a new approach by the EU towards China and other major developing countries is needed. All options should be included in this review. In particular a major effort should be made by the EU to convince China of the need for a fully effective international system of verification and monitoring of commitments entered into.**
224. **Despite Copenhagen, bilateral climate change cooperation between the EU and China is achieving practical results. The UK played a leading role in this respect, including by achieving agreement on the EU-China Partnership on Climate Change during its presidency of the EU in 2005.**
225. **The EU-China high-level dialogue should include the issues that arise from industrial pollution and its effect on the Chinese and wider environment.**

CHAPTER 8: HUMAN RIGHTS AND THE RULE OF LAW

226. Support for China's transition to an open society based upon the rule of law and respect for human rights is one of the main objectives of EU policy towards China⁹⁹. The EU has sought to engage China in a structured dialogue on human rights and the rule of law, including at summit meetings. The main forum for this is the EU-China Human Rights Dialogue. The UK and several other Member States also maintain bilateral human rights dialogues with the Chinese government. The EU and several Member States have carried out a range of projects in China to help improve the rule of law and support the development of civil society. The EU and its Member States also engage China on human rights through the UN. We discussed the EU arms embargo, which was imposed in response to the 1989 Tiananmen Square repression, in Chapter 4.
227. Isabel Hilton thought that the general direction of travel in China on human rights was positive and that there had been many improvements compared to several decades ago. In the past the government used to be involved in every aspect of life, e.g. people were assigned a job, a study course¹⁰⁰. However, there were areas in which there was no progress and she advocated a more robust approach by the EU (Q 127).
228. Lord Mandelson said that the Chinese government considered human rights to be an internal matter and resisted what it saw as international interference (QQ 744–5). The Chinese position remained that it was delivering economic and collective rights, which took priority over individual rights (Dr Brown, Q 58). Nevertheless, China was gradually realising that the treatment of individuals and the freedom to report on human rights in China had to change. There was a growing realisation in China that the world had a legitimate interest in the situation there (Lord Mandelson, QQ 744–5).
229. One of the main objectives of the EU is ratification by China of the International Covenant on Civil and Political Rights, which China signed on 5 October 1998. The EU continues to press for a timetable for ratification and for reform of the Chinese legal system to ensure compliance with the Covenant. The then FCO Minister Bill Rammell MP wrote that the National Human Rights Action Plan of China (2009–2010) referred to work towards ratification in general terms. China had reported at the EU-China Human Rights Dialogue in October 2008 that it had been actively preparing for 10 years for the ratification process. However, in reality the situation was complicated by incompatibilities between Chinese legislation and the Covenant (p 271).
230. Patrick Child (then Head of Cabinet of the Commissioner for External Relations, Benita Ferrero-Waldner), stressed that despite setbacks, human rights had to remain central to the relationship with China: “We cannot ignore the very important human rights agenda because we have very important economic or commercial issues to discuss with China, and certainly that is a point that Commissioner Ferrero-Waldner has always stressed.” The EU favoured comprehensive agreements with important countries like China “precisely in order to bring together different strands of

⁹⁹ See: http://ec.europa.eu/external_relations/china/index_en.htm

¹⁰⁰ Meeting with Frank Ching, Hong Kong-based journalist, Appendix 4.

the relationship, including the more difficult ones ... and we must continue to make efforts in that respect” (Q 353). The EU would like to include references to human rights in the Partnership and Cooperation Agreement (PCA) currently under negotiation with China (see Chapter 3). Elements of the text on human rights had been agreed but agreement on the full article was “likely to take some time yet” (Julia Longbottom, Far Eastern Group, FCO) (p 260).

231. Riina Kionka, the EU High Representative’s Personal Representative for Human Rights, said the EU sought to convince the Chinese that it was in their interest to build up the rule of law and respect for human rights as a way of modernising their country (Q 468).
232. Michael Pulch¹⁰¹ told us that the delegation had one officer working on human rights, which was not sufficient. **Given its importance in the EU-China relationship, the EU Delegation in Beijing should consider increasing the number of those working on human rights.** Mattias Lentz,¹⁰² representing the then EU presidency, thought that companies operating in China could play a role in improving human rights, including through the Corporate Social Responsibility (CSR) agenda.
233. Dr Steve Tsang (Oxford University) argued that in engaging China the EU must adhere to its values, including respect for human rights. However, this did not mean that the EU should interfere in China’s domestic affairs. Rather, the EU should work with the Chinese government and Chinese and international NGOs to ensure that the rights of Chinese citizens set out in the constitution were enforced. This would be on the understanding that China was free to monitor and comment on human rights protection in the EU. The EU should not incite Chinese citizens to break the law, but should give “moral support” to Chinese citizens who sought to exercise their constitutional rights (p 323).
234. The Government recognise in their framework document on China that the UK’s main influence in the area of human rights and the rule of law comes through working with others, primarily within the EU. FCO Europe Minister Chris Bryant MP commented that occasionally one Member State might take an overly conciliatory line on human rights for commercial reasons, and it was therefore important to ensure a united European voice across the full range of policy areas when dealing with China (Q 764, see also Brown Q 60).

Recent developments

235. Dr Brown (Chatham House) wrote that for most of 2009, relations between the UK and China had been good. The UK had even become the main destination for Chinese investment in the EU. However, over a few months, China’s relations with the rest of the world had deteriorated. On 28 December 2009, British citizen Akmal Shaikh had been executed by lethal injection on a drugs charge, despite over 25 representations from the British Government, including two letters from the Prime Minister to President Hu Jintao. “While an explicit link is unlikely, many in the UK, and some in China, saw the Chinese government’s failure to grant clemency in this case as a direct response to the British government’s open criticism of China at

¹⁰¹ Chargé d’Affaires at the EU delegation in Beijing, Appendix 4.

¹⁰² Chargé d’Affaires at Sweden’s embassy in Beijing, Appendix 4.

Copenhagen” (p 26). The EU issued a statement¹⁰³ condemning “in the strongest terms” the execution of Akmal Shaikh, and reaffirming its “absolute and longstanding opposition to the use of the death penalty in all circumstances”.

236. Dr Brown commented that the UK, and other major partners of China, had to consider seriously what their engagement had delivered over the last few years. Despite some successes, it was not clear what the UK’s change of policy over Tibet, for example (see below), had achieved. China’s treatment of dissidents, including Liu Xiaobo and Gao Zhisheng, had grown “increasingly harsh” in the last six months. The Chinese had cancelled the UK-China Human Rights Dialogue in January 2010 at short notice; it might be time for the Government to “review its commitment to a forum even some activists say delivers nothing except propaganda value for the Chinese” (p 27).
237. **The UK and the EU engagement strategy towards China must be robust and focused, including on human rights.**
238. **We welcome the EU’s rapid support for the Government’s position on Akmal Shaikh. We are very disappointed that the UK and EU requests for clemency were ignored by the Chinese authorities.**
239. **The EU must demonstrate much greater unity and consistency if it is to convey effective messages to the Chinese government on human rights and the rule of law. We recommend that EU Member States show greater solidarity, through public declarations if necessary, with other Member States when they come under pressure from the Chinese government on questions of human rights (see also Chapter 3).**

EU projects in China

240. James Moran (EU Commission) pointed out that building the rule of law in China was “extremely important”, including as a way to promote respect for human rights, but was often overlooked because it was an arduous process. The Commission “never, ever” failed to press the importance of the rule of law in its dialogue with the Chinese (Q 354). For Isabel Hilton, the rule of law was a central aspect of the EU-China relationship. In the absence of the possibility of political action, the law was an interesting instrument. China had many statutory rights which were not defended by the state but Chinese citizens had begun to use legal redress to assert them. The EU could make more progress by working with the Chinese on technical aspects of the rule of law, than by sterile exchanges on human rights (QQ 88, 128–9).
241. We were pleased to learn that the EU and individual Member States had done much to support China’s efforts to build the rule of law; promote respect for human rights; improve capacities in the Chinese legal system; improve the penal system; educate intellectuals; and build capacity in civil society (Q 127). Professor Shambaugh (George Washington University) wrote that implementation had largely been carried out by private sector actors, albeit often funded by the EU or its Member States. “Collectively, European nations and the EU have done far more than any other country in these areas” (pp 307–8). Professor Flemming Christiansen (University of

¹⁰³ Declaration by the Presidency on behalf of the EU on the execution of Akmal Shaikh, Brussels, December 2009.

Leeds) noted that the EU's policies had helped bring about growth in local and international NGOs dealing with community-level governance and advice to citizens (p 248).

242. Specific examples of projects include Commission support for human rights seminars to facilitate exchanges of views between European and Chinese legal experts. The EU-China Legal and Judicial Cooperation Programme to strengthen the rule of law in China was described by the then FCO Minister Bill Rammell MP as “by far the most important foreign assistance project of its kind in China” (p 271). Ms Lei Vuori (European Commission delegation in Beijing) explained that the EU-China Law School was running two major governance projects in partnership with the United Nations Development Programme¹⁰⁴. The School trained judges on international law, including human rights law. She thought the School could have a major impact on a new generation of Chinese lawyers.
243. **The Commission is carrying out an impressive range of civil society, rule of law and human rights projects in China, often in partnership with Chinese civil society organisations. The UK and other Member States are also doing important and successful work in this area. We welcome these activities and believe they should be strengthened.**

EU-China Human Rights Dialogue

244. Stephen Lillie (then Far Eastern Group, FCO) stressed that the Government saw both EU and Member State human rights dialogues with China as important symbols of European concern as well as an opportunity to raise individual cases. They were also important to help China address institutional, political and legal reform (Q 12).
245. The EU-China Human Rights Dialogue, established in 1995, takes place every six months. It covers a variety of human rights issues, spanning all the categories of rights. The EU always raises the question of the death penalty and the arbitrary detention system called “re-education through labour” (Q 460).
246. Our witnesses were generally critical of the EU-China Human Rights Dialogue. Riina Kionka, the High Representative's Personal Representative for Human Rights, expressed disappointment with progress. However, a regular and confidential dialogue was more likely to be effective than sporadic outbursts or lecturing the Chinese in public (QQ 462, 467). Dr Brown thought that the Chinese tended to listen politely but not engage in a dialogue on human rights. The Chinese government quickly became defensive and felt that its achievements—including lifting people out of poverty, creating a legal system and local village elections—were not recognised (Q 60).
247. Human Rights Watch expressed concern that the EU-China Dialogue had become “largely a rhetorical shell, lacking in accountability, transparency, and clear benchmarks for progress”. The EU had allowed China to dictate which NGOs were invited, even for meetings in Europe. The discussions were “structured to prevent frank discussions about human rights conditions inside China”. Establishing connections between experts in areas such as labour law had merit but should not substitute for discussions of serious

¹⁰⁴ Roundtable on human rights, Beijing, 22 July, Appendix 4.

abuses. The dialogues had also suffered from a lack of high-level political effort, with the EU conveying inconsistent messages at summit meetings. The Chinese government was adept at exploiting these inconsistencies in order to undermine dialogue (pp 302–6). Lord Patten of Barnes thought that the Chinese had made no substantive change in internal human rights policy as a result of pressure from the EU (Q 553).

248. On a more positive note, Stephen Lillie noted evidence that individuals whose cases were regularly raised by European governments, the United States or others were “ultimately progressed” (QQ 12–13). James Moran, Director for Asia in the Commission, noted that the EU had had some influence insofar as all death sentences were now reviewed in Beijing. He was convinced that with patience, the dialogue could achieve results (Q 353).
249. Riina Kionka noted that the Chinese were increasingly raising issues of concern in the EU, such as the situation of Roma communities, which made the dialogue “more meaningful”. The Chinese always reminded the EU that the dialogue should be conducted on an equal basis and in a spirit of partnership (QQ 464–466).
250. **The EU should continue to pursue a regular and confidential dialogue with China on human rights. In most cases this is likely to be more effective than public declarations or high-handed moralising. However, such a dialogue must produce results and not become a cover for inaction. If the EU-China Human Rights Dialogue fails to make significant progress, EU Member States should consider raising China’s human rights record more actively in the United Nations Human Rights Council.**
251. **We believe that the Chinese government should not be allowed to dictate who participates on the European side in the EU-China Human Rights Dialogue. The list of civil society participants from the European side should be drawn up by the EU, taking into account expertise on China and the issues on the agenda. The EU should also encourage China to permit the participation of a wide range of Chinese civil society organisations in the dialogue.**

Promoting human rights through the United Nations

252. Bill Rammell MP (former FCO Minister) wrote that the EU sought to work with all members of the UN Human Rights Council. China had played a role in the Universal Periodic Review (UPR) process by asking constructive questions in other Member States’ reviews. The EU had encouraged all States to prepare rigorously for their UPR, engage independent civil society in every stage of the process, and adopt an open, self-critical approach. The Minister was satisfied that the Chinese had approached their review in February 2009 seriously but was disappointed that all recommendations proposed by EU Member States had been rejected (p 271).
253. For Human Rights Watch, Chinese diplomats had become adept at undermining the UN’s promotion of human rights. They gave examples of China’s attempts to weaken the Human Rights Council’s procedures. China had also often blocked UN Security Council resolutions on sanctions. However, China had responded more positively on Darfur and the Middle East, issues on which the EU had engaged China at the highest levels (see Chapter 4) (pp 304–6).

254. Stephen Lillie told us that the international community had expanded its dialogue with China on international issues, but in general China did not favour sanctions and would always emphasise dialogue (Q 21). On Burma (see Chapter 4), the Chinese had concluded that the military junta was more likely to provide stability than any democratic elections. They had, however, tried to encourage political change “in a quiet way” (Lord Patten of Barnes, Q 560).
255. **We are concerned that China may be undermining the efforts of the United Nations to protect and promote human rights worldwide. While China has responded more positively than in the past to high-level EU engagement on human rights violations in Darfur and the Middle East, it has also blocked some UN Security Council resolutions entailing targeted sanctions against gross human rights offenders such as the military junta in Burma and the regime in Zimbabwe. The EU should press the case that, as a member of the United Nations, China has a duty to respect and promote human rights; but also that respect for human rights around the world is a cornerstone of stability and human development and is therefore in China’s long-term interest.**

Tibet and Xinjiang

256. Western China has an entirely different composition to eastern China. At the foundation of the PRC in 1949 there were few ethnic Chinese (Han) in these areas and they had been largely self-governing since 1911. On the establishment of the PRC, Tibet and Xinjiang were designated autonomous regions indicating that their distinctiveness would be guaranteed in the constitution. The EU Member States all recognise these areas as Chinese sovereign territory; but the way that the Chinese government has handled political incorporation and economic opening has led to rising opposition to Beijing’s policies and a potential for inter-ethnic violence.
257. Isabel Hilton said that Tibet and Xinjiang were areas of tension. Tibet was effectively under military occupation. Xinjiang, with its mostly Sunni population with a strong Sufi influence, was tightly controlled by the Chinese authorities. There had been long-running discontent which was of concern to the government (QQ 97–99, 134–136). The EU does not currently have a policy on Tibet or Xinjiang agreed by the Member States, but it has issued statements¹⁰⁵.

Tibet

258. There have been several cases of unrest in Tibet in recent years. For example, in March 2008, in advance of the Olympic Games in Beijing, there were riots and protests in Lhasa and other parts of Tibet¹⁰⁶. (For historical background on Tibet see Appendix 9.)

¹⁰⁵ For example, the Declarations by the Presidency dated 29 October 2009 and 12 November 2009.

¹⁰⁶ House of Commons Library standard note, 20 March 2009. There were divergent interpretations of what had caused the disturbances, with the Chinese saying that Tibetans had started the violence with attacks on Chinese inhabitants in Lhasa, alleging that about 20 people died. Supporters of the Tibetan cause focused on the repressive response of the authorities, with over a thousand Tibetans being detained, and claimed that up to 200 people had been killed. Amnesty International described Tibetan protests as “largely peaceful” and spoke of a subsequent “lock-down” in Tibet. For Amnesty’s June 2008 report, see: <http://www.amnesty.org/en/news-and-updates/report/china-one-thousand-protesters-unaccounted-tibet-lock-down-20080620>

259. Isabel Hilton thought that there was “widespread and justified discontent” in Tibet which could be resolved if the Chinese government adopted a more “enlightened” approach. The Chinese government had recently issued a White Paper on Tibet which downplayed the problems. In 2008 the Chinese government had blamed the Dalai Lama, maintaining that Tibet was making great economic progress within the embrace of the motherland; and that the trouble in Tibet was instigated by foreign powers with the intention of damaging China and encouraging “splitism”. These were “extremely weak” arguments. The administration in Lhasa was the most politically reactionary part of the Chinese state. The EU could play a role by supporting a “one country, two systems” solution, an approach which had worked well in Hong Kong. The EU should also point out to the Chinese that the Dalai Lama was a moderate and effective interlocutor who represented all Tibetans and that China should therefore seek a negotiated settlement with him (Q 134).
260. The Office of Tibet¹⁰⁷ commented that the Chinese government’s approach had been “cultural genocide” against anything “Tibetan”. Tibetans had become a minority in their own country and were subjected to “racial discrimination” by the Chinese. The Tibetan language was being made redundant and Tibet’s natural resources were exploited. The repression experienced by Tibetans was like “hell on earth”. In order to resolve the issue, the Dalai Lama had renounced the Tibetan people’s right to an independent state and agreed that Tibet could remain within the PRC to help maintain unity and stability, despite the dubious nature of China’s historical claim to Tibet. The EU should urge China to:
- invite impartial international bodies to investigate who instigated the 2008 uprisings in Tibet;
 - open all Tibetan areas to independent monitors and the international media;
 - release all Tibetan political prisoners of conscience. All detained Tibetans must have access to independent lawyers and the right to lodge complaints, in an atmosphere free of reprisal and harassment (pp 318–20).
261. The European Parliament, in a resolution of 10 April 2008 on Tibet¹⁰⁸, condemned the “brutal repression visited by the Chinese security forces on Tibetan demonstrators and all acts of violence from whichever source”. The Parliament criticised the “often discriminatory treatment of non-Han Chinese ethnic minorities”, and called on China to “honour its commitments to human and minority rights and the rule of law”. The resolution called for a UN inquiry into the 2008 riots and repression in Tibet and for a constructive dialogue “without preconditions” between the Chinese authorities and the Dalai Lama, as well as the appointment of a special EU envoy for Tibetan issues.
262. Dr Brown said that the UK Government had recognised Chinese sovereignty over Tibet in November 2008, whereas previously it had only recognised Chinese suzerainty. These changes meant that all EU Member States now recognised Chinese sovereignty over Tibet. The EU could be tougher on China over Tibet and, in particular, argue that unrest in Tibet damaged China’s international image. However, the Chinese leadership regarded

¹⁰⁷ The official agency of the Dalai Lama for northern Europe, Poland and the Baltic States, based in London.

¹⁰⁸ P6_TA(2008)0119.

sovereignty not as a legal but as a moral issue. The Chinese government wanted western leaders to affirm not just that the Chinese had the legal right to be in Tibet but that they had a moral right. Western and Chinese leaders were “talking different languages” in relation to this issue (QQ 60, 71). It was a particular problem for the EU because in the eyes of the Chinese Tibet was associated with Europe rather than the United States (Q 60). (See also Chapter 3.)

263. For Professor Godement, there was no reason for the EU to give priority to the Tibet issue. Several European countries had adjusted their Tibet policy significantly in 2008. The French had made a declaratory statement which recognised Chinese territorial integrity and that Tibet was part of China (Q 587).
264. FCO Minister Ivan Lewis MP set out the Government’s policy on Tibet in October 2009¹⁰⁹. The UK had an interest in long-term stability in Tibet, which could be achieved through respect for human rights and greater autonomy for Tibetans. The UK’s change in policy on Tibet had enabled it to exert significant influence over the Chinese government. Minister for Europe Chris Bryant MP told us that no country in Europe would abandon the issue of Tibet, but that the way to raise it was with “steadiness and resolve” rather than by “sudden grandstanding” (Q 789).
265. Representatives of the Dalai Lama and the Chinese authorities met on 26 January 2010¹¹⁰, but no progress was made on substantive issues. This was the ninth round of dialogue and the first visit for 15 months in the process that began in 2002.
266. At a high-level meeting on 18–20 January 2010 attended by President Hu Jintao, Chinese leaders agreed plans to “accelerate development” in the Tibet Autonomous Region¹¹¹. They said that greater efforts had to be made to improve the living standards of the people in Tibet, as well as ethnic unity and stability.
267. **Tibet is an extremely sensitive issue for the Chinese government and one that it perceives as a threat to national unity and territorial integrity. However, there is evidence that there have been grave violations of human rights in Tibet, which we deplore.**
268. **The issue of Tibet needs to be handled carefully by the EU and its Member States. A regular, constructive dialogue between the Chinese authorities and Tibetan representatives is the only way a long-term solution can be found. We welcome the resumption of talks between representatives of the Dalai Lama and the Chinese authorities.**
269. **The EU should call on China to pursue the dialogue with representatives of the Dalai Lama in a spirit of compromise and mutual respect. The EU should seek to persuade China that respecting human rights in Tibet is a legal and moral obligation; and that fair treatment of all Tibetans will help rather than hinder**

¹⁰⁹ House of Commons Official Report (Hansard), 20 October 2009, columns 759 & 764.

¹¹⁰ Statement by FCO Minister Ivan Lewis MP, 25 January 2010.
<http://www.fco.gov.uk/en/news/latest-news/?view=News&id=21623874>

¹¹¹ Chinese state news agency (Xinhua), 22 January 2010. “China to achieve leapfrog development, lasting stability in Tibet”. <http://english.gov.cn/index.htm>

China's long-term stability and unity. The EU should continue to raise the issue of Tibet in its human rights dialogue with China.

270. **China has attempted to pressure individual EU leaders to discourage them from meeting with the Dalai Lama. EU Member States must coordinate their approach and show solidarity with each other in resisting this pressure.**

Xinjiang

271. In July 2009, inter-ethnic rioting erupted in Urumqi, the provincial capital of Xinjiang, leading to several hundred deaths. (For historical background on Xinjiang see Appendix 9.) The apparent trigger for these events was media reports that Uyghurs migrant labourers had been killed in street violence in eastern Guangdong province. The Chinese government attributed the events to “internal and external forces of terrorism, splitism and extremism”¹¹². This resulted in a new wave of detentions, prosecutions, and sentencing in the region, including death sentences. It was against this background of intensive security measures in Xinjiang, that the UK citizen, Akmal Shaikh, was executed for drug offences in December 2009 (see paragraph 237 above).
272. Scott Wightman of the FCO told us that the Chinese government had shown “selective deafness” in interpreting statements by western governments during the riots. The UK and the EU had condemned the violence and stated that there was no justification for the extremist attacks on innocent people. They had also called for the rights of the detainees to be respected. The Chinese had been surprised by the underlying problems in Xinjiang, and were unsure how to deal with them. The UK and EU were looking for ways to help the Chinese address some of the underlying tensions that had led to the violence (Q 796).
273. **The UK and the EU were right to condemn the violence in Urumqi in July 2009. We also welcome their efforts to assist the Chinese in searching for ways to address the underlying problems that affect Xinjiang.**
274. **China plays an important role in the countries and regions bordering Xinjiang, including Central Asia, Afghanistan and Pakistan. China and the EU have common interests there, not least security and economic development. However, the EU should not temper concerns about human rights and ethnic tensions in Xinjiang in exchange for China's cooperation on fighting terrorism and insurgency in Central and Southwest Asia (see also Chapter 4).**

¹¹² White Paper on Xinjiang published by the State Council of the People's Republic of China, September 2009. Xinjiang de fazhan he jinbu [Xinjiang's development and progress] PRC, Central People's Government. Available at http://english.gov.cn/official/2009-09/21/content_1422566.htm

CHAPTER 9: CHINA AND THE EU IN AFRICA: COMPETING MODELS OF DEVELOPMENT COOPERATION?

275. China's interest in Africa stems mainly from domestic concerns about economic growth and the need to secure energy, mineral and agriculture resources (Dr Alden, London School of Economics, Q 256). These concerns are particularly acute because China has limited natural resources and a high rate of economic growth—GDP has grown on average by 9% a year over the past 25 years¹¹³.
276. DfID wrote that Africa currently possessed about 9% of the world's proven petroleum reserves compared to almost 62% for the Middle East. African reserves remained largely unexplored. China was a growing market, accounting for around 14% of Africa's exports; oil accounted for around 80% of African exports to China. However, the EU and the US accounted for a greater proportion of imports of oil from Africa (p 260).

TABLE

Destination of African oil exports (*approximate figures*)

China	14%
EU	36%
US	33%

277. While the EU also has commercial interests in Africa, it has different policies on poverty reduction, good governance and human rights. Minister for Europe Chris Bryant MP told us that China's economic relations with the developing world should be welcomed in the context of the Millennium Development Goals (MDGs). China invested more in Africa than "all of the G8 countries combined" (Q 800). While we have concentrated on Africa during this inquiry, many of the issues would apply to other developing countries, such as in Latin America.

China's growing role in Africa

278. China's trade, investment and aid to Africa have grown dramatically in recent years (Dr Alden, Q 255). Two-way trade grew from \$10bn in 2000 to \$70bn in 2007 according to DfID figures. China has also built up its political relations with African countries, with the summit meeting of the Forum on China-Africa cooperation being held in Beijing in November 2006. Following the summit, China announced an expansion of all programmes—construction, technical aid, education and health, trade and investment.
279. Dr Chris Alden told us that China's main trading partners in Africa are all resource exporters, including Angola, Sudan, the Democratic Republic of Congo and Nigeria. South Africa is also an important partner (Q 257).
280. Mr Keeley (International Institute for Environment and Development) said that it was possible to overstate the extent of China's engagement: overall investment

¹¹³ FCO figures. Available at:

<http://www.fco.gov.uk/en/travel-and-living-abroad/travel-advice-by-country/country-profile/asia-oceania/china?profile=all>

and development aid were still small relative to that provided by traditional donors (Q 260). China is only one of a range of actors, including India, Malaysia, and Brazil, that are building closer relations with African countries.

281. Dr Alden pointed out that the profile of Chinese investment and activity in Africa was varied, ranging from the Chinese central government to individual farmers. The Chinese presence included state-owned enterprises and provincial governments, as well as, increasingly, private actors. Chinese banks provided incentives to invest abroad. “We often talk about China but in fact there are many Chinas ...” (Q 283).
282. China’s commercial presence in Africa predominantly consists of privately-owned small to medium sized enterprises which have little or no relationship to the government of China. There are a few large Chinese state-owned enterprises operating in the extractive and infrastructure sectors. The Chinese government actively supports these sectors through the provision of credits, concessional financing and diplomatic support (Ivan Lewis MP, then Parliamentary Under-Secretary of State, Department for International Development, p 259).
283. Chinese individuals are increasingly moving to Africa. Chinese official statistics say that 120,000 Chinese are on labour contracts in Africa, but Dr Alden’s estimate was that there were 200,000 to 600,000 north of South Africa. These tended not to be permanent migrants (Q 276). Africans now had more ambivalent feelings towards China than a few years ago due to Chinese immigration into Africa (Q 308).
284. **China’s worldwide search for resources to feed its economic development has implications for the EU’s own economic and industrial needs. The EU must monitor Chinese commodity deals, whether on food, minerals or energy resources, to ensure that Europe’s strategic interests and access to global resources are safeguarded.**

Differing approaches

285. Our witnesses thought that the EU and China had shared interests in Africa, but that their approaches differed. Gareth Thomas MP (Minister of State, DfID) believed that there was scope for trilateral cooperation between the EU, China and the African Union in: peace and security; support for African infrastructure; environmental and natural resource issues; and agriculture and food security (Q 526).
286. Ivan Lewis MP (then Parliamentary Under-Secretary of State, DfID) highlighted differences in the European and Chinese approaches to Africa on harmonising their aid with other donors, conditionality (see below) and transparency of aid flows. The Chinese regarded political equality and non-interference as particularly important in their relations with African countries (pp 256–7), and believed that European aid models had not been as successful as their own (Q 269). Gareth Thomas MP suggested that the Chinese government was not motivated purely by self-interest: poverty reduction was also a Chinese objective in developing countries (Q 528). A 2006 Chinese White Paper stated that its policy was to promote peace and stability, development and common prosperity (Ivan Lewis MP, p 256).
287. China has gradually become more willing to work with other donors to promote development in Africa. China’s EXIM Bank has signed Memoranda of Understanding with several multilateral development banks, and in 2007

China contributed to the replenishment of a major development fund of the World Bank (Ivan Lewis MP, p 257).

288. Professor Godement thought that the Chinese approach to development in Africa could be complementary to the EU's, but more cooperation was needed. The Chinese presence in Africa was in many cases welcome from an economic point of view. However, the Chinese had not studied all the strategic implications of their economic and human presence throughout Africa and were not prepared for the "backlashes" that might occur (Q 594).
289. The EU was not competing with the Chinese in the area of development cooperation, according to Mr Delphin (European Commission). Similarly, the EU did not interfere to assist European companies in winning contracts from African governments. Rather, the EU was promoting good governance as a way of ensuring a level playing field for European companies. In contrast, he questioned the way in which the DRC had recently awarded mining contracts to the Chinese and whether Chinese loans to the DRC were good value (Q 385) (see Box 5).
290. Scott Wightman of the FCO told us that there was an incipient dialogue between the EU and China on African issues (Q 806). He cited one interesting example whereby DfID was funding an environmental impact assessment of a Chinese road building project in the DRC (Q 807).
291. **The role of Chinese central and provincial governments, state corporations and businesses in Africa has increased substantially in the last decade. China has become one of the leading trading and investment partners for African nations. In many cases Chinese trade, investment and know-how have boosted economic growth and employment opportunities in Africa. We support the continuing dialogue between the EU, China and African regional organisations, governments and civil society on development. We believe there is scope for greater cooperation in the interest of achieving poverty reduction, through roads and railways.**

Transparency in Chinese aid

292. It is difficult to assess the breakdown by country and overall volumes of Chinese aid and investment, as China does not publish aid statistics in the same way as members of the OECD. One of the EU's main concerns about Chinese aid to Africa related to transparency and the unwillingness of China to share information, according to Ivan Lewis MP. Civil society in Africa was concerned about a lack of transparency related to deals that African leaders had signed with China (pp 256–60).
293. The Extractive Industries Transparency Initiative (EITI) seeks to improve the transparency of revenues paid and received by governments and companies once a mining contract has been agreed. It currently has no impact on the transparency of contracts themselves, although there is a growing interest in extending transparency beyond revenues. The UK is "strongly supportive" of China joining the EITI in some form. Several Chinese subsidiaries already provide information according to EITI requirements, e.g. in Liberia. This is mandatory in some of the countries where they operate. The structure of the Chinese energy sector means that the EITI would benefit most from Chinese companies joining, rather than the Chinese government. The UK Government's initial objective is for major

Chinese companies to express their support for EITI. DfID is currently organising a conference in China on “corporate social responsibility and voluntary initiatives”, at which the EITI will be a core theme (Gareth Thomas MP, DfID, pp 168–9).

BOX 5

The “resources for infrastructure” deal in the Democratic Republic of Congo (DRC)

In April 2008 a consortium of Chinese enterprises signed an agreement with the Congolese government on the extraction of mineral resources from the DRC. The NGO Global Witness viewed this agreement as the most significant example to date of the “resources for infrastructure” model of Chinese investment in Africa. The value of the investments was originally \$9.25 billion.

Global Witness highlighted deficiencies in the approaches of the consortium and the Congolese government: lack of transparency; failure to involve democratically-elected institutions; risks for long-term financial stability; insufficient protection of labour rights; and concerns about sustainable development. A “stabilisation clause” included in the agreement risked undermining the DRC’s right to regulate key public policy areas such as the environment and human rights. Global Witness referred to reports of the poor treatment of workers in mines, smelters and other operations under Chinese and non-Chinese ownership in the DRC, and expressed concern that this may be repeated in the infrastructure and mining operations covered by the agreement. There were concerns that the Congolese government might not be getting a good deal from China, as it had shown a dependence on the Chinese for direction and guidance in valuing infrastructure. This reflected broader weaknesses and an “imbalance” in other aspects of the partnership, including negotiation, technical expertise and operational capacity (pp 261–4).

Despite the need for infrastructure investment in the DRC, the international community—including DfID and the EU—had serious concerns that the deal would compromise the DRC’s longer-term debt sustainability¹¹⁴. As a result, it did not approve an IMF programme for the DRC. In late 2009, the Congolese and Chinese governments agreed changes to the deal which mean that it is now compatible with longer-term debt sustainability in the DRC, confirmed by joint World Bank and IMF analysis. The removal of state guarantees on the commercial mining part of the deal has shifted the balance of risk in the DRC’s favour. The deal has also been reduced to \$6 billion; \$3 billion for mining investments and \$3bn for public infrastructure projects.

The World Bank is working with the Congolese government to ensure that the infrastructure projects, mainly roads, represent maximum value for money. DfID has been working with the Ministry of Infrastructure to help the Chinese minimise their negative impacts while seeking to ensure that the poorest benefit. DfID has funded the drafting of road sector standards for the Congolese government which are about to pass into law. DfID may fund impact assessments to mitigate the environmental and social impacts of the roads and is working with the Chinese embassy, which has given assurances that all Chinese companies will adhere to the law when passed.

¹¹⁴ Information provided by DfID.

294. James Keeley highlighted the EITI as an “incredibly important initiative” and a key topic for European engagement with China. The two sides could consider what the obstacles were to China joining the initiative and how it might be reframed to encourage the participation of Chinese stakeholders. Scott Wightman of the FCO said: “what we really need is for the African governments who have signed up to EITI to be encouraging China ... to co-operate with not just the letter but also the spirit of the initiative” (Q 805).
295. **We are concerned about the lack of transparency of Chinese aid. African parliaments and civil society must have the information they need to be able to hold their governments to account. We are concerned that in some cases Chinese loan and investment agreements are neither contributing to poverty reduction nor respecting internationally-recognised principles of sustainable development, good governance and human rights.**
296. **The Extractive Industries Transparency Initiative is a key tool for transparency and good governance. The UK and the EU should attach high priority to securing the participation of the Chinese government and businesses in the Initiative.**

Conditionality and good governance

297. Our witnesses highlighted conditionality as a key difference between the Chinese and European approaches to aid. China does not coordinate its aid conditionality with other donors. Chinese investment in Africa does not come with good governance conditionality but with a range of conditions related to how loans will be repaid and concessions that China will be granted as part of the investments. This was an “entirely different approach” to most of the OECD (Ivan Lewis MP, p 256).
298. African governments often prefer the Chinese approach to aid because the Chinese avoid imposing too many conditions, including in the area of human rights and good governance. As Mr Keeley said, the governance agenda becomes more difficult to promote when there are alternatives (Q 260). Yet in some cases, Chinese and European aid may be complementary. Ivan Lewis MP wrote that the government of the DRC appeared to share the UK’s position that the assistance provided by China and traditional partners was “strongly complementary”. Therefore, he did not perceive China’s involvement in the DRC as an obstacle to the promotion of broader governance and human rights objectives (p 258).
299. The Chinese are paying increasing attention to political stability in certain African countries, not least to safeguard their substantial investments. Mr Delphin of the European Commission told us that although the Chinese may have engaged in a more “predatory policy of grabbing resources” in the past, they had realised that stability was essential to ensure access to resources, and had therefore been forced to deal with the issue of good governance (Q 384). Gareth Thomas MP wrote that China was increasingly recognising that its activities in Africa brought with it greater responsibilities. China had played an important role in persuading the government of Sudan to accept the joint African Union—UN force for Darfur (UNAMID) (p 168). Moreover, the Chinese Special Representative on Darfur, Liu Guijin, has publicly stated the need for the Sudanese government to be more active on Darfur (Bill Rammell MP, then Minister of State, FCO, p 277).

300. Mr Delphin noted some inconsistencies in Chinese policy. For example, China had followed the lead of the international community in its response to the civil unrest in Kenya, but in the case of Zimbabwe it had paid no attention to good governance. However, he echoed the Minister's view that peace and security was one of the most promising topics of discussion with the Chinese, pointing out that China had more than 1,000 UN peacekeepers in Africa (Q 384). China's lack of interest in good governance and human rights did not imply the absence of a political agenda. One motivation was China's foreign policy, which included the objective of isolating Taiwan (Q 385).
301. Scott Wightman of the FCO told us that the way China was engaging in some African countries was a cause for concern. One such case was Guinea, where a coup took place in 2008. There were reports that the Chinese were offering a multi-billion dollar mining contract to the Guinean authorities, contradicting African and international efforts to use aid conditionality and political pressure to support a transition to democracy. Minister for Europe Chris Bryant MP agreed that the Chinese approaches were undermining these efforts. The role of the Africans themselves, including the African Union, in taking the lead in expressing these concerns to the Chinese was underlined by our witnesses (QQ 800–801). Another case was Zimbabwe, where China was maintaining its relationship with the regime despite external pressure to the contrary (Q 804).
302. Chinese arms exports to African countries are another cause for concern. Bill Rammell MP believed that China had supplied arms to a number of African countries which were identified as “countries of concern” in the FCO's Annual Report on Human Rights 2008, including both Sudan and Zimbabwe. These exports might not be in breach of UN sanctions, but could destabilise fragile situations. The UK consistently encouraged the Chinese government to meet international norms on arms licensing, including not allowing arms sales that could undermine the stability of other countries or regions (pp 277–8).
303. **Good governance and conditionality are issues on which EU and Chinese approaches diverge. China's reluctance to take good governance and human rights into account can undermine African and international efforts. Despite this, China does listen to African leaders and the EU, and has gradually been prepared to play a more constructive role in respect of some armed conflicts in Africa.**

Debt and labour issues

304. Several witnesses highlighted concerns about Chinese loans to African nations and debt sustainability. The Minister Gareth Thomas MP cited this as another reason why it was important for China to be more open about its agreements with African countries (Q 531). The DRC and Zambian governments were considering taking on new debts that they might not be able to repay in 10 or 20 years' time. Bilateral and multilateral—including European—creditors could then be faced with writing off some these countries' debt burden (Dr Alden, Q 266). Another concern was that major Chinese infrastructure projects in Africa often used imported Chinese labour rather than local labour, which lessened their development benefits for African countries (Scott Wightman, FCO, Q 809).

305. **We are concerned that China is encouraging African nations to take on unsustainable and inequitable levels of debt. This contradicts recent international and EU initiatives, including the Highly-Indebted Poor Countries Initiative (HIPC). The EU should engage China in a regular dialogue on this question.**

CHAPTER 10: HONG KONG

306. Hong Kong's Special Administrative Region (SAR) status gives it an economic as well as a political advantage. Lord Patten of Barnes¹¹⁵ thought that Hong Kong had "gone pretty well" since it returned to Chinese sovereignty in 1997. It was one of the freest places in Asia and had been remarkably successful (Q 566). Isabel Hilton agreed that, on the whole, Hong Kong was a success (Q 134).

BOX 6

Hong Kong Constitutional Arrangements

Hong Kong became a Special Administrative Region of the People's Republic of China on 1 July 1997. Under the Basic Law Hong Kong operates under the "One Country, Two Systems" principle which allows it to have a separate legal, commercial and political system, though ultimate authority lies with the National People's Congress (NPC) in Beijing. Hong Kong currently operates a three-tier system of administration with 18 district councils; a Legislative Council (LegCo) last elected on 7 September 2008 for a period of four years; and a Chief Executive, presently Donald Tsang, elected on 25 March 2007, for a period of five years. The Basic Law (Articles 45 and 68) states that the "ultimate aim" is universal suffrage for both LegCo and the Chief Executive, though it does not specify any dates by which this must be accomplished. At present direct election is only available for a majority of seats in the district councils and half of the 60 seats in LegCo. The other 30 seats in LegCo are indirectly elected by functional constituencies; and the Chief Executive is also indirectly elected by an 800-member election committee. Changes to the existing system require the support of the Chief Executive and two-thirds of LegCo, and the approval of the NPC.

In December 2007 the Standing Committee of the NPC (SCNPC) in Beijing rejected the possibility of universal suffrage for 2012, when both executive and legislative elections fall. It indicated that direct election for Chief Executive might be possible in 2017, dependent on certain conditions. Direct election might be possible for LegCo after the first direct election for Chief Executive had been conducted. Any proposal to change the existing system and move to direct elections would require the ultimate approval of the SCNPC.

307. Maria Tam¹¹⁶ explained that a 2007 decision by the National People's Congress Standing Committee on future electoral arrangements in Hong Kong meant that in the 2012 elections the LegCo would retain geographic and functional constituencies. No significant decisions would be taken before 2012 on the introduction of universal suffrage for the 2017 and 2020 elections. Democratic and conservative factions had different views on this: the former wanted an early decision on arrangements for 2017 and 2020 while the latter were content to wait for 2012. The NPC had also decided that the Chief Executive would be chosen by universal suffrage in 2017

¹¹⁵ Last UK Governor of Hong Kong, 1992–97.

¹¹⁶ Democratic Alliance for the Betterment and Progress of Hong Kong, Appendix 4.

although there would be a selection process to determine who could stand. In the eyes of many Chinese, Hong Kong was as free as it had ever been.

308. According to Stephen Lam¹¹⁷ there were possibilities for democratic development, even though universal suffrage had been deferred. Jasper Tsang¹¹⁸ said that his Democratic Alliance for the Betterment and Progress of Hong Kong saw economic and social concerns as higher priority than political rights and democratic development. Margaret Ng¹¹⁹ thought that it was important to maintain relations with the European Parliament; however, how to keep up lobbying on democracy and human rights was a challenge.
309. Europe Minister Chris Bryant told us that the Government wanted the Hong Kong SAR to move swiftly to a system of universal suffrage as envisaged in its Basic Law. The EU had been very supportive of UK messages on this. The UK was limited in what it could say because of its colonial past; Hong Kong was a “classic instance” where the EU’s intervention could be “pretty decisive” (Q 789).
310. Dr Steven Tsang (Oxford University) agreed that the EU should take an “active benevolent interest” in the SARs of Hong Kong and Macao and should encourage the Chinese government to work with Hong Kong politicians and citizens for a mutually beneficial outcome on democratisation (p 323). Democratic politicians were frustrated by the lack of progress. They wanted dialogue with the Chinese government who should try to understand them as they enjoyed support in Hong Kong. Dialogue posed no threat to the authority of the central government and was permitted by the Basic Law. Five Hong Kong legislators had resigned in order to use by-elections as a “*de facto* referendum” on faster democratisation. The Chinese government wished to see the Hong Kong SAR flourish but this required Hong Kong people to feel contented, which included having an opportunity to exercise their democratic rights (p 324).
311. Professor Breslin told us that Hong Kong remained a very important conduit for foreign investment into China; some 80% of Japanese money invested in Hong Kong ended up in the Pearl River Delta (Guangdong province) (Q 203). Stephen Lam told us that the financial situation was stable and there had been no need for bank recapitalisation or rescues. Hong Kong businesses had 100,000 factories in the rest of China with 10 million employees, three times the Hong Kong workforce. Maria Castillo Fernandez¹²⁰ confirmed that Hong Kong was a platform for entry into China and important for influence into China. In a reverse process, Beijing pursued Taiwan by means of Hong Kong. EU-Hong Kong trade and commercial links continued to expand and to move towards European standards of regulation. The Macao and Hong Kong SARs had Market Economy Status, which Beijing did not.
312. Ms Castillo Fernandez said that the EU office in Hong Kong had 13 staff, four from the EU and nine local agents, and reported directly to Brussels in the same way as the EU’s Beijing office. This was not adequate for the level

¹¹⁷ Secretary for Constitutional and Mainland Affairs, Hong Kong Special Administrative Region Government, Appendix 4.

¹¹⁸ President of the Legislative Council; Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), Appendix 4.

¹¹⁹ Civic Party, Hong Kong, Appendix 4.

¹²⁰ Head of the then Commission delegation in Hong Kong and Macao, Appendix 4.

of political work that had to be undertaken. 17 EU Member States had diplomatic representation in Hong Kong.

313. **The EU should continue to take an interest in the Hong Kong Special Administrative Region of China, including the implementation of its Basic Law and progress towards universal suffrage. Pressure put on China by a unified EU to maintain momentum on these issues can be more productive than by the UK alone because of the UK's colonial history. We welcome the EU's support for the British Government's position on universal suffrage and its efforts to persuade the Chinese government to make faster progress. The EU should encourage the Chinese government and the Hong Kong authorities to work with Hong Kong politicians and citizens for a mutually beneficial outcome within the framework of the Basic Law.**

CHAPTER 11: CONCLUSIONS AND RECOMMENDATIONS

Chapter 2—Through Chinese eyes: the significance of the EU for China

Political and economic linkage

314. China has difficulty with the political nature of the EU and its decision-making processes and finds it complex and incomplete as a system of governance. For this reason China often feels more comfortable with the Member States where lines of authority are clearer. This view may change if the EU becomes more effective following the implementation of the Lisbon Treaty. The Chinese do not think the Treaty will have a major impact on the EU's foreign policy but, until they see how the EU develops, the Chinese may blow hot and cold over the relationship. Since it is unlikely and undesirable that the EU will develop the strategic or defence capacity of a unitary State, the relationship will remain different from China's relations with other international actors, not least the United States (paragraph 42).
315. It is unrealistic and undesirable that a single EU-China relationship will replace relations between China and individual Member States. The two will rightly continue in parallel. However, the EU and its Member States must be more consistent and not undermine each other. China will always pursue its own domestic and commercial interests single-mindedly. It will target individual countries and pick the easiest interlocutors to deal with, to achieve its aims, particularly when it sees that Member States are not united (paragraph 43).
316. The EU has to make hard decisions about which areas of its relations with China are best dealt with through a united EU approach. It is clear that disunity and lack of mutual support over issues such as the Dalai Lama weaken the position of both the EU and the Member States involved. The Lisbon Treaty will not be sufficient to enhance EU solidarity. Whilst respecting the division of competences, the EU and its Member States need to decide the key issues on which, in practice, the EU should stand firm on a united approach and then fully implement this approach (paragraph 44).
317. The Chinese will trade where they need to trade. Evidence given to us showed that good political relations have not necessarily led to commercial success with the Chinese. Conversely, difficult political relations have not necessarily entailed commercial damage (paragraph 45).
318. The EU and its Member States should be forthright and consistent in their opinions and should not compromise on their principles for illusory short term commercial gain (paragraph 46).

The View of the People

319. We welcome the significant number of Chinese who study in Europe every year. However, we believe that the EU and the Member States should give greater encouragement and support to European students wishing to study in China to redress the imbalance in numbers and to expand the EU's capacity in government, business and the media to understand China as a country and an international actor. The EU and its Member States should also encourage the study of Chinese languages, culture and institutions within the countries of the EU (paragraph 56).

What China wants from the EU

320. The Chinese are interested in social, political and regional models which might be useful for their own reform. When they show interest the EU should make efforts to help them with the aim of encouraging steady and peaceful change. In particular, assistance with the introduction of social security provisions may be one way to help the Chinese increase home consumption and re-balance their trade surplus (paragraph 63).

Chapter 3—EU perceptions, EU actions

A strategic partnership

321. The EU calls its relations with China a strategic partnership, but as yet this is a misnomer. In practice, the EU-China relationship is currently better described as a “collaborative partnership,” in which they collaborate on a limited range of issues. The EU must seek to build a genuine strategic partnership with China, increasing mutual understanding and broadening engagement. This will involve a two-way exchange. The EU may, for example, have lessons to learn from the Chinese on commercial competition and gaining markets (paragraph 77).
322. The rotating EU Presidency, with its changing priorities, has not served the EU well in dealing with China. The EU must identify its key priorities for EU-China summits and pursue them with clarity, vigour and consistency so that China takes account of EU views. The Lisbon Treaty arrangements alone will not do this. It will also require strong political will and consistent determination (paragraph 78).
323. Experience in negotiating China’s entry into the WTO showed that the tough approach used by the US produced the best results. The EU should not be afraid to use this approach if appropriate in negotiations with the Chinese. If the Chinese cancel a summit, the EU should demonstrate in other areas of the relationship that this is not cost-free (paragraph 79).
324. The institutional framework for EU-China relations is highly developed, especially at the working level. Summits and sectoral discussions should focus on deliverable outcomes on real issues. The sectoral discussions should be used in future to discuss those issues which have dropped from the summit agenda but are still important to Member States (paragraph 80).
325. The EU needs to expand its representation beyond Beijing and Hong Kong and establish regional offices, in order to extend its influence and effectiveness, particularly in China’s other major centres (paragraph 81).
326. Apart from key climate change projects, the EU should ensure that funds disbursed under the development envelope focus on training in areas of governance such as the rule of law, human rights and social models (paragraph 82).
327. In discussions with China the EU should endeavour to ensure clarity in the language used, and that each side knows what the other means when using terminology, such as “strategic” and “engagement” (paragraph 83).

The Interests of the Member States

328. Although Member States will continue to pursue their own interests for political and commercial reasons, unwarranted Chinese political or economic

action against any Member State must be seen as an affront to all EU Member States. There should be a presumption that the EU and its Member States should take action promptly in such cases to uphold solidarity across the EU. This would be one of the most effective measures to rebalance the relationship (paragraph 89).

The Partnership and Cooperation Agreement

329. We support the EU's efforts to negotiate a PCA with China to replace the outdated 1985 Trade and Cooperation Agreement. The new Agreement must underpin the new wide-ranging strategic relationship but the EU should be careful not to dilute the long-standing political aims such as language on human rights, for progress on commercial relations. The time-frame should enable a good result rather than a rushed one (paragraph 93).

Chapter 4—China and international responsibility: stability and world order

China on the global stage: ambitious to rise but reluctant to commit

330. The EU should accept China's wish for greater representation in international organisations, and especially financial institutions, commensurate with its increased economic weight. At the same time, the EU should emphasise in its dialogue with China that China cannot commit only to those institutions and agreements that fulfil its national interests, and that it is in China's interest to increase its commitment to upholding the rule of law and maintaining international stability, alongside other major nations (paragraph 103).

Chinese involvement in peacekeeping and countering piracy

331. China looks to the UN as the framework for conducting international affairs. However, its policy of non-interference in the internal affairs of other countries has at times hindered the effectiveness of the UN in dealing with conflicts and abuses of human rights in countries such as Burma. There are signs that this is changing, mainly because of China's increasing need for stability in the world as its economic interests drive it further afield in search of resources. The EU should demonstrate to the Chinese that good governance leads to the stability in which they and the EU have a mutual interest (paragraph 113).
332. China has provided non-combat troops and significant logistical support to UN peacekeeping operations. The EU should encourage China along this path and urge them also to contribute combat troops. The EU should also explore whether China could assist the EU with logistical support for its missions in Africa and Asia (paragraph 114).
333. Chinese projection of naval forces to protect its shipping from Somali piracy is significant as a demonstration of capacity and as an acknowledgement that its domestic concerns can best be served in cooperation with others. Further cooperation with the EU's Operation Atalanta should be encouraged (paragraph 115).
334. We note that Chinese efforts to establish port facilities in a number of countries in the Indian Ocean appear to be primarily motivated by commercial considerations. The EU should accept that these are a normal

part of the expansion of China's regional economic relations and do not represent an attempt to change the strategic balance in the Indian Ocean at this time (paragraph 116).

China's growing interest and engagement in its region

Regional organisations

335. China's trade and political relationships with the countries in East Asia have intensified in recent years. China is now a major regional player. The EU should note the increasing role of China in the region and engage in more frequent consultations with regional powers about China's role. The EU should explore ways in which to develop ASEM as a major forum for dialogue and cooperation between European and Pacific Asian countries (paragraph 123).

Iran, North Korea, Burma

336. China's performance is improving on non-proliferation and arms transfers as it increasingly appreciates that it has a strategic stake in regional and international stability. The EU should encourage China along this path in collaboration with the US which will remain China's principal interlocutor on non-proliferation issues. The EU should also seek China's support in other arms control measures, such as engagement in the EU Strategy on Small Arms and Light Weapons, where it can also play an important role (paragraph 127).
337. China and the EU share non-proliferation objectives in Iran and North Korea, but China has a different approach. In Iran it has economic interests to protect and it dislikes sanctions in principle. The EU should persuade China that it is in its interests to engage seriously in joint actions as part of the E3+3 (UK, France, Germany, US, Russia, China). In North Korea the EU, which has no direct role in discussions, should encourage China to continue to play a leading role in the talks, despite its fears of possible instability on its border if the regime were to change suddenly (paragraph 128).

Pakistan and Afghanistan

338. China and the EU share concerns about stability and terrorism in Afghanistan and Pakistan where China also has a considerable economic stake. The EU should explore the potential for sharing information and even intelligence with China on both countries, and on insurgency and terrorism, recognising that there will be problems reaching common definitions of, and responses to, terrorism (paragraph 132).

Chapter 5—China and international responsibility: security

China's armed forces, capability and power projection

339. The EU does not have a direct security role to play in East Asia, except on environmental and energy security issues, on which it should establish more formal discussions with China. On other security issues the EU will have to exert its influence through other regional actors, such as the USA and Japan, and ASEM (paragraph 137).

340. We support regular dialogue between the EU and the United States on East Asian strategic and security matters (paragraph 138).

Science and Technology collaboration and China's space and cyber programme

341. The EU's engagement with China in the field of science and technology, including projects such as the Galileo satellite programme, is to be commended. However, the EU should be aware that China is probably collaborating to compete. This is particularly the case for dual-use projects with both military and civilian potential, of which the space and satellite programmes are the most significant. The EU should be cautious about sharing technology with China that might involve commercial or strategic risk for the EU and its partners in the future (paragraph 146).
342. The development by China of a cyber capability has potentially serious commercial and communications implications for EU Member States¹²¹. The attack on the Google corporation exemplifies the Chinese authorities' rising capacity to use technology for political control at home and cyber attacks internationally. When attacks emanate from China the EU should make strong representations to the Chinese government and be prepared to take strong counter-measures including the curtailment of collaborative technology programmes. The EU should begin by engaging the Chinese authorities in discussions on the development and employment of cyber capability. This is an area where the EU should work closely with the United States through NATO and other relevant organisations (paragraph 147).

The 2003 attempt to lift the embargo

343. The EU arms embargo was imposed as a symbolic sanction to express concern about human rights in China following the suppression of the Tiananmen Square demonstrations in 1989, and it still retains this character. The 1989 embargo is limited in scope and has had little effect on the volume of arms sales by EU Member States to China. These are regulated at the EU level by a 2008 legally-binding Common Position on arms exports (paragraph 159).
344. The embargo is a sensitive and symbolic issue for the Chinese and an irritant in EU-China relations. It requires cautious and tactful handling by the EU. The Chinese were disappointed that the EU did not lift the arms embargo in 2003, and they were seen to have lost face because of the confidence they placed in European diplomacy to deliver the lift. The Chinese perceived the EU decision as driven by the US, even though it might have been derailed by European parliamentary and public opinion on human rights grounds. The Chinese perception that the EU is the weak partner in relation to the US, rather than a strong partner for China still affects EU-China relations. The EU must avoid public division and policy reversals in future, which only serve to undermine its credibility (paragraph 160).
345. The embargo is understandably a sensitive issue for the United States, Japan and other partners. The EU must consult closely with these partners on any future proposal to lift the arms embargo. Regional stability and security in East Asia must be safeguarded. The EU would need to convince the United States and its East Asian partners that the arms embargo is mainly symbolic

¹²¹ See our 5th Report (2009–10) *Protecting Europe against large-scale cyber-attacks* (HL Paper 68).

and that the Common Position on arms exports is sufficiently robust and enforceable to prevent the export of offensive weapons systems and sophisticated military technologies (paragraph 161).

346. The EU should be prepared to lift the arms embargo only when the international conditions above have been fulfilled and if the Chinese government makes progress on human rights and regional security. Specific conditions should include ratification of the International Covenant on Civil and Political Rights, greater transparency on military modernisation and the removal of the military threat to Taiwan (paragraph 162).

Taiwan

347. China's perception of the threat of a unilateral declaration of independence by Taiwan has risen since the 1990s due to democratisation on the island and rising nationalism on the mainland. This has resulted in intense military preparation to deter or confront a possible Taiwanese *de jure* independence. Despite China's repeated claims that Taiwan is an internal issue, it is a potential flash-point for the whole region, which could bring the US and China into open conflict. Despite the EU's lack of a defence capacity in East Asia, it would face serious consequences from a conflict across the Taiwan Strait and its regional repercussions. Close consultation with the US and Japan is needed on the subject (paragraph 169).
348. Current policies in Taiwan and China mean that the situation remains stable. However, the latest US arms sales to Taipei have rekindled tension between Beijing and Washington. The EU should state its support for the one China policy but its rejection of re-unification by anything other than peaceful means. It should discourage China and Taiwan from taking any unilateral actions that would infringe these principles. The EU should also continue to support the *status quo* across the Taiwan Strait (paragraph 170).
349. The EU should continue to support Taiwan in areas which China would regard as non-threatening and should encourage the Chinese to be more flexible, seeking to persuade them that Taiwan's participation in some international organisations, such as observer status at the World Health Assembly, will not damage the Chinese case on reunification (paragraph 171).

Chapter 6—Trade and investment

350. China is a key trading and investment partner for the EU and its importance will grow. An important objective for China is EU recognition of its status as a market economy. Yet China is not meeting many of its existing obligations. The EU expects China to open its market to fulfil its World Trade Organisation (WTO) treaty obligations, address non-tariff barriers and protect intellectual property rights. The EU should not consider granting market economy status until China meets its own obligations (paragraph 188).
351. Meanwhile the EU should take firm action when dialogue does not produce results, by means including the WTO dispute resolution mechanism (paragraph 189).
352. The EU and its Member States should define their priorities for Chinese market opening and focus on these in all negotiations with the Chinese government (paragraph 190).

353. The vast trade imbalances between China and the West are not sustainable. They contributed to the recent failure of global financial systems. The continued undervaluation of the Renminbi will be an increasing source of friction between the USA and China and will inevitably come to a head in the near future. Any consequent fall-out between the US and China in terms of trade or protection will inevitably have major effects on EU trade and its markets. The EU in partnership with the United States must address this issue firmly with China through the G20 (paragraph 191).
354. The EU, and the European Central Bank, should find ways of encouraging the Chinese authorities to hold a higher proportion of their reserves in euro-denominated instruments (paragraph 192).
355. The EU needs to have a trade presence in major industrial centres outside Beijing, in order to extend its influence and effectiveness (paragraph 193).
356. The EU must consider what needs to be done to enhance its competitiveness and maintain its global position in the light of the economic challenge from China and emerging markets (paragraph 194).

Chapter 7—Climate Change

China's role and approach

357. China is the world's largest emitter of greenhouse gases. Nevertheless, its overriding concern is delivering economic growth. The Chinese Communist Party sees this continued economic development across China as the basis of its legitimacy. All other policy considerations, including climate change, take second place (paragraph 204).
358. China has set a target for reduction in energy intensity of 40–45 per cent by 2020 compared to 2005 levels. This is welcome. However, China's refusal to set targets for emission reductions does not offer a realistic prospect of its transition to a low carbon economy, without which limiting global average temperature increases to 2°C will become impossible (paragraph 205).

The EU and China: partners in addressing climate change?

359. We are concerned that competition for short-term commercial advantage between the Member States is undermining EU engagement with China on climate change. We recommend that the Member States put collective EU interests before short-term commercial advantage in the area of climate change (paragraph 208).
360. The EU should raise the issue of state subsidies for electricity with the Chinese government and highlight that this practice creates a disincentive for energy efficiency (paragraph 211).

Cooperation on energy and low carbon technologies

361. Although we strongly support the concept of the EU-China Near-Zero Emissions Coal (NZEC) initiative, based on Carbon Capture and Storage (CCS) technology, we are sceptical that the current pace of development, and the lack of committed funding, will lead to a successful and timely

outcome. There needs to be a much stronger determination by the UK, the EU and China for this initiative to work¹²² (paragraph 216).

The Copenhagen Conference

362. We are deeply concerned about the failure of the Copenhagen conference on climate change in December 2009. The EU made a concerted effort to achieve agreement on a legally-binding treaty on climate change in the negotiations leading up to the conference. However, China and other developing countries were successful in opposing this (paragraph 220).
363. The adoption by some participants of a Copenhagen Accord outside the UN framework is a positive first step but falls short of the EU's objectives (paragraph 221).
364. Copenhagen illustrated a marginalisation of the EU, even when united; the Chinese leadership of the developing world; and its direct challenge to the United States as an equal (paragraph 222).
365. The EU should be prepared to set an example on carbon emission cuts which is in the interests of the Member States and the world. It must reassess its negotiating strategy prior to the UN meetings in Bonn and Mexico City in order to re-enter the negotiations as a player rather than as a spectator. The Government should consider whether a new approach by the EU towards China and other major developing countries is needed. All options should be included in this review. In particular a major effort should be made by the EU to convince China of the need for a fully effective international system of verification and monitoring of commitments entered into (paragraph 223).
366. Despite Copenhagen, bilateral climate change cooperation between the EU and China is achieving practical results. The UK played a leading role in this respect, including by achieving agreement on the EU-China Partnership on Climate Change during its presidency of the EU in 2005 (paragraph 224).
367. The EU China high-level dialogue should include the issues that arise from industrial pollution and its effect on the Chinese and wider environment (paragraph 225).

Chapter 8—Human rights and the rule of law

General approach of the EU

368. Given its importance in the EU-China relationship, the EU Delegation in Beijing should consider increasing the number of those working on human rights (paragraph 232).

Recent Developments

369. The UK and the EU engagement strategy towards China must be robust and focused, including on human rights (paragraph 237).
370. We welcome the EU's rapid support for the Government's position on Akmal Shaikh. We are very disappointed that the UK and EU requests for clemency were ignored by the Chinese authorities (paragraph 238).

¹²² We have already commented publicly on this point ("Lords EU Committee criticise Government and European Commission's slow progress on Carbon Capture and Storage Project", press statement dated 20 October 2009).

371. The EU must demonstrate much greater unity and consistency if it is to convey effective messages to the Chinese government on human rights and the rule of law. We recommend that the EU Member States show greater solidarity, through public declarations if necessary, with other Member States when they come under pressure from the Chinese government on questions of human rights (see also Chapter 3) (paragraph 239).

EU projects in China

372. The Commission is carrying out an impressive range of civil society, rule of law and human rights projects in China, often in partnership with Chinese civil society organisations. The UK and other Member States are also doing important and successful work in this area. We welcome these activities and believe they should be strengthened (paragraph 243).

EU-China Human Rights Dialogue

373. The EU should continue to pursue a regular and confidential dialogue with China on human rights. In most cases this is likely to be more effective than public declarations or high-handed moralising. However, such a dialogue must produce results and not become a cover for inaction. If the EU-China Human Rights Dialogue fails to make significant progress EU Member States should consider raising China's human rights record more actively in the United Nations Human Rights Council (paragraph 250).

374. We believe that the Chinese government should not be allowed to dictate who participates on the European side in the EU-China Human Rights Dialogue. The list of civil society participants from the European side should be drawn up by the EU, taking into account expertise on China and the issues on the agenda. The EU should also encourage China to permit the participation of a wide range of Chinese civil society organisations in the dialogue (paragraph 251).

Promoting human rights through the United Nations

375. We are concerned that China may be undermining the efforts of the United Nations to protect and promote human rights worldwide. While China has responded more positively than in the past to high-level EU engagement on human rights violations in Darfur and the Middle East, it has also blocked some UN Security Council resolutions entailing targeted sanctions against gross human rights offenders such as the military junta in Burma and Zimbabwe. The EU should press the case that, as a member of the United Nations, China has a duty to respect and promote human rights; but also that respect for human rights around the world is a cornerstone of stability and human development and is therefore in China's long-term interest (paragraph 255).

Tibet

376. Tibet is an extremely sensitive issue for the Chinese government and one that it perceives as a threat to national unity and territorial integrity. However, there is evidence that there have been grave violations of human rights in Tibet, which we deplore (paragraph 267).

377. The issue of Tibet needs to be handled carefully by the EU and its Member States. A regular, constructive dialogue between the Chinese authorities and

Tibetan representatives is the only way a long-term solution can be found. We welcome the resumption of talks between representatives of the Dalai Lama and the Chinese authorities (paragraph 268).

378. The EU should call on China to pursue the dialogue with representatives of the Dalai Lama in a spirit of compromise and mutual respect. The EU should seek to persuade China that respecting human rights in Tibet is a legal and moral obligation; and that fair treatment of all Tibetans will help rather than hinder China's long-term stability and unity. The EU should continue to raise the issue of Tibet in its human rights dialogue with China (paragraph 269).
379. China has attempted to pressure EU individual leaders to discourage them from meeting with the Dalai Lama. EU Member States must coordinate their approach and show solidarity with each other in resisting this pressure (paragraph 270).

Xinjiang

380. The UK and the EU were right to condemn the violence in Urumqi in July 2009. We also welcome their efforts to assist the Chinese in searching for ways to address the underlying problems that affect Xinjiang (paragraph 273).
381. China plays an important role in the countries and regions bordering on Xinjiang, including Central Asia, Afghanistan and Pakistan. China and the EU have common interests there, not least security and economic development. However, the EU should not temper concerns about human rights and ethnic tensions in Xinjiang in exchange for China's cooperation on fighting terrorism and insurgency in Central and Southwest Asia (paragraph 274).

Chapter 9—China and the EU in Africa: Competing models of development cooperation?

China's growing role in Africa

382. China's worldwide search for resources to feed its economic development has implications for the EU's own economic and industrial needs. The EU must monitor Chinese commodity deals, whether on food, minerals or energy resources, to ensure that Europe's strategic interests and access to global resources are safeguarded (paragraph 284).

Differing approaches

383. The role of Chinese central and provincial governments, state corporations and businesses in Africa has increased substantially in the last decade. China has become one of the leading trading and investment partners for African nations. In many cases Chinese trade, investment and know-how have boosted economic growth and employment opportunities in Africa. We support the continuing dialogue between the EU, China and African regional organisations, governments and civil society on development. We believe there is scope for greater cooperation in the interest of achieving poverty reduction, through roads and railways (paragraph 291).

Transparency in Chinese aid

384. We are concerned about the lack of transparency of Chinese aid. African parliaments and civil society must have the information they need to be able to hold their governments to account. We are concerned that in some cases Chinese loan and investment agreements are neither contributing to poverty reduction nor respecting internationally-recognised principles of sustainable development, good governance and human rights (paragraph 295).
385. The Extractive Industries Transparency Initiative is a key tool for transparency and good governance. The UK and the EU should attach high priority to securing the participation of the Chinese government and businesses in the Initiative (paragraph 296).

Conditionality and good governance

386. Good governance and conditionality are issues on which EU and Chinese approaches diverge. China's reluctance to take good governance and human rights into account can undermine African and international efforts. Despite this, China does listen to African leaders and the EU, and has gradually been prepared to play a more constructive role in respect of some armed conflicts in Africa (paragraph 303).

Debt and labour issues

387. We are concerned that China is encouraging African nations to take on unsustainable and inequitable levels of debt. This contradicts recent international and EU initiatives, including the Highly-Indebted Poor Countries Initiative (HIPC). The EU should engage China in a regular dialogue on this question (paragraph 305).

Chapter 10—Hong Kong

388. The EU should continue to take an interest in the Hong Kong Special Administrative Region of China, including the implementation of its Basic Law and progress towards universal suffrage. Pressure put on China by a unified EU to maintain momentum on these issues can be more productive than by the UK alone because of the UK's colonial history. We welcome the EU's support for the British Government's position on universal suffrage and its efforts to persuade the Chinese government to make faster progress. The EU should encourage the Chinese government and the Hong Kong authorities to work with Hong Kong politicians and citizens for a mutually beneficial outcome within the framework of the Basic Law (paragraph 313).

APPENDIX 1: EU SUB-COMMITTEE C: FOREIGN AFFAIRS, DEFENCE AND DEVELOPMENT POLICY

The members of the Sub-Committee who conducted this inquiry were:

Lord Anderson of Swansea
 Lord Chidgey
 Lord Crickhowell
 Lord Hamilton of Epsom
 Lord Inge
 Lord Jay of Ewelme
 Lord Jones
 Lord Selkirk of Douglas
 Lord Sewel (from November 2009)
 Lord Swinfen
 Baroness Symons of Vernham Dean (until November 2009)
 Lord Teverson (Chairman)
 Lord Truscott (until May 2009)
 Lord Williams of Elvel (from June 2009)

Declaration of Interests

Lord Inge

Non-Executive Chairman, Aegis (until February 2010)
Member of European Advisory Board, Investcorp

Lord Jay of Ewelme

Non-Executive Member, Associated British Foods (ABF)
Non-Executive Director, Candover Investments Ltd
Non-Executive Director, Credit Agricole S.A.
Non-Executive Director, Electricité de France (EDF)
Vice Chairman, Business for New Europe

Baroness Symons of Vernham Dean

Non-Executive Director, British Airways, which flies to China
Adviser to Rio Tinto

Lord Teverson

Guest of Taiwan Government for visit to Taiwan in 2007

A full list of members' interests can be found in the register of Lords' interests
<http://www.publications.parliament.uk/pa/ld/ldreg.htm>

APPENDIX 2: LIST OF WITNESSES

The following witnesses gave evidence. Those marked ** gave both oral and written evidence; those marked * gave oral evidence only.

- * Dr Chris Alden, Senior Lecturer in International Relations, London School of Economics
- * Professor Robert Ash, Professor of Economics with reference to China and Taiwan, School of Oriental and African Studies (SOAS)
- * Professor Shaun Breslin, Professor of Politics and International Studies, University of Warwick
- * Dr Kerry Brown, Senior Fellow, Asia Programme, Chatham House
- * Professor William A. Callahan, Professor of International Politics, University of Manchester
- Dr Nicola Casarini, Marie Curie Research Fellow, Robert Schuman Centre for Advanced Studies at the European University Institute, Florence
- Professor Flemming Christiansen, Professor of Chinese Studies, University of Leeds
- ** Council of the European Union
- * Department for Business Innovation and Skills
- Department for Energy and Climate Change
- ** Department for International Development
- * The European Commission
- ** Foreign and Commonwealth Office
- * Dr Bates Gill, Head of SIPRI Programme on China and Global Security, Stockholm International Peace Research Institute (SIPRI), Sweden
- Global Witness
- * Professor François Godement, Director, Centre Asie, Sciences Po, Paris
- * Mr Charles Grant, Director, Centre for European Reform
- * Ms Isabel Hilton, CEO, China Dialogue
- Human Rights Watch
- * Mr James Keeley, Senior Researcher, International Institute for Environment and Development
- Dr Chong-Pin Lin, Graduate Institute of International Affairs and Strategic Studies, Tamkang University, Taiwan, Republic of China
- * Professor Rana Mitter, Professor of the History and Politics of Modern China, University of Oxford
- * Lord Patten of Barnes
- Jonathan Peel, Member of European Economic and Social Committee
- * Mr Stephen Phillips, Chief Executive, China-Britain Business Council
- Dr David Shambaugh, Professor of Political Science and International Affairs and Director, China Policy Programme, George Washington

University, Non-resident Senior Fellow, Foreign Policy Studies Program,
The Brookings Institution, Washington DC, USA

Mr Sukhdev Sharma, Member of European Economic and Social
Committee and Chairman of the EU-China Committee

* Professor Xinning Song, Jean Monnet Professor for European Integration
Studies at Renmin University of China, Beijing

Taipei Representative Office in the UK

Tibet Representative Office in the UK

Dr Steve Tsang, Professorial Fellow in Taiwan Studies and University
Reader in Politics, Director of Taiwan Studies and Director of the
Pluscarden Programme for the Study of Global Terrorism and Intelligence
St Antony's College, University of Oxford

Dr Gudrun Wacker, Asia Division, German Institute for International and
Security Affairs

APPENDIX 3: CALL FOR EVIDENCE

The Foreign Policy, Defence and Development Sub-Committee (Sub-Committee C) of the House of Lords Select Committee on the European Union has decided to undertake an inquiry into “The European Union and China”. The Sub-Committee is chaired by Lord Teverson.

Background

Relations between the European Union and China, as well as business, scientific and cultural links have grown significantly in the last decade. This was reflected in 2003 when China and the EU announced a ‘comprehensive strategic partnership’. The European Commission’s Communication of 2006 ‘*EU-China: closer partners, growing responsibilities*’ reviewed the relationship in the context of China’s growing economic strength and global role. The EU is now China’s main trade partner and both sides have an interest in working closely together on issues ranging from sustainable development to international security. The maturity of the relationship is reflected in the 7 formal agreements and 22 sectoral dialogues now in place, complemented by annual summits and a strategic dialogue at deputy foreign minister level.

However, the relationship faces an increasing diversity and number of challenges. Many of these are driven by the sheer dynamism of change in China, which is in turn empowering a new international activism. There have been increasing calls for China’s rising international presence to be matched by commitments to a variety of international norms, covering areas as diverse as human rights observance, good governance in development, environmental responsibility, and non-proliferation and conflict resolution. At the same time the EU-China relationship covers a number of bilateral issues, such as the EU arms embargo imposed after the 1989 Tiananmen crisis, China’s market economy status, and the Chinese government’s attitude to the role of rights in the emerging civil society in China, where to date limited progress has been made.

Most recently, differences around these questions triggered the postponement of the December 2008 EU-China summit as the Chinese government registered its protest at the decision by several European leaders to meet with the Dalai Lama.¹²³ To reflect the growing scope of the relationship, China and the EU began negotiations on a Partnership and Co-operation Agreement (PCA) in January 2007, as an ambitious attempt to establish a framework to address both current challenges and future cooperation.

Scope of the Inquiry

The inquiry will focus on the foreign, security and development policy aspects of the relationship, but will also cover key issues for bilateral cooperation such as human rights, the environment, and science and technology. Although trade and investment issues are a very important aspect of EU-China relations, we have deliberately decided not to focus on them. The House of Lords EU Committee recently published a report on EU trade policy which covered trade with China to some extent.

¹²³ European Union Presidency Statement on the postponement of the EU-China Summit. French EU presidency website, www.ue2008.fr

The inquiry will start by examining the way that social, economic, environmental and political change in China is shaping the relationship. It will review the objectives of the European Union in pursuing a ‘comprehensive strategic partnership’ with China and the institutional framework for EU-China relations, particularly negotiation on the PCA. We will review the coherence of the EU’s policies, in particular the extent to which the EU Member States and the European Institutions all share a common approach to China. We will also assess the perspectives of the EU’s other regional and international partners on the progress and significance of the EU’s relations with China. Overall, the inquiry will seek to evaluate the development and effectiveness of the European Union strategy towards China.

In the framework of this inquiry, the Sub-Committee will consider written evidence. We would therefore welcome submissions on following questions:

China today

- (1) What are the main successes and challenges of economic, social and political modernisation in China, and how do these shape the context for China’s external strategy? In particular how do development priorities and foreign and security objectives interact?
- (2) How does the EU’s policy on promoting the rule of law and human rights, including women’s rights, as well as political pluralism, freedom of expression and civil society interact with its broader foreign policy objectives on China? What is the scope and content of the bilateral human rights dialogue and how well is it working? How successful has the EU been in encouraging Chinese participation in international conventions and institutions in this area, such as the International Convention on Civil and Political Rights; and the UN Human Rights Council?

Mutual perceptions

- (3) How is the EU—and its Member States—perceived by China: what are the values, interests, and ambitions held by China in terms of its European strategy? What priority does China place on its relations with Europe; and how is this level of priority shaped, not by what Europe does, but by the positions adopted by others?

Nature of the relationship

- (4) What is the current nature of EU-China relations in the broader context of political, trade, economic, environmental, demographic-migratory and social-cultural terms? What should be the primary objectives of EU policy towards China; and notably how do Europe’s interests in closer interactions with China on trade, investment, and technology relate to its foreign and security strategy?

China’s foreign policy principles

- (5) China treats its sovereignty as a fundamental determinant of its foreign and security policy, with the result that its general approach to political and civil rights, and its specific posture on questions such as Hong Kong, Macao, Taiwan, Tibet and Xinjiang have significance in international

politics. How does the EU's position on these questions shape its relations with China?

Managing the EU-China relationship

- (6) What does the EU have to offer China as a partner and how can it best influence, and learn from, Chinese thinking and policy? How successful has the EU's diplomacy towards China been in attaining its stated objectives, and how could it be improved? How does the degree of coherence of the EU's policy impact on the EU's ability to engage and negotiate with China? How effective are the channels of communication and diplomacy of the EU in China, including the European Commission delegation in Beijing, and *vice versa*?

The institutional framework

- (7) What is the current state of the institutional framework for the conduct of EU-China relations? How well do the summits, dialogue mechanisms, technical agreements and programmes meet their aims? What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?

Coherence of the EU's policy

- (8) What is the perspective of different EU Member States in relations with China; and how do these different perspectives shape the conduct of European foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy? How close is the European Union to designing a strategy that will ensure that China regards convergence or compliance with EU objectives as a significant priority?

Foreign and Security Policy

- (9) What is the level and kind of cooperation being conducted at present between the EU and China on questions of foreign and security policy, including non-proliferation; counter-terrorism; and crisis management and peacekeeping? To what extent does the technical and scientific cooperation between Europe and China assist in China's modernisation in areas such as defence and space; and is the EU confident that it has adequate mechanisms in place for oversight and regulation of these interactions?
- (10) How successful has the EU been in persuading China to increase the transparency of its defence objectives and military expenditure? What is the state of play regarding exports of arms made in the EU to China? How effective is the newly adopted Council Common Position to replace the Code of Conduct on arms exports in limiting arms exports to China? Should the EU continue to pursue its stated ambition of lifting the arms embargo on China imposed in 1989? What is the EU's policy on cross-strait relations between China and Taiwan, and how successful has the EU been in encouraging peaceful dialogue and confidence-building between the two sides?

- (11) How does the foreign and defence policy of the United States impact on EU-China relations? To what extent and with what consequences will the EU-China relationship be determined by the course of the transatlantic relationship? What is divergent and convergent about US and European approaches to China? How do the EU's other partners, notably Japan, India and Russia, view the development of EU-China relations?
- (12) To what extent should Europe regionalise and internationalise its China strategy? Europe and China increasingly meet in common neighbourhoods and in global forums, most obviously the UN. What is the role of regional multilateralism—for example, the ASEM process—and institutions of global governance in promoting the EU's objectives in the China relationship?

Environment, Climate Change and Energy

- (13) What is the scope of the EU's environmental cooperation with China, and assisting China on policy mitigating and adapting to climate change? What is the EU doing to persuade China to commit to binding targets for reductions in its greenhouse gas emissions under the post-Kyoto UN framework on climate change? What is the EU's policy on cooperation with China on energy? How has China's growing demand for energy and raw materials shaped its foreign policy, and to what extent is there scope for greater cooperation between the two sides on security of supply?

Europe and China's strategy for Africa

- (14) What is the Chinese view of promoting security and development in Africa; and how far does this approach correspond to that promoted by the EU? Can the EU, China and Africa cooperate to improve the effectiveness of regional development and security through the dialogue mechanism and UN forums?

27 February 2009

APPENDIX 4: NOTES OF MEETINGS IN BEIJING, GUANGZHOU AND HONG KONG 20–25 JULY 2009

The following are informal notes of the Meetings held in Beijing, Guangzhou and Hong Kong. Present at all meetings were the following Members of Sub-Committee C:

Lord Anderson of Swansea

Lord Crickhowell

Lord Selkirk of Douglas

Lord Teverson (Chairman)

Meeting with EU Chamber of Commerce President Joerg Wuttke and Vice President, Lyn Kok, Beijing 20 July 2009

The EU Chamber of Commerce provides a service to individual Member States and the EU as a whole. It does not undertake trade promotion and is self financed. They meet with the EU Trade Commissioner. The Chamber produced a Position Paper on 2 September 2009.

(Available at <http://www.eurochamber.com.cn/view/static/?sid=5622>)

China's WTO commitments: China joined the WTO in 2001 and said it would open up but in reality its performance was less good. The Chamber was undertaking benchmarking to reveal the discrepancies but they were difficult to prove as there had been some opening up. The problem was transparency and speed of action. The sanction was to take China to the WTO which Reuters had done when China had prevented it from publishing financial information.

Companies found it very difficult to obtain 100% ownership though it was easier if they were starting from zero. The situation for banking was quite good. Insurance had been an afterthought and the situation was not good as the Chinese showed a protective market attitude. It had been pointed out to them that if a disaster occurred, it would fall heavily on China. Lloyds of London had only recently arrived in China. Chinese measures had included being hit by a tax on the export of yellow phosphorus which it could not afford. The success of dispute resolution depended on the city. The quality of judges tended to be very poor and the lawyers were better than the judges. If cases were won the results could not always be enforced and in extreme cases the problem was taken to the bilateral ambassador.

The EU was a larger market than the US with 20% of the market share and 40% of the technical market share. The EU therefore had considerable leverage but competition between Member States and the lack of a single EU voice hampered the EU in using it. The EU, with a market of 500 million people, was very interesting for China which however liked to play one country off against the other and preferred a divided EU on trade matters. They took a pragmatic view and looked at and knew the EU's systems, for example the Parliament. They had a very able Ambassador in Brussels with a direct link to Wen Jiabao

Some EU Members were more pro China than others (Cyprus, Romania, Bulgaria). Spain, Poland and German were more outspoken when China cut corners on the environment and labour laws and produced cheap goods which the EU could not compete with. At the outset of China's WTO membership the EU had been reluctant to take China to task but they had been more active in the last 3 years because the reform measures had slowed. But in the end the Chinese

market was too big and too profitable to withdraw and the positives outweighed the negatives.

The Chinese system did not really and substantially support green thinking on climate change and the environment although they talked their credentials up. Targets existed, about 50% of all solar power in the world was produced in China (but 98% exported) and another coal power station was installed every 15 days. Even if the EU delivered the 'clean coal' technology the Chinese would not use it, as the subsidised pricing mechanism for electricity is not in favour for upgrading the power stations. The Chinese were attached to reciprocity which was difficult for the EU to achieve if they had no single voice. Industrial development in northern China has stalled in some industries (chemicals) for lack of water but there were opportunities for EU companies in those provinces in other segments (e.g. automobile). The Chinese had succeeded in lifting their people out of poverty, and they will continue in this policy. EU companies liked to be in the big cities where operating was easier.

Beijing had the ultimate political power. If someone in the provinces strayed they were corrected. The Chinese ensured that corruption was avoided in their financial services but insider trading was rampant. Children of Party members received special treatment. The Chinese economy would overtake the US in 10 years based on purchasing power parity. The Chinese were very self confident and the problem was how to integrate them into the world system since they did not play by the rules if it did not suit them.

Meeting with Vice Minister Liu Jieyi, International Department of the Communist Party of China, Beijing 21 July 2009

Relations between the European countries, the EU and China were some of the most important relations in the world. There are many areas of common interest of potential cooperation in international affairs to advance the course of development and peace in different parts of the world. We share the view that multilateralism is important and that we can cooperate in many of the hot spots of the world. In trade and culture the two sides have much to gain from each other; and throughout history the exchange of ideas between Europe and Asia has been very important for the development of our civilisations. The trend of relations was toward more common interests between Europe and China and hence more cooperation on international issues. China viewed its relations with the European countries from a global and strategic point of view: this relationship is not only bilateral but also has significance for global challenges. We are confident that we can with further efforts advance the relationship in future.

The understanding of the role of China has evolved in the global financial crisis. If we take a longer perspective, the relations between Europe and China will be positive and stable. Our decision-making in foreign policy towards Europe has been effective but the EU is a complex mechanism, between its Member States and European institutions and sometimes this leads to difficulties particularly since the Chinese public does not take a very nuanced view of the complexities of Europe. We perceive that EU decision-making is not consistent from time to time, varying on issues that affect China; but we do not find any institutional difficulties when dealing with Europe. Trade is an issue of concern, since China is not treated as a market economy by the European Union. Attitudes to recent events in Xinjiang are another area of concern, since this is a basic law and order issue and we do not think it would be dealt with differently in Europe. But China is not viewed objectively by some people in Europe, and this leads us to believe that

China is not judged by the same standards as Europeans apply to themselves. We need to move ahead in trade and business on the basis of a rule-based economic relationship. We have mechanisms in place for the resolution of bilateral problems if these can be separated from political influence.

China has always supported a larger role for Europe in international affairs. This is not short-term expediency but strategic view founded on common interests in terms of peace, stability, security and development. The agenda has expanded to include climate change, regional security and development, non-proliferation, and assisting developing countries. Europe is a very important partner in multilateral cooperation in resolving global problems and in assisting developing countries where Europe sets a good example. On the Eurasian continent most of the trouble spots are geographically between Europe and China, so the world as a whole would benefit from a cooperative approach by Europe and China to resolving these problems. If the Eurasian continent with the joint efforts of Europe and China becomes a more stable, peaceful and prosperous environment then we will see a better world.

We have been following the constitutional process in Europe very closely. China has always supported European integration and wishes to see a European Union that supports more effectively the common interests of the international community in international affairs because we see that with globalisation the different parts of the world are more closely inter-connected and eventually they will all be on the same level. If the 27 countries of the EU can achieve greater unity this will contribute to this process.

China understands fully the role of good governance in development in places like Africa. Our approach differs from that of Europe in that we see governance and development as being complementary and mutually supporting activities: each should expand and encourage the other. China voted against sanctions on Zimbabwe for internal Zimbabwean reasons, the need to reach a consensus agreement inside Zimbabwe, and after consultation with other African countries. The successful settlement of the disputes in Zimbabwe shows that our judgement was correct.

China has participated increasingly in peacekeeping operations and UN standby arrangements. But we do not participate in operations other than UN ones and those only on the basis of a UN mandate, with the consent of the receiving country, and with an established timeline for completion. We will continue to support UN operations on this basis. China fully supports efforts at non-proliferation, and has been fully involved in the two main issues on the Korean peninsula and Iran. We welcome the cooperation with the European 3, Russia and the US to find a solution to the Iranian nuclear question. We regret that matters have developed in the way they have on the Korean peninsula but the six-party talks are still the best platform for achieving a resolution. We are co-ordinating with the other parties to turn the situation around. China is a victim of terrorist activities and supports counter-terrorist activities; but we should have common principles. There should be single standard so that a terrorist is a terrorist throughout the international community. There should be international cooperation on terrorism. But resorting to wars against terrorism is not a good option.

Round Table hosted by Vice President Yuan Jian, China Institute for International Studies; Professor Feng Zhongping, Chinese Institute for Contemporary International Relations; Professor Zhou Hong, Chinese Academy of Social Sciences; Xin Hua, Chinese Institute for Contemporary International Relations, Beijing 21 July 2009

Professor Feng: Chinese analysts over-estimated the nature of European integration: the single currency and eastward expansion led them to believe that a

new superpower was emerging. But Europe is a very important soft power as we have seen at the G20 summit: Europe co-ordinates on the agenda of many countries. Before Maastricht China was focused on the capitals of the major states; but after that the pendulum swung the other way and Beijing began to focus on Europeanisation, including in CFSP. However, perception has shifted in this decade: attention has shifted back to the individual European countries, notably on the agenda of hard security or strategic issues. 2008 was a good example of this: the French Presidency saw a lot of successful diplomacy both as Europe and as European states; but when smaller countries have the Presidency the capacity of European diplomacy falls away. So if you ask Europe to do what the US does, you will be disappointed; so you have to deal with Europe as it is.

The Lisbon Treaty will not have a major impact on foreign policy. There will be a high-level profile President, but the Member States will not shift significant external decision-making to the European level. Having a permanent Foreign Policy head will allow for greater consensus but there will be no great breakthrough. Views of this vary in China: some think that EU's role in global governance has been very significant; and they think that an independent Europe is very important. But if you look at changes in US policy now with the arrival of Obama and Clinton, we see that the agenda and outlook have moved closer again. So China's problem may be that relations move closer only when the Transatlantic relationship is difficult. It is also the case that we need to move away from having top-heavy, government-to-government relations; the future of Europe-China relations should be shaped more by media, culture, education and the role of civil society. Europe needs more experts on contemporary China, not on history and culture but what is happening in China today; and we should cooperate on collaborative projects to develop new generations of experts on China and Europe.

It is true that Europe policy towards China about the need for engagement was made a long time ago so perhaps it is natural that some people say it should be changed. In China the term engagement is not understood where we would use the term the term cooperation.

Professor Zhou: Our Institute has done research on Chinese attitudes to Europe: surveys show that a majority of people think that Europe is a Chinese friend. But in Europe we find that public opinion is going the other way: that more and more Europeans think that China poses some kind of threat to Europe. Chinese analysts think that this is due to some distortion in the perception of China. This also relates to the role of the US. Chinese analysts thought that Europe would play an independent role but we find that Europe has some reluctance to separate itself from the US, including in its attitude to China. It is important not to over-state this: Europe is not in a US 'camp' but at the same time Europe shifts between having an independent policy towards the developing world, such as China and India, and keeping a close relationship with the US. Europe does not participate in balance of power politics, but it is concerned with alignments and influence. China for its part attempts to influence Europe at different levels—both European institutions and important Member States, such as France, Germany and the UK.

China has made tremendous efforts to manage its modernisation and this is not fully recognised outside. Europeans think that they have the only successful modernisation but from the Chinese perspective their experience is also very relevant and the successes of China's modernisation strategy have been 'deliberately twisted again and again in Europe'. On this basis China and Europe should cooperate as equal partners, and not be in a situation where one side thinks it has more to teach the other. This is true in the environmental area where the

West contributed far more to pollution than the East but now tries to make the East carry the responsibility for future climate change. So we should achieve some synthesis between developed and developing world of best practices and mutual responsibility.

The Godement-Fox report misunderstands the nature of the Europe-China relationship because it is too closely focused on political relations. The China-Europe relationship is not about independence but interdependence—we need to cooperate because under globalisation the future of the two are tied together in a whole number of ways. So we should emphasise the potential for cooperation.

Mr Xin: The Godement-Fox report is not an accurate account of the Europe-China relationship. First, the report does not sufficiently stress both the economic and political complementarity between the two sides: the relationship is far more beneficial than this report states. Second, the report argues that China pays more attention to the US than to Europe; this is not correct. Europe should favour a good relationship between China and the US, just as China should favour good relations between Europe and the US. Neither China nor Europe has anything to gain from trying to use US as an instrument in their relationship. Finally, the report says that Europe should learn from the US in the way that it treats China, but Europe cannot have the same relationship with China as the US does, so this argument makes little sense. The Chinese impression is that this report has not been well received in Brussels. Chinese analysts reject the idea that China favours and exploits European division. On the contrary China supports the integration of Europe because this will lead to a more balanced world order and because it will mean a more productive relationship between China and Europe

Meeting with Michael Pulch, Chargé d'Affaires of the EC Delegation, Simon Sharpe, Human Rights Policy Officer, EC Delegation, and Mattias Lentz, Chargé d'Affaires of the Swedish Presidency, Beijing 21 July 2009

Mr Pulch: The EU Delegation in Beijing is one of the largest and is increasing in size, which reflects the importance of China. It is now bigger than the EU Delegation in Japan with 120 people including local staff. It also includes people from the agencies, e.g. the European Patents Office. It is smaller than some European Embassies, but has of course no visa section. If the Lisbon Treaty goes through, the Delegation will be the Embassy of the EU as well as the Commission and will probably expand further. More reporting will be expected in particular on political matters than can probably be delivered with the current staff resources. Heads of Mission meet once a month; deputies hold a weekly meeting. There are also specialised working groups e.g. on trade and economic matters. The US Embassy is huge with some 1,100 people, illustrating how highly the Americans rate China. There has been a power shift in Eastern Asia from Japan to China in the past year.

Trade is the pillar of the Delegation's work but it also undertakes political work as part of the troika. The trade imbalance is a problem. There has also been a change in the balance of power between the US and China on finance and currency matters. The Chinese were beginning to say, should we still buy your bonds? There were some areas where China has not fulfilled its WTO obligations but there have been successes in the financial sector which made it possible for EU companies to operate, but this was too slow. Companies, such as those in the motor sector (VW), still find it profitable but they are free to invest freely in China. The construction market is the biggest in the world but housing standards are poor on energy efficiency. The EU has offered a dialogue but some change is needed in

the Chinese market in order to sell EU technology in this field. European companies had experienced some problems with joint ventures, some of which had imploded (e.g. Danone).

The Delegation would like to work more on standard setting. China wants more technology transfer in the field of environment. The EU has invested a great deal in what will be the market for the future and this is an area where the EU could continue to sell. It should not give away the environmental platform. The EU should say that it understands the need for the transfer, but that top technology is not needed; China could use what it already has and address overcapacity in energy intensive sectors. There are dangers in transferring technology because of the under usage of licensing in the Chinese system which deterred companies from getting involved. Green technology is an area with great potential for China both to deal with its own problems and also the problem of trade deficits. China's per capita energy use was much lower than in the West. If the Copenhagen conference fails China would avoid being landed with the blame. They have no interest in being a deal breaker. Their biggest concern is whether they would be able to continue to export to Europe and the US.

Human rights was an area where more resources were needed, although the Delegation has one officer working full time. The picture did not look good in the short term but it was hoped that it would improve in 3 years. On the one hand, China had executed an individual in whom the Commission had taken an interest while the dialogue was going on. On the other hand, the Commission had opened a law school.

Mr Sharpe: It was not possible to have an equal exchange on human rights but European countries wanted the message put across and this happened in a twice yearly meeting. An independent review was underway, with the involvement of NGOs, on how the dialogue was conducted, but there were problems also for NGOs. Legal reform was the most productive area for development. The Chinese were very sensitive to publicity, including in European and national parliamentary debates. It was impossible to assess whether the EU's efforts were effective or not. If a prisoner's sentence was reduced, one could not say why. The best human rights lawyers had been active since the 1970s and said that they had never won a case. However, the EU was told that it was helpful to raise the subject.

Mr Lentz: climate change and the economic downturn will be priorities for the Swedish presidency, together with the EU-China summit later in 2009. The location of these summits alternates between China and Europe. The Swedish Embassy is growing with all institutions (not just the MFA) expanding their representation. The rotating presidency was difficult for China. Their interests were centred on their own policy priorities—Tibet, Xinjiang. It would be good for the Chinese to have an EU they knew how to talk to. On the Copenhagen talks, the EU should get the US on board.

There had been mixed results in the field of human rights; it was a difficult process, and results could not be measured. However, what was the alternative, especially as European publics and parliaments exerted pressure for action? Companies could play their part with corporate social responsibility.

Points raised in discussion:

Human rights: the EC Delegation's development section was also involved and also raised gender issues.

Climate change: 70 to 80% of all water deposits in China are seriously in danger. In 2007 one of China's lakes north of Beijing collapsed. Several hundreds of thousands of people had no drinking water. In 2007 China accounted for 70% of the world's increase in air pollution. China would represent the G77 in the Copenhagen talks. It was important that China should realise that success at the conference was in its own interests.

Round Table chaired by Ambassador Chen Jian, Dean of the International Relations Faculty, Renmin University, Professor Jin Canrong, Renmin University, Mr Chen Xiaohe, Renmin University and Mr Li Qingsi, Renmin University, Beijing 21 July 2009

Ambassador Chen: China's policy is called an independent policy of peace. This means that China will not seek alliances with major powers and that China sees peace and development as being the main tendencies in international life as Deng Xiaoping stated in 1979. The effect of two processes—globalisation and multipolarisation—proved the correctness of this judgement. China can rise peacefully without having to challenge anyone within the present international system; in these circumstances both Chinese and other peoples can benefit from China's rise. Opening and reform is the right policy and China's rise is a positive force for international peace and security. Under modernisation China will have dual characteristics: in aggregate China is a major power, but in per capita terms China will remain a developing country. So in terms of philosophy China shares with the developing countries a concern for national sovereignty due to the bitter experiences in the past. China will still make a positive contribution to international peace and security whilst defending the principle of non-interference. China will always favour persuasion rather than coercion; but this will complement the actions of the US in a kind of pull and push effect. So China will play an increased role in international security and stability; but it will be a limited role: limited by its history and its philosophy. Historically China has never employed force as a means of projecting its power; globalisation enforces this tendency because it provides means and motivations for delivering security by non-military means.

Professor Jin: Since the end of the Cold war most of China's security concerns come from the Southeast, especially the re-emergence of the Taiwan issue. The security used to come from the Northern border in the Cold war—from the Arctic regions; but now many people are concerned about the rise of religious radicalism.

Ambassador Chen: This points to the supreme concern of the Chinese government with national unity, with the nationalities question and keeping China under one system of government. The main threat may be from across the Taiwan strait where a declaration of independence would force China to take military action even if the US were to intervene. So the main aim of China's military build-up is to deter foreign intervention in case of an attempted separation by Taiwan. Beyond internal unity, China's main interest is in regional stability and peace, and this is the basis of common interest between China and the European countries.

Professor Jin: In the Cold war China mainly defined its security in traditional terms. Under globalisation China is now concerned with non-traditional threats, such as climate change, organised crime, and so on. This is a commonality with Europe, but we also have commonalities with Europeans on traditional security, such as the situations in Afghanistan and Pakistan. The same is true of the nuclear hot-spots in DPRK and Iran. In Afghanistan China has made the largest single investment in a copper mine under NATO protection.

Ambassador Chen: Security activities should be complementary: not all states should do the same thing. So China does not have military forces overseas but carries out activities which support stability and reconciliation in different ways. China favours negotiation in all cases: because China has maintained relations with a country does not mean that it supports its policies, we saw this in the situation in Myanmar in 2007. China strongly supports counter-terrorism which is a universal threat; but unfortunately some people in the West have double standards on terrorism. Terrorist actions in China are not described as such and this threatens the international consensus on terrorism. There are also some double standards on non-proliferation. North Korea's pursuit of nuclear weapons has been treated entirely different from India's; many states can reach the conclusion that if they don't have nuclear weapons they could be the next North Korea but that if they do have nuclear weapons they could be the next India. China is expanding its presence in many parts of Asia and Africa, as an economic actor and as part of UN peace-keeping forces. It is likely that China will send combat forces on peace missions in the future though it will take time to make this step.

China supports UN reform but only in ways that strengthen its role and effectiveness. Expanding the category of permanent members would not achieve this, so China's solution is to create a new category between permanent and non-permanent members of Security Council. This would be based on election and consensus. There are also possibilities for new institutions such as the G20 which might emerge as an economic security council. China's army might in future play a more significant role in international operations but it is a conservative and inward-looking institution at present. China will continue to have the dual characteristics of aggregate major power but a per capita developing country. The developments on the Korean peninsula are very damaging for everybody in Northeast Asia including China. We are applying a mixture of sanctions and dialogue but I am not optimistic in the outcome: what North Korea stands to gain from nuclearising is considerable, if we look at the case of India. It is likely that Iran will follow the example of North Korea and this has been motivated in large part by the position of the United States.

China has always supported European integration for strategic reasons—as a potential balance between the US and Russia. The relationship with Russia is strong in political terms but people-to-people relations are at a low-level. China understands why others raise the question of its military intentions and transparency. But China's military modernisation has only one goal—to sustain national unity. As for transparency, militaries that resist transparency nearly always do so to disguise their weakness, and those who favour transparency do so to reveal their capacity. It is quite possible that China's military will favour transparency but only when it is strong enough. But the West is feeding China's insecurity by promoting Sinophobia which leads some young people to believe that China must be strong to resist.

Meeting hosted by Chris Wood, Deputy Head of Mission, British Embassy with Ambassador Wu Jianmin, former Chinese Ambassador to France and senior adviser to the MFA, Professor Liu Jianfei, Central Party School and Ms Stephanie Kleine-Ahlbrandt, North East Asia Project Director and China Adviser, International Crisis Group, Beijing 21 July

Ambassador Wu: Climate change is the most important issue and divides developing and developed countries. The former were challenging the latter who produce 85% of the world's greenhouse gases. China needed 20–25 million jobs

daily and therefore needed development, and faced problems which no politician could afford. Other developing countries were in the same situation. In China clean water was needed by 320 million farmers who had no access to it. The glaciers were melting and have shrunk in the Himalayas causing serious consequences for the great rivers of India and China. Building consumed 35% of Chinese energy. It was investing heavily in renewable energy using the private sector.

Developed countries must find a formula to help developing countries. Advanced technology was needed but developing countries could not afford it. Some people believed that there was a western plot aimed at stopping China's development. The development model of the last 30 years could not last and must change. By 2050 China wanted to, and would, catch up with industrialised countries. China was growing ever more pluralistic. The Chinese people wanted democracy, a voice in economic and cultural matters, but they wanted Chinese civilisation to live in harmony. With 56 ethnic groups, China was a very diverse country with several components. It was necessary to modernise gradually to meet peoples' expectations and overcome problems which were not compatible with harmony in the country.

China was a founding member of the UN and took its responsibility for peace seriously. It was also attached to the principle of non-interference. The 6 party talks on North Korea were not dead. North Korea had done many things which the West and the Chinese did not like. Was it a regime in transition? Japan worried about North Korea and China, but the threat was limited because no major power was behind North Korea or its arsenal; the major powers were united on the subject. The North Koreans were hungry; we should wait and talk. No religion was involved which made things less complicated. North Korea was next door to China and its aid was basically humanitarian. If there was no aid, there would be 2 million refugees. China allowed refugees to go through China to Thailand and on to South Korea. It was necessary to take the overall situation into account as it was not desirable for North Korea to sink. Iran felt threatened because of the "axis of evil" label (cf Iraq). Incentives should be developed for Iran.

The EU had been a remarkable achievement which had made war impossible between France and Germany, though Europe was in transition. China would like to do the same in Asia. China had reformed because of the need to adapt to globalisation, but the change was difficult. The Chinese liked reform; the Europeans were afraid of it. The Europeans had developed a complex because the centre of gravity had moved from the Atlantic to the Pacific. The US had a place in the Pacific which Europe did not. For 3 to 4 centuries Europe had been the centre of the world and the Europeans did not feel good about the change. Few countries could compete with the UK in global vision (and they had the best diplomats). The common ground between China and Europe was growing and this was more important than the differences. The Chinese liked European culture. The UK was the second destination for travel after the US. The EU worked together economically, but politically as divided. China would deal with the EU politically if it were united.

China had acceded to the WTO and its rules. It should be treated on an equal footing. Market economy status had been granted to Russia, but not China. The Chinese economy was a much more market economy than Russia's. As for the arms embargo, why was the EU sticking to an obsolete policy? This was being unnecessarily antagonistic. The young people in China were not happy about it, and they were important.

Mr Liu: China's aim is peace in the world and a successful world economy. It was sometimes critical of EU policy. The EU and China understood each other although they had different histories and interests. Both recognised that, with globalisation, they faced common threats: climate change, WMD, and they had to cooperate to deal with it. In China, climate change was taught in party schools. President Obama was doing very well in cooperating with China, although there were conflicts between the US and China.

Ambassador Wu: China should never be pushed to give up its principles. It had a tradition of pragmatism which had led millions out of poverty. It was a member of the P5 group and also other groups and now had an identity crisis. The EU should work with China. In Africa there was a common interest in stability, in keeping its people safe; China was also interested in its reputation. China had an interest in non-proliferation but was less concerned in ensuring stable and accountable governments. China saw its interest in ensuring better relations between the DRC and Rwanda and was conducting shuttle diplomacy. Chinese leaders were visiting India and Pakistan and took an active role in showing Pakistan that it was in its interest to defuse tensions with India. It was cooperating in Afghanistan/Pakistan where it was coming to terms with US intentions to ensure its own safety from terrorism. Investment in military infrastructure was in the interests of the public good. China tried to convince African governments of the necessity of engaging in peace keeping.

China's number one concern was the growth and development of China. In its foreign policy it looked at issues on a case by case basis. The UN would like more troops from China, especially resource intensive troops and ones who spoke English. Many peacekeeping operations could not work if it were not for China's contribution, for example with medical support. China had offered 1,000 combat troops for the Lebanon but the UN had refused because of the French offer. The Chinese contributed police in Haiti and East Timor.

Ms Kleine-Ahlbrandt: The West overwhelmingly sends troops to peace keeping operations when it is in their own interest. The South Koreans had given the North \$40 billion. None of the refugees from North Korea had been given status under the refugee Convention. China would treat the EU differently if the Lisbon Treaty were implemented and the Presidency ceased to rotate. It would be good for China to have one place to go to.

Meeting with Sean Winnett, Human Rights Policy Officer, British Embassy, and Simon Sharpe, Human Rights Policy Officer, EC Delegation, Beijing 22 July 2009

Mr Winnett: China was doing well on social and economic rights, for example in lifting people out of poverty and in access to housing and water. Progress was much slower on civil and political rights. It had signed but failed to ratify the International Covenant on Civil and Political Rights (ICCPR) whereas it had both signed and ratified the International Covenant on Economic, Social and Cultural Rights (ICESCR). Until it ratifies ICCPR, China is not open to formal UN examination of its record on the provisions of the Convention (freedom of expression etc). There were some significant obstacles to ratification. For example, 68 crimes were subject to the death penalty.

The UK aimed to raise human rights as part of high-level ministerial contact with Chinese officials including at Prime Ministerial level. The UK-China human rights dialogue takes place twice a year, alternately in Beijing or London. In the last 2 years only one dialogue had taken place. The EU consulted with Member States to agree approaches to their dialogue, which took place every six months.

Human rights dialogues with China had developed over the past decade partly through a desire to move from simply criticising China's human rights record in the UN towards more meaningful engagement. The UK used its bilateral Human Rights Dialogue to raise individual cases of concern and China also uses the opportunity to raise cases, which the UK welcomes.

Project work was a major part of the UK's strategy for engagement on human rights. There were about 12 projects in place or planned between 2008 and 2011 on criminal justice reform, the death penalty, freedom of expression, civil society. For example, a survey had been undertaken on attitudes to the death penalty. The UK was able to work with Chinese partners on these projects. There was some evidence that project work brought about more concrete progress than high-level dialogues.

Deciding whether and how to raise cases of concern was a difficult judgement. The UK and other EU member states made efforts to build contacts at working level with legal professionals to better understand the situation.

Mr Sharpe: The EU holds high-level dialogues and undertakes projects. China was becoming more confident about the dialogue, for example in putting forward its line on economic, social and cultural rights. It also promotes this to those who sympathised with the line. There is now a longer list of what both sides wished to discuss, but time was limited. The Chinese were tending to use the dialogue to avoid human rights being raised in top level discussions with President Hu and for that reason were willing to hold the talks twice a year. However, several EU leaders had raised cases at the highest level (e.g. the British and Swedish). The EU-China dialogue with China on human rights runs parallel with the US-China dialogue; but China prefers to 'corral' these dialogues. The project work was the best thing the EU did and had more effect than anything else. The EU held seminars on the death penalty and had seen a change of attitude over the years. Whereas 5 years previously all those at on a seminar had said that the death penalty was a good thing, now they were saying that the long-term aim was to abolish it. There was now a pilot project to look at Chinese law and work with the Peoples' Prosecutors on implementation. The NGO Great Britain-China Centre did a very good job and had many contacts in China. It received a Government grant but needed more.

The human rights dialogue was very difficult, but it was important to deliver the messages even if there was no apparent result. Talks took place in Beijing or in the capital of the presidency. The presidency, future presidency, Commission and Council Secretariat were involved which represented a coordination challenge. The Delegation were consulting all on how to improve this. Not all Member States conducted a separate dialogue, only 4 or 5. Member States have their own budget and the EU also has a budget. The projects conducted span public welfare and explicit rights projects—there is no clear separation of rights from other activities. The European Law School gives 15 million euros. The UK's dialogue was well established.

It was difficult to determine the extent of any human rights problem in China. China is shifting its attitude towards the law: capital punishment was previously in the category of Chinese tradition; but it is now viewed as an undesirable but nevertheless necessary aspect of legal control. The Delegation had to rely on NGOs for the numbers of those executed. The numbers were unknown. Amnesty International had verified 1,000 to 2,000 cases which had been publicly stated. In the past the number had been estimated at 5,000. More executions were carried out in China than in the rest of the world put together. The Delegation met with

anyone who had had experience of prisoners, for example judges who defended them or government officials at the central, provincial and local levels.

Torture was not an instrument of policy. It happened because of incompetence and was linked to overall development and tended to be in the pre-trial phase when the authorities were looking for a confession. Torture in prison was more systematic for Falun Gong. The issue was raised regularly by the EU. There were 68 crimes in the criminal code which brought the death penalty, including smuggling cigarettes and falsifying tax returns, but in the main it was used for violent crimes (murder, rape.)

Round Table on Human Rights in China, with Ms Lei Vuori, EC Delegation lead on the EU-China Law School, Mr Wyndham James, Save the Children (STC), Mr Tom Mountford, English barrister, LGBT (lesbian, gay, bisexual and transsexual) rights in Beijing and Mr Tim Wilkinson, Project Manager, EU governance programme, Beijing 22 July

Mr James: Save the Children's work focuses on the rights of children and its "Child Rights" programme was targeted at education (access, quality, teacher training, disabled children, demonstrating what could be done,) and health and sanitation (HIV/AIDS). The organisation's regional programme aimed at helping children understand their rights (trafficking etc). It worked with the relevant Ministry on orphans and foster care. In the field of disability it worked with Chinese NGOs, most of which were connected to the party organisation. STC trained adults to work with children to help them with the transfer from incarceration back into the community/bail. Chinese criminal law did not discriminate between adults and youth. For street children STC worked to give them social protection and life skills training in activity centres. Local authority support was needed for this work. STC preferred to focus on the poorer western provinces where 700 million people lived. The work was difficult and it was often necessary to work in local languages, and not just Chinese. The organisation also aimed to influence key academics and had organised study tours to the UK and within China.

Ms Vuori: The School had a legal personality of its own. It was expected to become financially self-sustainable in 2009 or 2010. It was running 2 major good governance projects and worked with UNDP. The civil society programmes have had a bigger effect than had previously been thought. A previous programme on village elections in collaboration with the Chinese authorities (Ministry of Civic Affairs) had worked well. In Xinjiang the School had run a minority education programme for children and there had been interest in other provinces to replicate the experience. The School trained judges on international law, including human rights and the Ministry of Justice wanted this to continue. It was hoped that a new generation of layers would make a difference. What the School did was a drop in the ocean but it had a potentially very big effect on the new generation of lawyers. By teaching comparative law the School was creating a questioning mind and the perception was changing from "rule by law" to the "rule of law". Lawyers were beginning to realise that prisoners too had rights.

Mr Wilkinson: The key themes of the EU's work were to help drafting laws, access to justice and work on civil society. They were also involved in migrant workers' rights. The work programme was implemented by 3 organisations with nearly 80 activities. The EU's programmes had an "additionality" impact in China and allowed the Chinese to do things they would not otherwise have done.

Developments on human rights were coming from within China, with the increase in incomes. The middle classes were saying they wanted more free speech.

Mr Mountford: The LGTB was funded by the Bar as part of a programme to promote law abroad. The LGTB spent £600,000 supporting 81 organisations in China. The gay population of China was estimated at 26–40 million people who were geographically disparate, an “invisible population”. No gays were shown on television so it was difficult for them to become visible. Gay activity had been decriminalised in 1997 and in 2001 removed from the list of mental disorders. Since then there had not been much official activity, but there was no official protection for gay people: there was no male rape law, local police made arrests, licences were not given for gay bars etc. The age of consent in China was fourteen.

Meeting with Experts on China-Africa Issues: Professor Zeng Qiang, Researcher Professor, Institute of Asian and African Studies, China Institute for Contemporary International Relations (CICIR), Dr Phil Karp, Head of the World Bank Institute, Mr Mark George, Policy Analyst—China and International Development, DfID and Mr Wu Zhong, Managing Director, International Poverty Reduction Centre in China, Beijing 22 July 2009

Professor Zeng: China’s approach to Africa has advanced the position of women through its emphasis on education and equality.

Dr Karp: The World Bank (WB) specialises in gender and Africa. WB and DFID’s participatory approach advances women’s role in development. The dichotomy between West and China in development has been over-emphasised. Beijing policy ‘mirrors’ that of the Washington Consensus: it is market oriented and China advocates ‘neo-liberal’ policies of opening on the basis that markets work—create jobs and increase fiscal revenues.

Professor Zeng: There is no such thing as a China development ‘model’ but there are lessons from China’s experience: it is important to set strategic objectives; it is important to have a central source of authority; and important to be pragmatic. The other idea that is pursued now is harmonious society—social dislocation is bad for development so there must be distributive policies to ensure stability.

Mr George: The Chinese and Western approaches are mutual: the West ‘delivers’ development; China ‘shares’ development. China tends to mix aid and economic partnership: these are not de-linked as in European strategies. The European and Chinese approaches should be complementary: with the Chinese emphasis on construction and the European emphasis on governance. A lot depends on African governments: what they want shapes development more than the actions of Europeans or Chinese. Europe should welcome other development actors; but it should be African priorities that determine the context.

Mr Wu: China knows that governance is essential, and makes this evident through its lending and training programmes. Even so this does not mean that China is trying to export a model.

Mr George: China does need to be more transparent about its activities.

Dr Karp: China is competing to bring in investments: it is very competitive in hard and soft infrastructure projects. African governments look upon this favourably, as it is obviously in their interests to have external investors competing for projects.

Professor Zeng: Projects will employ either African or Chinese labour depending on what is most effective: but this is complementary. There are perhaps 600–800,000 Chinese in Africa on these projects now.

Mr George: One key difference between European and Chinese actors is their risk perception: Chinese corporations have lower risk thresholds from European equivalents.

Dr Karp: Africans want to deal with China on their own terms; and others favour closer regional cooperation. China is overwhelmingly bilateral in its approach, but Europe is multilateral and some Africans favour this.

Mr George: African governments like doing business with China, but NGOs/ civil society groups are more sceptical due to the lack of accountability and transparency. We need to emphasise the importance of 'projects on the ground'. China is good at scaling-up if projects work. China's position is 'pro-active, non-interference': actions short of interference in sovereign affairs.

Meeting on EU-China Climate Change Cooperation with Mr Jiang Kejun, National Development and Reform Commission Energy Research Institute (NDRC ERI), Mr Yang, World Wildlife Fund (WWF), Mr Yu, State Electricity Regulatory Commission (SERC), Beijing 22 July 2009

Mr Jiang: China should move to Carbon Capture and Storage (CCS) by 2020 through some projects; but there is strong resistance from special interests in the industrial hierarchy who fear that this will choke growth. China should set high targets for carbon reduction—it should be ambitious—but this is a chain process, targets alone are not the strategy. There are many possibilities for scientific development, and international collaboration is very important.

Mr Yang: Who is the champion of the environment in China? Who will champion CCS? China consumes 70% coal in its energy supply; and must reduce this to 40–45%; but it is not possible to persuade NRDC to move on this because its primary responsibility is to deliver growth. It will fund some projects but it is not committed to clean growth.

Mr Yu: There are two projects currently using limited carbon power production. These have no economic advantage over conventional plants; but they operate at low productivity and neither is based on CCS. Implementing carbon capture will put up production prices by 80% and will be politically sensitive. China continues to install new capacity and is trying to be energy aware and efficient. This may be a better way of dealing with sustainable development than using CCS which is maybe unrealistic. China cannot introduce subsidies for clean energy; this will distort market efficiency.

Mr Yang: CCS is essential to reduce carbon emissions; but it is not the best option at present. China is achieving great reductions in energy intensity—the target is to improve energy efficiency by 20%. Construction remains a big problem; buildings less than 10 years old are being demolished, in way that makes no environmental sense but does provide economic gains. The EU and China should collaborate on projects like low carbon zones, though central and local governments will have different interests here.

Mr Yu: China is more like the US in terms of its energy structure; but the EU model can help China because it delivers development at lower energy levels.

Mr Yang: Climate change is already having an impact on China in the relationship between energy consumption and climate change and the impact of this on water and food.

Meeting with Vice Minister Zhang Zhijun, Ministry of Foreign Affairs, 22 July 2009

We recognise that there are major issues to do with European integration and constitutionalism; but even more than this we think the challenges of globalisation are more pressing for Europe. Reform in European markets has been slow in the last decade and national governments and political parties recognise that the European social model needs reform. There has been the rise of some uncertainty and insecurity about where Europe is headed and we see that the government parties are being punished by the people. So we think that Europe is still in the process of reform and that it will take several decades for Europe to adapt to the challenges of globalisation.

Europe is one of the major power-centres of the world, and it will get stronger. With the achievement of the Union of 27 countries with half a billion people and the largest economy in the world, Europe's integration is in the interest of world stability and development. That a Europe that is integrated and powerful is in China's interests was stated by Deng Xiaoping almost 30 years ago. Europe is open to us in terms of trade and technology relations and we should strengthen our relations with Europe. China neither plays national governments of Europe against each other or against the European Union: this is not our strategy, we want to see a more united Europe and a more constructive role played by Europe, both the EU and the national governments.

Strategically speaking China and Europe do not have any major conflict of interest. A strong Europe and a strong China are in our mutual interests and in the interest of the world: it will contribute to a more balanced distribution of interests and power in the world. China's idea of multipolarity is not about balancing poles against one another but a more equitable order among different poles; we do not want to see poles locked in hostility with one another. The European and Chinese economies are highly complementary to each other—you are the most developed economic area in the world and we are the largest developing country in the world which is rapidly expanding through the process of industrialisation and modernisation. So we see a driving force to develop closer cooperation between us. We have deep cultural links and there is no shortage of popular support for developing Europe-China relations on both sides. We also see a rise of global challenges—climate change, food security, energy security, pandemic diseases—which cannot be addressed by any single power but need to be co-ordinated by all countries, especially the major powers of the world.

There are of course differences between China and Europe because of different histories, cultures, levels of economic and social development, and political

systems. This is natural, but we should have the conviction of not allowing these differences to disturb the development of this very mutually beneficial relationship. So we should have full confidence in the broad prospects of the Europe-China relationship and we should not misread, misjudge or mis-decide on this important conclusion. So I do not agree with the conclusions of the Godement-Fox paper. We should seek to expand the areas of cooperation in the relationship since this is of benefit to more people, and then they will be convinced of its value. We should handle differences in an appropriate way. We can put these in different categories. There are differences that will remain—you cannot change your history, culture, or political system. There are issues that touch on the core national interests of China—national unity, sovereignty, territorial integrity such as questions and issues related to Taiwan, Tibet and Xinjiang—if these are harmed by speeches and acts on the European side then China has to respond. So these issues have to be approached with great caution. The third area is in economic relations; where two

so different economic entities come into interaction there are inevitably fractions but these can be handled through mutual consultation and agreement, rather than taking protectionist measures and sanctions.

Of course, all things are changing, but China's political culture is deeply rooted in its history, and the people's mentality is quite different. So Western ideas of liberalism which equate with personal initiative are viewed in China as 'do whatever you wish'; whereas Chinese value collectivism which in the West is similar to nationalism or statism. One major difference is about the defence of the principle of non-interference because China was subjected to foreign invasion, which we suffered for more than 100 years. So we do not want our internal affairs to be interfered with, and we do not want to interfere in the affairs of others, even though you and some other countries try and push us in this direction, with regard to Sudan, or Myanmar, or DPRK. But we do not think we should impose our views on others. China has more awareness of the position of smaller, weaker countries: large powers should respect these countries' feelings. So these powers can get involved in certain cases but this must only be under the rules of the UN. With UN mandate we can do certain things, but we need to consider—who is going to control the major powers if they misbehave? So we need to further strengthen the authority of the UN; it will need further reform but only to strengthen its authority. The big powers should set an example that makes the smaller countries feel safer.

There are three main areas to consider in EU-China relations. First, confidence in its worth—don't lose sight of the value of the relationship in the long-term. We have achieved a lot and we should not abandon this course. Second, expand co-operation and try and bring about durable results. Third, handle the differences with caution and in an appropriate way. In economic terms we should not resort to protectionism in response to the ongoing economic and financial crisis; and UK as a trading nation should play a strong role in this way. We should get rid of the two old issues: the arms embargo and the market economy status

Meeting with Chinese and British journalists; Ms Jane McCartney, The Times, Mr Wang Chong, Director, China Weekly and Mr Chen Lingshan, Director, International Department of Beijing News, Beijing 22 July 2009

Ms McCartney: there has been a change for the better for journalists in moving around China. In the 1980s travel restrictions meant that one had to apply 10 days in advance to travel. In the 1990s this eased a little. In 2005 a great deal of information was available, with internet discussion and more newspapers. Since the Olympics travel was permitted everywhere except Tibet. The "great firewall" of China was overdone. A huge range of topics were discussed, though twitter and facebook had been closed. Xinjiang was not discussed much. Most people supported the government on Taiwan as part of China. If a foreign journalist reported something which had been clamped down on, they faced problems afterwards. The milk scandal had been uncovered by journalists and had been on line. There was no censorship and articles could be written about anything if they were accurate. There was however a limit to how the information was obtained. Journalists did not buy information or they would get expelled, though Japanese reporters would pay. It was not possible to hire journalists in China. It was not true that western journalists put the emphasis on minority issues; they looked at the underlying issues. One of the most interesting stories in 2008 had been the Tibet-China relationship and the rise of nationalism. Problems had been created because the press had not been allowed in. China felt aggrieved that shareholders

had turned the Chinese offer down in the Rio Tinto case, and portrayed it as a rejection just because the offer came from China.

Mr Lim: The usual pattern of the 7 o'clock news was an account of what the Politburo had done, followed by a utopian picture of China and an account of how bad things were abroad. Xinhua did not block news which was sent direct to clients (by feeder). Journalists could publish stories if they were true. Reuters had over 30 journalists in Shanghai.

Mr Chen: Western journalists did tend to emphasise the minorities question. Different EU Member States had different opinions. It would be good if the EU could become a political force. The EU had its own distinctive features which were different from those of the US.

Mr Wang: The Chinese wanted people to be united on their assessment on Tibet. The phrase "multi-polar" had been abandoned for "harmonious world" in Chinese terminology. As far as the arms embargo was concerned, the EU was not as powerful as it thought and had not lifted the embargo in 2005. It was a worrying sign that there was no hostility in Europe to China because of the lack of pressure from outside. The young generation in China was politically disengaged—but they loved American culture. It was not good for China's development that the Chinese were not allowed to know about the opinion of China by others and it was not easy to break through this wall. Media emphasis should change to focus on the national government. In the Foreign Ministry the focus was on the US and Japan, not on the EU. In foreign affairs in general it was not always possible to ascertain who was directing policy. In the case of the first North Korean nuclear test, it was said that the exact wording of the communiqué had been drafted by the President, but it could also have been the Asia bureau or the Section Chief.

Other comments (David Ward, British Embassy): BBC World is not available generally. Every province had some 12 channels, driven by commercial considerations. CCTV was the official channel which ran some advertisements. China had not been tested on any questions of leadership in the world. It did as little as possible to join the WTO. China would probably like to deal mainly with the US. The Chinese people were not allowed to know about the opinion of others. The public perception of China was very different in China and internationally.

Meeting with Development and Research Centre of Guangdong Government, Guangzhou, 23 July 2009

Guangdong was not a big province (178,000 sq km, 4.9% of the whole of China) but was the most populous with 7.4% of the Chinese population. Guangdong had experienced an economic miracle and was very proud of its unique development path (in China and in the world). The reasons for this were:

- the favourable policies of central government. Guangdong had been a pilot province to practise open and reform policies. There had been an island effect with international and internal resources directed there;
- a unique geographical location close to Hong Kong and Macao, both of which had transferred human and financial resources to Guangdong; Guangdong also attracted talent from other provinces.
- practising an export economy to drive economic growth.

Banking deposits of residents had increased 1,558 times in 30 years.

International, bilateral and multilateral relations were improving. The EU was one of the successful examples of interregional regions with 33% of the world's economic performance. It was one of the show cases of a win-win strategy. However there were many challenges including the gap between developed and less developed countries in the EU. It was trying to promote close economic and trade relations but needed an integrated currency. The EU was one of the important trading partners for Guangdong, 25% of whose import/exports came from the EU (including trans trade from Hong Kong). Guangdong would like to learn lessons from the EU.

However, only less than 5% of investment came from the EU. The reasons were:

- not all the 27 Member States were developed to the stage where they could invest;
- the EU needed to understand Guangdong better;
- Guangdong needed to be better at advertising itself;

the EU should establish better links. Guangdong needed technology and technical transfers. The House of Lords' visit was timely and relevant and the Lords should lobby the EU to relax the technical transfer agreements. The French had supplied the technology for nuclear power plants; Germany had supplied the technology for the metro which had multiple good lines. This showed that the deregulation of technology transfer was a win-win situation. It was also true that Guangdong had done well on technology transfer, partly because of Hong Kong.

Guangdong had a modern service industry and an advanced manufacturing industry and welcomed investment. The service industry included finance, logistics, exhibitions, technical services, trade and services. Guangdong was the headquarters of cultural creative industries and tourism. Advanced manufacturing include the automobile, petrochemical, steel, ship building, power transmission equipment and transformers, ICT Baltac, new materials and new energy sources, environmental protection and marine technology. In the automotive industry China worked closely with Japan and South Korea and had 5 Joint ventures with giants (including Honda, Toyota, Hyundai and Nissan).

The relationship with Hong Kong was good and the two could not live without each other. The latter had a dilemma as on one hand, Hong Kong needed further development and on the other hand, Hong Kong had limited space for its development, thus it needed a hinterland for economic develop; this could be Guangdong. The two were not competitors but could cooperate economically. Hong Kong had the quality law firms and legal industry. Both had busy airports and multiple natural ports. Guangdong needed Hong Kong to develop its world ranking port. Hong Kong had invested in 60,000 Guangdong companies and the development of these businesses needs more business services. Macao and Guangdong were crucial to Hong Kong's development.

Five years ago Guangdong had formulated a five-year energy saving and emission reduction plan. For example, the city of Guangzhou will spend 40 billion renminbi in the next 400 days to clean water. Inward investors were needed to provide high technology. Hong Kong maintained that Guangdong was polluting them.

Round Table with NGOs on Climate Change: Mr Zong Wei Dong, China Director Business for Social Responsibility (BSR), Mr Daniel Gross, Project Manager, BSR, Ms He Zheng, BSR, Mr Alfred Deng, Research Programme Manager, The Climate Group (TCG), Dr Liao Cui Ping, Associate Professor, Research Director, Guangzhou Institute of Energy Conversion (GIEC), Dr Luo Zhi Gang, GIEC, Professor Wang Xiao Hui, Ling Nan College, Sun Yat-sen University (SYSU), Mr Wan Yang, Programme Manager, Institute for Sustainable Community (ISC) and Ms Shenyu Belsky, Programme Director, Rockefeller Brothers Fund (RBF), Guangzhou, 23 July 2009

The British Consulate General (CG) has been sponsoring projects in Guangdong aimed at exploring possibilities for cooperation in managing climate change. It is appropriate that the Guangzhou CG leads on this given Guangdong's role in China's export and foreign direct investment strategy. The inquiry has an interest in kinds of practical cooperation between UK, Europe and China; and has a particular interest in cooperation on climate change.

Ms Belsky: Southern China has played a pivotal role in China's economic development and hence climate change. We focus on two content areas: environment and health; energy and climate change. We work indirectly with the CG and support the same kinds of projects; such as carbon accounting and recording; community-based energy efficiency projects; and studies of the industrial strategies and low-carbon road-maps. On the energy and climate change content we look at US and China relations, looking at two levels: the central level on climate dialogue; and at the provincial level in Guangdong encouraging state-to-state cooperative projects between Guangdong and California.

Prof. Wang: SYSU has been conducting training programmes through the Business School aimed at raising awareness on environmental areas, through a programme: Environment, Health and Safety Accountability. This has been part funded by CG, and seeks to keep officials up to date on important areas like climate change and low carbon up-grade issues. Numbers are up to 200 and come from three main government agencies: environmental protection; trade and economic commission; and development and reform commission. From autumn 2009 a new building will be opened which will permit a wider programme of research and training on questions of environmental awareness and low-carbon economy.

Dr Luo: Guangzhou Institute of Energy Conversion is an energy research institute that provides energy policy advice to the central and provincial government. Dr Luo is from the department of energy strategy development which is responsible for policy development in areas such as climate change and carbon capture, helping decision-makers to improve the quality of their policy and developing cooperation with international partners. The Institute hoped to coordinate between Guangdong and international investors in the development of low carbon technology and infrastructure. After approval by London in March 2009, they are now working on an SPF project which aims to develop a Low Carbon Economy Roadmap for Guangdong. This project is one of two ongoing SPF projects managed by CG Guangzhou.

Mr Zhou: BSR is a US based NGO, has worked jointly with the UK NGO The Climate Group to implement a carbon management capacity building programme. This programme will operate for Chinese businesses and for international businesses investing in GD, including the largest transnational corporations.

Mr Wan: ISC is a US NGO promoting sustainable development and energy efficiency operating in industries and communities. The main focus is on

community projects and in civil society development in areas of environmental protection. They currently operate four programmes out of Guangdong: environmental health and safety academies, working with business communities to bring in good practice; community awareness, seeking to mobilise common Chinese people on the importance of climate change and energy consumption; third element is working with educational establishments from schools to universities, to build teaching and research on environmental issues; and the fourth element is directed at local officials increasing awareness on the issues and laws in relation to environmental protection and climate change.

Mr Deng: The Climate Group is a UK based NGO that promotes the concept of low carbon economy and advocates for climate change actions globally. The aim is to promote climate change awareness by creating a coalition of business and government internationally. Active in China since 2007 with offices in Beijing and Hong Kong, they have established partnerships with government departments and businesses; and are also active in Chinese cities developing awareness on climate change and energy use. Guangdong has the potential to be a case for low carbon high development model. They have had good communication with Guangdong top leaders on core projects, including the low carbon model. TCG cooperates with Chinese specialists in Chinese Academy of Sciences and the provincial governments in many parts of China to create a network on projects aimed at dealing with climate change.

Mr Zhou: In China most of the climate change agenda remains in the sphere of policy debate, particularly the need to influence Beijing. If Beijing can be convinced of the need for a course of action then it will happen, so there is clear linkage between macro-level policy and micro-level response and people wait for Beijing to show the lead. When implementation arrives it is most likely that China will adopt an incentive-based set of policies: encouraging business to control energy use and adopt new cleaner technologies by schemes of fiscal and financial incentives. This requires consideration of the other part of the equation—investment in research to develop the new technologies that businesses require.

Mr Deng: There is clear evidence that businesses are seeking to respond to the environment agenda and they look to the government both to set the policy context and provide the financial support for development of the new technologies. There is evident ambition of Chinese enterprises to try and win market share in the growth area of clean technologies. We do need to develop environment awareness among China's businesses in the area of corporate social responsibilities; but businesses do want to make their expansion sustainable, so we need to develop lines of policy and communication that will allow them to do so. We need to understand better how businesses will operate in future under the transition to a low-carbon economy, as they face both opportunities and risks.

Dr Luo: We must approach the question of the low carbon economy from the perspective of business competitiveness. Businesses have to understand that clean growth is the route to greater efficiency in relation to their market competitors. Chinese businesses unquestionably consumes far more energy in relation to their international competitors, and therefore they will be forced to make changes in energy use as competitive pressures rise.

Mr Zhou: We are working with a lot of factories and businesses in the Pearl River delta and across Guangdong. We go to these factories and talk to owners and managers to help them to reduce their emissions and improve their energy efficiency. Businesses will have different reactions; and we need to understand their motivations. On the one hand they are not prepared to discuss restriction of

their business development; on the other they are concerned with long-term sustainability. Of course, it is also important to raise awareness of environmental responsibility among consumers.

Consulate General: When the Consulate General began working on public communication it realised quickly it needed to build a constituency of people and organisations. So we have been trying to create a South China climate change network, which is part of the mandate of GIEC, to share knowledge and best practice on achieving low carbon economies.

Prof. Wang: Public awareness on the low carbon issue is relatively low compared to government and academics. What can the EU do about this? At present funding and activities are very limited; and EU could do more; for example, providing funding to universities, with open programmes for educational awareness. The EU should do more in comparison with the US, which is more active.

Meeting with Mr Yang Dong, Chinese People's Political Consultative Conference, Guangzhou 24 July 2009

The CPPCC would celebrate 60 years of existence in September 2009. In 1949 The first plenary of the CPPCC had decided the capital, agreed the change to the international calendar system, and selected the national anthem and flag. After the National Peoples' Congress was founded in 1955 as the organ of state power, the CPPCC has remained and continued to play a significant role. It was the organisation of the Chinese people and promoted democracy in political life through multi-party cooperation. It worked together with the Committee of the Communist Party, the National Peoples' Congress and the government, all of whom complemented each other under the Communist Party. The CPPCC was the only organ for democratic consultation and had a wide representation with 34 circles, e.g. for democratic political parties, people's communities, science, economy, culture, art, education, all the provinces and representatives from Hong Kong and Macao. The membership was different in different provinces according to the work which needed to be done. There was one Chairman, with 9 Vice-Chairmen, four from the Communist Party and the rest were leaders of democratic parties. The name of the leader of the provincial CPPCC was discussed by the political parties. In Guangdong there were 980 members including 200 standing committee members. The leaders of the CPPCC were elected anonymously in a plenary meeting.

Committee members could say what they wanted and make suggestions. One plenary meeting and four standing committee meetings were held each year and each plenary made some 700 proposals to the relevant government department for action. Committee members could make proposals on the internet and there were 112 departments for handling the internet proposals this year. One third had received a reply so far. Committee members also performed the role of checking the implementation of proposals. Committee members represented all walks of life and should reflect public opinion, for example on noise, pollution and other matters important to local people. The committee members put these concerns forward to the CPPCC which would take the matter forward. It was also possible for people to report directly to a government department. An example had been when a Guangzhou resident had reported to the Environmental Protection Department that he could not sleep. The matter was not dealt with so he reported it to the CPPCC. It was investigated and the officials concerned were criticised.

Each committee of the CPPCC carries out a series of research projects and investigations each year. For example, one of the CPPCC's committees covered

population and the environment and carried out investigations into environmental protection. Attention was particularly paid to water resources and pollution. The CPPCC researched into and made recommendations to the provincial government on the subject. The Department for Environmental Protection also attended meetings to advise the CPPCC.

A new committee for foreign affairs had been created 3 years previously. It received high-level delegations from overseas, including from parliaments. It also issued invitations to officials of Consulates General. The CPPCC visited foreign countries to get a better understanding of their political institutions and social systems. There had been no exchanges on economic collaboration yet. The CPPCC had few contacts with the EU Chamber of Commerce. Contact was mainly between the provincial government and the Chamber of Commerce.

Visit to Strix Factory, Guangzhou, 24 July 2009

The British (Manx) manufacturer of controls for electrical heating appliances, Strix, set up its first overseas office in Hong Kong in 1989 and opened its factory in Guangzhou in 1997. China is the biggest consumer of electric kettles. Strix has 62% of world-wide sales of kettle control units, but in China, copies of Strix products account for around 20% of market share. In China there were 10 serious copies of the product. Taking people to court could fail and opponents can often prolong legal battles considerably, but people knew that Strix would always take action if its patent was infringed. It cost Strix six times what it cost the opponent to take action. Strix have to use both Chinese and international lawyers, which was more expensive. As kettles fitted with copies were often unsafe, a faster route to stopping the copying was to explain the safety issue to local authorities (in China and other countries where the products end up) and then leave them to decide how to proceed. The kettles would sometimes be taken off the market putting pressure on the Chinese infringers to close down. One successful way to harm the infringers was to seize the copied products when they arrived in a container in Europe as they had already been paid for and it damaged the reputation of suppliers. The Germans were good at stopping containers.

The Commission had been very active recently in Brussels and Beijing on IPR (intellectual property rights). Intervention by the UK Government was better received and more helpful and Strix relied more on them than the EU for assistance. An EU system existed (Rapex) for notifying Member States if an electric kettle was found to be unsafe in the UK, but there was no common action and the system was not very fast. The Commission was very reluctant to take up individual manufacturing cases but did a considerable amount of macro work. Strix did not feel they were handicapped by not having an EU representative in Guangzhou.

Briefing with Maria Castillo Fernandez, Head of EU Commission in Hong Kong and Macao, Rudolf Hykl, Czech Consul General, accompanied by Neale Jagoe, Head of Policy Sections, British Consulate General, Hong Kong, 24 July 2009

Mr Jagoe: The UK has a political, legal and moral responsibility to the people of Hong Kong (HK). In recent years, when the UK has raised Hong Kong issues, it has often found support from the EU. In December 2007, the British Foreign Secretary made a statement expressing disappointment at the ruling out, by the Central Government, of universal suffrage for elections to be held in Hong Kong in 2012. The EU, led by the Slovenian Presidency made a similar statement a few weeks later, which provoked a strong reaction from the Hong Kong Government.

In January 2009, visiting FCO Minister Bill Rammell expressed concern to the Hong Kong Government at the postponement of a public consultation on arrangements for elections to be held in 2012. The EU, led by the local Czech Presidency, expressed concern in similar terms.

There has been speculation recently that Beijing is keen for democratic reform to succeed in Hong Kong, so as to provide a reassurance to Taiwan. The huge turnout by Hong Kong people at the vigil to commemorate the 20th anniversary of the Tiananmen massacre had shown the attachment of Hong Kong people to their rights and freedoms.

Ms Castillo: There is good cooperation among the Europeans—not only formal but also informal—HK is a platform for entry into China; this was evident on the anniversary of 4 June when there were major anniversary commemorations. Consequently HK is important for influence into China; but there is also a reverse process by which Beijing pursues Taiwan by means of HK. EU-Hong Kong Trade and commercial links continue to expand; and they continue to move towards European standards of regulation; we are also moving to new areas for example, in civil aviation. Macao and HK have Market Economy Status; the PRC does not. The main obstacle in China is IPR

Seventeen EU Member States are present in HK. The EC structure is vertical: HK inputs to Brussels on the same basis as Beijing. The EC has 13 staff: 4 from the EC and 9 local agents. The EC has limited manpower compared to Member States such as UK, France, or Germany. This is not adequate for the level of political work that has to be undertaken, but Brussels will not expand the representation.

Meeting with Stephen Lam, Secretary for Constitutional and Mainland Affairs, Hong Kong SAR Government and Andrew Seaton, HM Consul General, Hong Kong, 25 July 2009

Hong Kong's financial situation is stable: prudent lending and regulatory policies, and solid bank capital ratios had meant that there had been no need for bank recapitalisation or rescues. HK businesses have 100,000 factories in the PRC with 10 million employees: this is three times the HK workforce. HK has outsourced its business skills in exchange for land, labour, and environmental conditions.

The triangular relations between the PRC, Taiwan and HK have changed in the wake of Lien Chan's 2005 visit to China and the coming to power of the Ma Ying Jeou administration: the position of Kuomintang (KMT) leadership (in Taiwan) and HK government are now much closer. HK needs formal announcement of negotiations between Beijing and Taipei: if this happens free trade arrangements could be possible. This would see a capital and commodity free trade zone; but not freedom of movement of people or transfer of technologies.

Guangdong is the closest mainland economic partner of HK; it provides basic commodities, is the location of the biggest concentration of Hong Kong investment in the mainland (although Hong Kong companies are the biggest external investors in every mainland province) and is a strong market for Hong Kong capital and professional services. Hong Kong's business relationship with the mainland is supported very strongly by the Closer Economic Partnership Arrangement which allows free market access to the mainland for Hong Kong-based companies in a growing range of sectors. HK companies are now paying more attention to the Chinese hinterland where its core function remains capital

inter-mediation: PRC and Taiwanese firms will list in the HK exchange in the future.

HK's political future remains as set out in Basic Law and is governed by the One Country Two Systems principle, under which Hong Kong maintains its own rights, freedoms, and economic and political systems. At present the Legislative Council (LegCo) is elected, partly by direct elections; and partly through sector-based functional constituencies. The Chief Executive is indirectly elected. The National Peoples' Congress in Beijing has overall responsibility for HK constitutional development. In 2007 it was decided that universal suffrage would be introduced into Hong Kong for the election of the Chief Executive in 2017 and in the elections for LegCo in 2020. There is a dual system of selection in which candidates for Chief Executive cannot be selected without consensus in HK and approval in Beijing. The Chief Executive then has considerable power to make senior government appointments in a quasi-Presidential system. Even though universal suffrage has been deferred there are still possibilities for democratic development, both in the short term electoral arrangements, where the Government would be consulting the community on possible reforms to the current system, in time for the 2012 elections, and in considering in the longer term the application to Hong Kong of accepted standards of universality and equality.

Meeting with Frank Ching, Hong Kong Political Commentator, Hong Kong, 25 July 2009

The English language press had been marginalised since 1997 and was now much less influential than before. While previously the government would leak information to the South China Morning Post, now it does so to Chinese language media. In general people were much better informed than previously because of the internet, and most got their information from the television and internet, rather than from newspapers. In China 30 years ago Chinese officials would not talk and dissidents sought you out. Now the MFA held 2 press conferences a week and had a website, but they edit the press conference proceedings before putting them on the website. If there was self-censorship in the Hong Kong media, it was hard to prove.

Human rights were much improved in China compared with 30 years previously. In the past the government used to be involved in every aspect of life: people were assigned a job, a study course, travel. Large areas had opened up and people could now choose their jobs. China had not ratified the CPPR but the US had not ratified the CESC. Every year China put out a report on human rights in the US the day after the publication of the US report. The Chinese report tended to focus on racial and other social issues. China said that it had lifted hundreds of millions out of poverty and the right to life was most important.

The Chinese Ambassador to the EU had put out a statement about Xinjiang saying that the western press was prejudiced and European governments should understand that the riots had been instigated by the Chair of the World Uighur Congress. China would like the EU to support China's position on this as well as on Tibet. China had been more open in allowing the press to the area this year. One journalist had been expelled from Tibet, although his reporting was fairly objective in general. China did not want the press in the city of Kashgar. China would like more sympathetic coverage of the minorities issue. China did not consider that there was a minority problem but believed that there were people

who were not identifying with China and that the problem came from outside agitators, and not Chinese policy.

Meeting with Jasper Tsang, President of the Legislative Council and Maria Tam of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), Hong Kong, 25 July 2009

Ms Tam: The 2007 decision by the National Peoples' Congress Standing Committee on future electoral arrangements in Hong Kong meant that in the 2012 elections LegCo would retain geographic and functional constituencies—bicameral within one legislature. No significant decisions will be taken on the introduction of universal suffrage in 2017/20 before 2012. Democratic and conservative factions have different views on this—democratic factions want to push for a decision on 2017/2020 arrangements now, whereas the conservative factions are content to wait for 2012. Under the NPC decision, the Chief Executive will be chosen by universal suffrage in 2017, although there will be some kind of selection process to determine who can stand as a candidate. For LegCo the electoral process is not decided: in particular there is a major debate on whether or not the functional constituencies will continue to have a place in a universal suffrage system. Some Legco members are also Deputies of the National Peoples' Congress. In the eyes of many Chinese HK is as free as it has ever been: there is more popular representation under this system than had been the case under the former colonial system.

Mr Tsang: DAB is the largest political party in Hong Kong. Its roots are as a welfarist movement which addresses grassroots economic and social concerns and needs, seeing these as a higher priority than political rights and democratic development. The continuation of functional politics in Hong Kong reflects Beijing's preferred model of representation.

Meeting with Pan-democratic Legislators; Ms Margaret Ng, Civic Party, Ms Cyd Ho, Civic Act Up, Ms Emily Lau, Democratic Party, Mr Alan Leong, Civic Party and Mr James To, Liberal Party, Hong Kong, 25 July 2009

Ms Ng: It was important to maintain relations with the European Parliament (which she had visited) because of China's economic development. China was looking at Europe but how to keep up lobbying on democracy and human rights was a challenge. There should be no functional constituencies. The UK introduced this system but it should now condemn it as the transitional period has ended.

Ms Lau: HK remains an international city—the consular presence in the city indicates its continued linkage to the international system. The UK had a special role but the UK Government/FCO had not been robust; the UK started the process of political change in HK before the handover but has not followed through since 1997. I asked Margaret Thatcher 'Is national interest the basis for moral behaviour in international politics?' as she delivered Hong Kong into the hands of a communist dictatorship. Only Alan Leong is allowed into mainland China; the UK should raise the question of why HK democrats are not allowed into PRC. Why are there different standards of Chinese citizenship?

Mr Leong: The present system could not be phased out: it had to be rejected to allow politics to advance. Politics was being polarised between the DAB and LSD—professionals favour some kind of middle ground. HK is still run by its business interests, and the UK shares in these interests—the UK is no longer the

HK government but it is still a shareholder in HK. The UK is therefore complicit in the bargain between the CCP and the tycoons.

Mr To: We should be clear that universal suffrage means 'universally accepted form of popular suffrage'. The Beijing plan of geographic-functional constituencies and vote-counting system enshrines its control. For the Chief Executive it will control the nomination process and for LegCo it controls the voting system.

EU Chamber of Commerce in China

Summary of Meeting with Lord Teverson, House of Lords, 24 September 2009

These notes complement those from Sub-Committee C's meeting with the EUCCC during their visit to China in July.

Lord Teverson met the delegation of the EU Chamber of Commerce in China (EUCCC) in the House of Lords on 24 September 2009. The delegation consisted of:

- Mr Joerg Wuttke, President of the EUCCC and Chief Representative of BASF in China
- Ms Lyn Kok, EUCCC Vice-President and Managing Director of Standard Chartered Bank in China
- Mr Loesekrug-Pietri, Chair of the EUCCC Private Equity and Strategic M&A Working Group
- Mr Jens Ruebbert, Deutsche Bank
- Mr Tony Robinson, EUCCC Business Manager

The EUCCC made the following points:

The context

China is more important than ever, but economic reforms are lagging. China is one of the lowest employment generating economies in Asia. The Chinese economy is plagued by over-capacity, which destroys research and development activities in China.

The private sector is growing but is still underdeveloped. Most of the recent stimulus has benefited the state-owned sector.

It is a mixed picture on EUCCC concerns, with progress in some areas and back-peddalling on others. Major concerns include market access, administrative cooperation, transparency and intellectual property protection.

A lack of IPR protection poses problems for outside investors and acts as a brake on China's development.

How can the EU address the problems?

Be united, do not let the Chinese drive a wedge between the 27 Member States.

We should not focus too much attention on the trade imbalance and currency issues.

Pinpoint areas where China has a vested interest, e.g. where it is vulnerable to action taken through the WTO.

The EUCCC is seeking to bolster the arguments of the pro-reformers in the Chinese state, including Vice-President Xi Jing Ping.

We should not have an inferiority complex with regard to China, as Commissioner Verheugen has said. We can be assertive and respectful.

There is a link between the EU's openness to Chinese investment and the Chinese willingness to accept European investment in China. We must improve the attractiveness of Europe as a destination for business and investment.

Energy and climate change

There is excess of capacity in the power generation sector in some regions. Utilities must install (but not generate) 4% of their electricity from renewable sources. This has led to windmills being built in Mongolia, some of which are not even connected to the grid, as the law does not require them to produce electricity. The grid company has to only install it to meet the requirements. The Inner Mongolian grid refuses to allow major wind power farms to get linked up, as they cause major fluctuations, which the grid finds difficult to control.

China sees nuclear power as renewable energy. They have set extremely ambitious targets on building new nuclear power stations but they lack the engineering capacity to achieve them.

This tends to obscure the fact that every year the Chinese build 80 Gigawatts worth of coal-fired electricity generation capacity (in comparison, the power generation capacity of Germany is 125 GW).

China subsidises its electricity prices, creating a disincentive to consume less power. This also has the effect of distorting trade as energy-intensive industries are in effect receiving a form of subsidy (e.g. production of solar panels and steel manufacturing). 90% of solar panels made in China are exported.

Copenhagen conference

The EUCCC is worried about proposals for technology transfer and financing options under the Copenhagen negotiations. This is a definite threat. China should not be treated like Sierra Leone, as it has the largest foreign exchange reserves in the world (US\$ 2.4 trillion) and therefore plenty of money to spend on new technologies.

China's leaders have made commitments to reduce their reliance on coal and to improve energy efficiency, but these are often poorly implemented. The EU should seize the opportunity to help build China's implementation capacity.

There are indications that some Chinese officials are waiting for the US to make stronger commitments before going further.

China has reacted very moderately to Indian protectionism, perhaps because China needs India as an ally during the negotiations.

The idea of an EU carbon border tax worries the Chinese. Perhaps this option should remain on the table to put pressure on them.

Financial services

There has been significant progress in the banking area over the last 12 months, partly driven by the financial crisis.

However, there are major barriers to accessing the insurance market, although this does not apply to re-insurance.

APPENDIX 5: CORRESPONDENCE WITH THE GOVERNMENT

Letter from Sub-Committee C to Lord Hunt of Kings Heath, Minister of State, Department for Energy and Climate Change dated 19 October 2009

EM 11448/09 Communication from the Commission to the European Parliament and the Council—Demonstrating Carbon Capture and Geological Storage (CCS) in emerging developing countries: financing the EU-China Near Zero Emissions Coal Plant Project.

Sub-Committee C considered this document at its meeting on 15 October 2009 and cleared it from scrutiny.

The Committee has taken a great deal of interest in China recently, including on climate change and energy issues. In relation to the Commission communication, we were very concerned to learn of the slow progress of this project, given its importance in the global fight against carbon emissions and the pace of growth of high emission coal-fired energy generation in China.

After all this time and publicity we are still in the initial phase of this project, with no certainty of any funding for phase three. We are very keen to understand, therefore, what the realistic timescales are now likely to be for all three phases to be completed. When will sufficiently reliable results of the project be available so that Carbon Capture and Storage can actually be rolled out in China?

We would also welcome your views on the initial management of the project within the EU, and the degree of enthusiasm of the Chinese government for this project.

Given the importance of this project, we are issuing a press release tomorrow dated 20 October 2009.

Letter to Sub-Committee C from Lord Hunt of Kings Heath, Minister of State, Department for Energy and Climate Change to the Chairman dated 2 December 2009

Thank you for your letter of 19 October concerning the EU-China NZEC Agreement. As you know, it was developed and agreed under the UK's Presidency of the EU in 2005, and international collaboration on CCS continues to be a high priority for the UK Government in our efforts to avoid dangerous climate change.

Your letter expresses concern that we are still in the initial stages of the project with no certainty of funding for Phase III, the construction of the plant. In response, I would like to highlight that a significant amount has already been achieved, and emphasise my belief that we are well placed to deliver a demonstration plant in China in parallel to those in the UK and elsewhere in the EU.

Under Phase I, the China-UK NZEC¹²⁴ Initiative, the China-European Commission COACH¹²⁵ project, and the STRACO2¹²⁶ project launched their results in Beijing on 28–29 October. Key findings from the China-UK NZEC Initiative included that: there is potential for CCS in China on the basis of cost,

¹²⁴ See: www.nzec.info

¹²⁵ Co-operative action within CCS China-EU. See: www.co2-coach.com

¹²⁶ Support to Regulatory Activities for Carbon Capture and Storage. See: www.euchina-ccs.org

there is no clear technology winner once CCS is commercially established, the cost of deployment in China could be relatively cheap (approximately £25 per tonne of CO₂) due to lower labour and construction costs in the Chinese power sector storage in oil reservoirs is possible but limited and may not support a commercial scale demonstration there may be significant storage in saline aquifers but further assessment is needed.

More information on the Initiative is included in the attached Summary Report.

These projects have built a significant amount of institutional capacity, expertise, and business interest in CCS in China, which will be essential to the success of the next Phases. It is notable that China's Ministry of Science and Technology now views successful demonstration as a critical pathway to any subsequent programme of deployment. The China-UK NZEC Initiative is also seen by many in the field as a potential blue print for project-based capacity building in developing countries. We should not downplay these achievements.

You are right to say that there is no agreed funding for Phase III, apart from the European Commission's contribution of €50 million, but the immediate objective has been and continues to be to agree funding for Phase II. We have pledged £6 million, on top of the European Commission's contribution of €7 million, on condition that other European countries also contribute. We would like to see further contributions confirmed before the EU-China Summit on 30 November 2009.

The Commission is currently working with the Chinese Government to agree detailed work objectives for Phase II. Once Phase II is underway in 2010, and starts to draw conclusions on what will be an appropriate technology and location for the demonstration plant, we will be in a much better position to estimate the costs and therefore the likely contributions to Phase III. After December's Copenhagen conference, there should also be more clarity as to whether or not the international climate framework will be able to contribute funding to CCS demonstration.

As regards the timing of Phase III, we would also like to see agreement before the EU-China Summit that the demonstration plant should be operational by 2015. The UK and China agreed this accelerated timetable at the China-UK Summit in February 2009. We are working with the European Commission to see how we can make this timetable consistent with their rules for issuing project grants.

Concerning the management of the NZEC project to date, the Chinese Ministry of Science and Technology have been extremely complimentary about how the China-UK NZEC Initiative has been co-ordinated and we have an excellent working relationship with them.

We will continue to work with the European Commission, the Chinese Government, other European Countries, and interested stakeholders in ensuring the success of the next phases of NZEC.

I thank you for your interest in this important subject.

APPENDIX 6: CHINA PEACEKEEPING FIGURES*

Mission	Location	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07	Nov-07	Oct-07
MINURSO	Western Sahara	12	12	12	12	13	13	13	13	14	14	10	13	13	13	13	14
MINUSTAH	Haiti	143	143	143	143	145	127	139	127	134	134	134	134	134	134	134	134
MONUC	DRC	234	234	234	234	234	234	234	231	234	234	234	234	234	234	234	234
UNAMID	Darfur	324	321	322	322	322	319	319	147	147	147	147	143	143	3	0	0
UNIFIL	Lebanon	343	343	341	341	343	343	343	343	343	343	343	343	343	343	343	343
UNIOSIL	Sierra Leone	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	1
UNMEE	Ethiopia/Eritrea	0	0	0	0	0	0	2	2	2	2	2	7	7	7	6	6
UNMIK	Kosovo	0	18	18	18	18	18	18	18	18	18	20	2	2	15	15	15
UNMIL	Liberia	585	569	580	578	578	580	580	580	580	581	581	581	581	581	582	580
UNMIS	Sudan	474	474	476	476	476	471	479	466	466	466	466	466	466	468	468	468
UNMIT	Timor-Leste	22	23	23	23	23	23	23	18	25	25	25	27	27	13	13	13
UNOCI	Cote d'Ivoire	7	7	8	8	8	0	7	6	10	13	11	7	7	7	7	7
UNTSO	Middle East	2	2	2	3	4	4	4	4	4	4	4	4	5	5	4	4
TOTALS		2146	2146	2159	2158	2164	2132	2161	1955	1977	1981	1978	1962	1963	1824	1820	1819

Mission	Location	Sep-07	Aug-07	Jul-07	Jun-07	May-07	Apr-07	Mar-07	Feb-07	Jan-07
MINURSO	Western Sahara	14	13	13	19	13	13	13	13	14
MINUSTAH	Haiti	134	134	136	136	136	129	129	129	129
MONUC	DRC	234	234	234	234	231	230	230	230	230
UNAMID	Darfur	0	0	0	0	0	0	0	0	0
UNIFIL	Lebanon	343	360	343	343	343	343	343	343	392
UNIOSIL	Sierra Leone	1	1	1	1	1	1	1	1	1
UNMEE	Ethiopia/Eritrea	6	7	7	7	7	7	7	7	7
UNMIK	Kosovo	18	18	18	18	18	18	18	19	18
UNMIL	Liberia	570	570	587	587	587	588	586	589	588
UNMIS	Sudan	468	468	468	465	469	468	469	469	469
UNMIT	Timor-Leste	13	13	13	13	13	13	3	3	2
UNOCI	Cote d'Ivoire	7	7	7	4	7	7	7	7	7
UNTSO	Middle East	3	3	3	3	3	3	3	4	4
TOTALS		1811	1828	1830	1830	1828	1820	1809	1814	1861

* Figures provided by the Foreign and Commonwealth Office in March 2009.

APPENDIX 7: A HISTORY OF EU RELATIONS WITH CHINA

EU-China Relations: Chronology		
Reproduced by kind permission of the EU Commission		
http://ec.europa.eu/external_relations/china/docs/chronology_2010_en.pdf		
1975	May	Diplomatic relations established. Christopher Soames first European Commissioner to visit China
1978	2 May	Trade agreement EEC-China signed. Inter alia, establishes Joint Committee
1979	February	Roy Jenkins visits China. First visit of a Commission President. Meets Deng Xiaoping
	July	First meeting of the Joint Committee in Beijing
	18 July	(First) agreement on textile trade
1980	16–19 June	First inter-parliamentary meeting between delegations of the EP and of the National People's Congress, Strasbourg.
1983		Launch of first science and technology cooperation program
1984		First political consultations at ministerial level, in the context of European Political Cooperation
		Launch of first cooperation projects in China (Management training and rural development)
1985	21–23 May	Agreement on trade and economic cooperation signed
1988	4 October	Opening of the Delegation of the European Commission in Beijing
1989	June	As a reaction to Tian An Men incidents of 4 June, EC freezes relations with China and imposes a number of sanctions, including an arms embargo
1990	October	Council and EP decide to re-establish bilateral relations step by step
1992		EC-China relations largely back to normal; arms embargo remains in place
	June	Launch of environmental dialogue
	June	Establishment of a new bilateral political dialogue
1993	October	Opening of Commission office in Hong Kong
1995	15 July	European Commission publishes first Communication "A long-term policy for China-Europe relations"
		Launch of a specific dialogue on human rights issues

1996	1–2 March	First Asia-Europe Meeting (ASEM); China and EU are active participants
1998	25 March	European Commission publishes Communication “Building a Comprehensive Partnership with China”
	2 April	1st EU-China Summit, London
	22 December	Agreement on scientific and technological cooperation signed
1999	21 December	2nd EU-China Summit, Beijing
2000	19 May	Bilateral agreement on China’s WTO accession signed in Beijing
	11 July	Visit of Prime Minister Zhu Rongji in Brussels (first visit of a Chinese Premier to the Commission)
	24 October	3rd EU-China Summit, Beijing
2001	15 May	European Commission publishes Communication “EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy”
	5 September	4th EU-China Summit, Brussels
	17 September	New Information Society Working Group launched
	25–26 October	Human Rights Dialogue, Beijing
	13 November	Ministerial Troika, New York (in the margin of UN General Assembly)
	30 November	Political Directors Troika, Beijing
	8 December	Human Rights Seminar, Brussels
	11 December	China becomes the 143rd Member of the World Trade Organisation
2002	30–31 January	EC-China Joint Committee, Brussels.
	1 March	Release of China country Strategy paper 2002–2006
	5–6 March	Human Rights Dialogue, Madrid
	28 March–4 April	Visit of Commissioner Patten to China
	16 May	Launch of negotiations on Chinese participation in GALILEO
	June	Exchange of letters strengthening the EU-China political dialogue
	24 September	5th EU-China Summit, Copenhagen
	13–15 November	Human Rights Dialogue, Beijing
	6 December	EU-China maritime transport agreement signed

2003	14 February	EU-China Ministerial Troika held in Beijing
	5–6 March	Human Rights Dialogue, Athens
	10 March	EC opens European Economic and Trade Office in Taiwan
	3 June	China formally requests market economy status under EU's anti-dumping instrument
	30 June	Ministerial Troika, Athens
	10 September	European Commission adopts policy paper "A maturing partnership: shared interests and challenges in EU-China relations"
	13 October	EU Council of Ministers endorses Commission policy paper "A maturing partnership"
	13 October	China releases first ever policy paper on EU
	30 October	the EU-China Summit, Beijing: Agreements signed on—cooperation in the Galileo satellite navigation program—Industrial Policy Dialogue—EU-China Dialogue on Intellectual Property
	26–27 November	Human Rights Dialogue, Beijing
2004	10–11 February	EU-China Seminar on the two Policy Papers issued in October held in Beijing, leading to "Guidelines for Common Action"
	12 February	Signing of MOU on Approved Destination Status (the "Tourism Agreement")
	26–27 February	Human Rights Dialogue, Dublin
	26 February	Political Directors Troika, Beijing
	16 April	Commission President Romano Prodi visits China
	6 May	Chinese PM Wen Jiabao visits Commission Headquarters, new dialogue initiatives signed; customs cooperation agreement initialled; political leaders recommend that the "Guidelines for Common Action" are implemented
	26 May	the High Level Consultations on Illegal Migration and trafficking of human beings, Brussels
	24 September	Human rights dialogue, Beijing
	8 October	Ministerial Troika, Hanoi
	12 November	Geographical Directors' Troika, Beijing
	8 December	the EU-China Summit, The Hague: the EU and China signed—Joint declaration on Non-proliferations and Arms Control—EU-China Customs Cooperation Agreement—Agreement on R&D cooperation on the peaceful use of nuclear energy

2005	24–25 February	Human Rights Dialogue, Luxembourg
	11 May	Ministerial Troika, Beijing
	30 June–1 July	EU-China Civil Aviation Summit, Beijing
	7 July	First ADS Committee (“Tourism Agreement”) Meeting, Beijing
	14–18 July	Commission President José Manuel Barroso visits China
	5 September	the EU-China Summit, Beijing: the EU and China signed:—MoU on labour, employment and social affairs—Joint Statement on cooperation in space exploitation, science & technology development—Joint declaration on climate change
	25–27 October	Human Rights Dialogue, Beijing
	4 November	EC-China Joint Committee, Brussels
	20 December	1st EU-China Strategic Dialogue, London, UK
2006	January	EU-China MoU on food safety is signed in Beijing
	3 February	Ministerial Troika, Vienna
	20 February	Commission and Chinese Government sign a MoU on cooperation on near zero emissions power generation technology
	27 March	Political Directors Troika, Beijing
	30 March	The first EU-China bilateral consultations under the Climate Change Partnership are held, Vienna
	6 April	Geographical Directors Troika, Brussels
	15 May	EU-China Dialogue on Regional Cooperation initialled
	25–26 May	Human Rights Dialogue, Vienna
	6 June	2nd EU-China Strategic Dialogue
	9 September	9th EU-China Summit, Helsinki: the EU and China agree on opening negotiations for a new comprehensive framework agreement
	11 October	Official launch of China-EU Science and Technology Year
	19 October	Human Rights Dialogue, Beijing
	24 October	Commission adopts Communication “EU-China: Closer Partners, growing responsibilities” and a policy paper on trade and investment
	7 November	EC-China Joint Committee, Beijing
	7 December	The first Macroeconomic Dialogue is held
	11 December	The Council endorses the Commission Communication and adopts related Council Conclusions

2007	16–18 January	Commissioner for External Relations Ferrero-Waldner visits Beijing: launch of negotiations on a Partnership and Cooperation Agreement
	5 March	Geographical Directors Troika, Beijing
	3 May	Commission and ECB discuss economic policy issues with Chinese counterparts, Beijing, China
	8 May	Political Directors Troika, Brussels
	15–16 May	Human Rights Dialogue, Berlin, Germany
	11–12 June	EC-China Joint Committee, Brussels
	22 June	1st Meeting of the EU-China Civil Society Round Table, Beijing, China
	17–18 October	Human Rights Dialogue, Beijing, China
	25 October	3rd EU-China Strategic Dialogue, Lisbon
	14 November	2nd Meeting of the EU-China Civil Society Round Table, Brussels
	28 November	Euro-zone Troika and Chinese counterparts, Beijing, China
	28 November	10th EU-China Summit, Beijing: the EU and China—established High Level Economic and Trade Dialogue—agreed to enhance cooperation on climate change
2008	11 March	Geographical Directors' Troika, Brussels
	24–25 April	President José Manuel Barroso and nine Commissioners meet with their counterparts in Beijing
	25 April	1st EU-China High Level Economic and Trade Dialogue, Beijing
	15 May	Political Directors' Troika, Beijing
	15 May	Human Rights Dialogue, Brdo, Slovenia
	9 June	EU-China Ministerial Troika, Ljubljana
	11 June	Chinese Foreign Minister Yang Jiechi visits Brussels
	23–26 June	3rd Meeting of the EU-China Civil Society Roundtable, Beijing, China
	24–25 September	EC-China Joint Committee, Beijing
	6–7 November	4th Meeting of the EU-China Civil Society Roundtable, Paris, France
	28 November	Human Rights Dialogue, Beijing
2009	19 January	4th EU-China Strategic Dialogue, Beijing
	30 January	Chinese Prime Minister Wen Jiabao visits Brussels
	29–30 March	Commissioner B. Ferrero-Waldner's visit to China

	7–8 May	2nd EU-China High Level Economic and Trade Dialogue, Brussels, Belgium
	18–19 May	5th meeting of the EU-China Civil Society Round Table, Tianjin, China
	20 May	11th EU-China Summit, Prague, Czech Republic: the EU and China—addressed the issues of the financial crisis and climate change.
	14 May	Human Rights Dialogue, Prague, Czech Republic
	27 May	EU-China Ministerial Troika, Phnom Penh, Cambodia
	28 October	6th meeting of the EU-China Civil Society Round Table, Stockholm, Sweden
	18 November	Political Directors' Troika, Stockholm, Sweden
	20 November	Human Rights Dialogue, Beijing, China
	29 November	Euro-zone Troika and Chinese counterparts, Nanjing, China
	29 November	EU-China Ministerial Troika, Nanjing, China
	30 November	12th EU-China Summit, Nanjing, China: the EU and China
		—agreed to speed up the negotiations on the Partnership and Cooperation Agreement
		—agreed to strengthen people-to-people exchanges and cultural cooperation
	17 December	5th EU-China Strategic Dialogue, Stockholm, Sweden
2010	28 January	EU HR/VP Ashton meeting with FM Yang Jiechi in margins of London
		Conference on Afghanistan
Upcoming (TBC)		
2010	16 March	Regional Directors' Troika, Brussels, Belgium

APPENDIX 8: BACKGROUND ON: A) THE INDIAN-CHINESE DISAGREEMENT ON THE PROVINCE OF ARUNACHAL PRADESH B) TIBET; XINJIANG

The India-China boundary dispute

China and India announced a strategic partnership in 2005, which was held to represent a new era in bilateral relations. As part of this accord Delhi recognised Beijing's sovereignty over Tibet for the first time. Progress on settling the border dispute has been negligible, however, and has deteriorated in the recent period with strong diplomatic exchanges and nationalist rhetoric in the media. The Chinese position is that since Tibet has always been Chinese, the boundaries of China and India must be the same as those between Tibet and India, meaning that a large part of the Indian state of Arunachal Pradesh must be Chinese. Delhi does not dispute that this region is part of historic Tibet but points to the 1914 accord between Britain and the Tibetan leadership of the time which established their boundary (the MacMahon line). The Chinese government of the warlord era did not sign this accord. Delhi also contrasts the peaceful development of Arunachal within the federation of India with the on-going discord and tension in Chinese Tibet. Relations took a decided turn for the worse when Delhi allowed the Dalai Lama to visit Tawang in Arunachal, the site of one of the oldest Tibetan monasteries, in November 2009.

Background on Tibet

Imperial China and the Tibetan civilisation had a unique relationship in that Lamaist Buddhism was held in special regard by China's rulers, and relations were both much more equal and less political than China's other tributary relations. In 1950 Tibet was incorporated into the Chinese state on sovereign principles of Beijing's direct and exclusive authority for the first time. The level of intervention also intensified following the Sino-Indian war of 1962 and the failure to make significant progress on the border dispute between the two countries. Parallel with changes to Tibet's political status there have been significant efforts by Beijing to modernise and integrate the Tibetan economy. The Chinese government's White Papers on Tibet insist that special efforts are being made to defend Tibet's unique culture; but change in the political and military significance of Tibet and the impact of economic modernisation are undoubtedly causing significant stresses in Tibetan society. Tibet thus continues to present several different challenges for Beijing, including the international public perception of China's policies

Background on Xinjiang

Xinjiang, known historically as Eastern or Chinese Turkestan, was incorporated into the Chinese Empire in the 18th century. It is three and a half times the size of France, but its population in 1949 was only 4 million, of whom more than 3 million were Uyghurs. Population now is in excess of 21 million with numbers of Uyghurs and Han Chinese approximately equal at around 9 million, and other minorities being Kazakhs, Hui and Tajiks. The region is extremely important strategically for China since it borders Central Asia, Afghanistan, and Pakistan. Following the dissolution of the Soviet Union this situation became even more complex, as the Chinese government claimed that Turkic nationalism and radical Islamism originating in Central Asia accounted for the rise in public disorder and secessionist activity in Xinjiang. In 2002 China secured US agreement to put the

East Turkestan Islamic Movement onto the State Department list of terrorist groups, and a small number of Uyghurs were captured during the US/ISAF intervention in Afghanistan. China has put pressure on European governments, notably Germany, to close down the activities of Uyghur dissident groups who are calling for the end of Chinese occupation of Xinjiang. When asked to provide evidence that these groups were engaging in, or planning, criminal activity in Europe or China, the Chinese government has been unable to provide it. Though European governments face charges from China of operating double standards by refusing to accept that East Turkestani groups are terrorist in the same sense as Al-Qaeda, the failure of the Chinese government to provide evidence that would support this claim or to allow international agencies access to Xinjiang to assess the security situation mean that it cannot be substantiated at present.

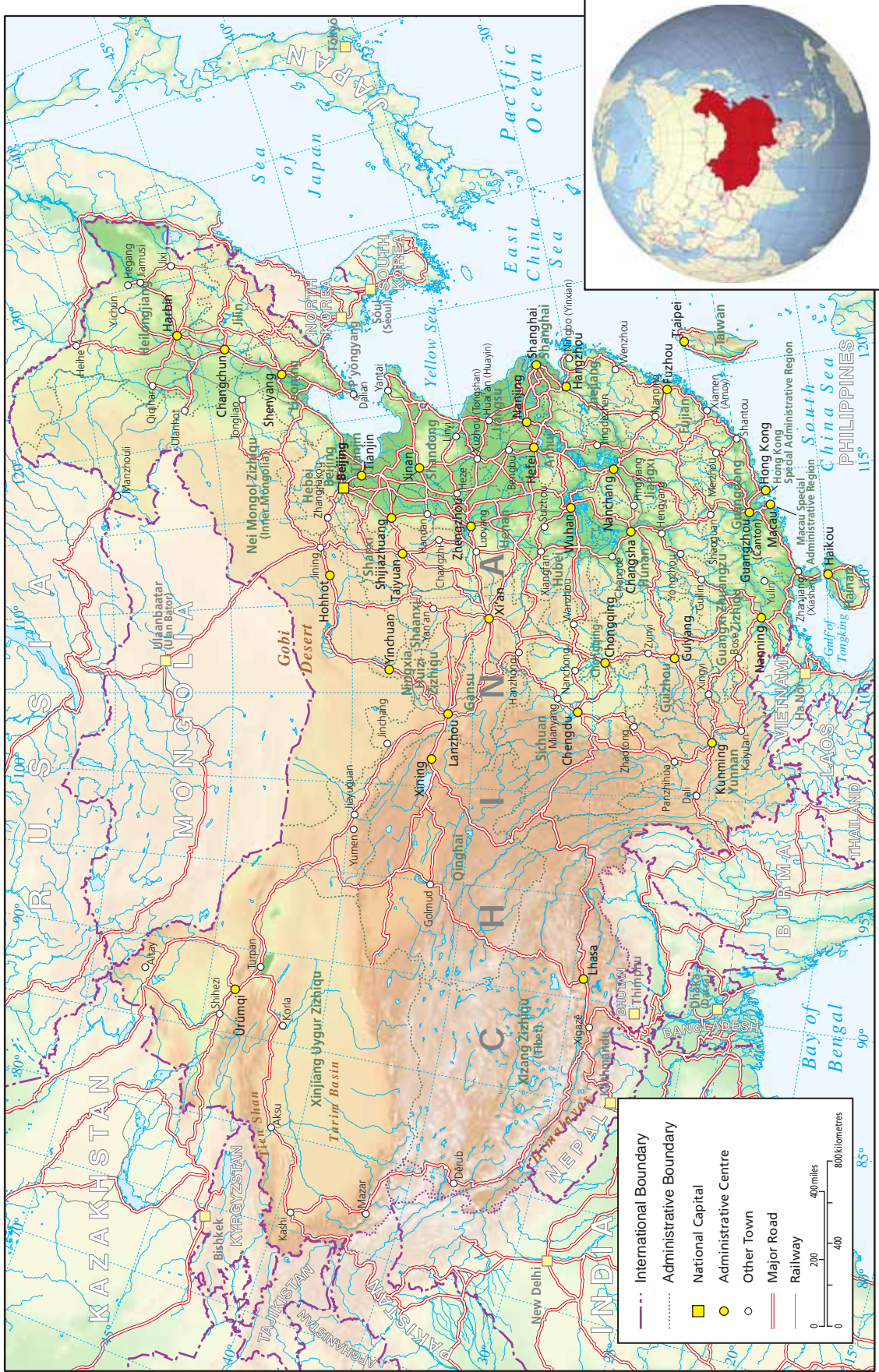
APPENDIX 9: GLOSSARY OF TERMS AND ABBREVIATIONS

ASEM	Asia Europe Meeting
ASEAN (+3)	Association of South Asian Nations (plus China, Japan and South Korea)
CCS	Carbon Capture and Storage
CDM	Clean Development Mechanism
CECSC	Economic and Social Council of China
COE	Council of Europe
CSDP	Common Security and Defence Policy
CSR	Corporate Social Responsibility
DECC	Department for Environment and Climate Change
DG RELEX	Directorate-General for External Relations (European Commission)
DRC	Democratic Republic of Congo
EEC	European Economic Community
EESC	European Economic and Social Committee
ESDP	European Security and Defence Policy
EU	European Union
FCO	Foreign and Commonwealth Office
G2	Group of 2 (Possible emergence of a US-China partnership)
G8	Group of Eight forum for the leaders of 8 of the world's most industrialised nations
G20	The Group of 20 which brings together major industrialised and developing economies to discuss key issues in the global economy
HK	Hong Kong
HLM	EU-China High Level Economic and Trade Dialogue Mechanism
ICCPR	International Covenant on Civil and Political Rights
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPR	Intellectual Property Rights
KMT	Kuomintang
MFA	Ministry of Foreign Affairs
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NZEC	Near-Zero Emissions Coal
OECD	Organisation for Economic Co-operation and Development

P5	5 permanent members of the UN Security Council
PCA	Partnership and Cooperation Agreement
PLA	People's Liberation Army
SAARC	South Asian Association for Regional Cooperation
SAR	Special Administrative Region
UN	United Nations
WTO	World Trade Organization

APPENDIX 10: MAP OF CHINA

China: Provinces



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Users should note that this map has been designed for briefing purposes only and it should not be used for determining the precise location of places or features. This map should not be considered an authority on the delimitation of international boundaries or on the spelling of place and feature names.

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