

Professor Attila Marján:
EU-China Cooperation – Assessment of Key Policy Areas
Special Report

About the author

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Abstract

This paper has a general and also a sectoral angle to analyze EU-China relations. Apart from putting this relationship into a general historical and geopolitical context, it also elaborates on some key policy areas where European experience seems valid for China to design policies to counter some of its challenges. The paper therefore has a very broad range of topical coverage including a brief overview of the history of Sino-European relations, current day geopolitical issues, as well as social and regional policy¹ issues. As far as the level of mutual understanding as a prerequisite to effective know-how transfer and/or cooperation, is concerned, the paper argues that a lot remains to be done. Barriers are partly historical, partly due to differences in general political features, and partly because of cultural and ideological imprints. This holds true even if EU studies have a long history in China and China studies in Europe are getting ever more prominent in social sciences and in the study of international relations. The paper looks into three topical areas for which it gives comparative analyses, pinpointing similarities and differences and also possibilities for China to draw on the EU experience. As regards *multilateralism in international relations*, the EU is a key partner for China in building a multilateral global order, although the EU is not a fully suitable model to conceptualize multilateralism for three reasons: the EU is not a true hard power, the EU and the Chinese concepts of “multilateralism” have a significantly different meanings, and finally, the EU itself by definition has no nationalistic ambitions on the global scene. As regards *social policies*, the EU is an obvious model for inspiration, but the European social models themselves have come under pressure and proved unsustainable lately, therefore China is best advised to look at the more sustainable versions of the European social models, such as the reformed German or some features of the Scandinavian ones. Moreover Chinese studies on the European social systems has often been ideologically motivated, therefore often produced biased results. As regards *regional policy*, the EU system can be interesting for China to overcome the following shortcomings of the Chinese system: the lack of a single official organization specialized in regional management; the failure to identify the optimal target region for regional policy; the lack of effective financial support instruments; the over-dependence on government and failure to include non-governmental actors.

Keywords: China, EU, EU-China relations, multilateralism, EU-China regional policy, social policy cooperation

¹ In the sense of regional development policy

Introduction

This paper has a general and also a sectoral angle in its analysis of the EU-China relations. Apart from putting this relationship into a general historical and geopolitical context, it also elaborates on some key policy areas where European experience seems valid for China to counter its challenges. The paper therefore has a very broad range of topical coverage including a brief overview of the history of Sino-European relations, current day geopolitical issues, as well as social and regional policy issues. Chapters differ significantly as regards the depth of the analysis and also in style. The paper, although aims to provide fresh evidence on the different fields it assesses, should in principle be considered as an overview and also as an introduction to a series of more elaborate papers focussing on the individual topical issues. The paper also wants to contribute to better mutual understanding by introducing some of the key geopolitical and political concepts of the two players, therefore it may be interesting for European and Chinese readers alike. Analyses of Sino-European relations are plentiful, as China is getting prominence internationally, research papers on China and China-EU relations (especially with a sectoral focus) are becoming abundant.

Nevertheless papers with a comprehensive or at least multisectoral research approach are scarce. Research of how European and especially EU policy solutions could serve as models for Chinese practice is even less frequent. One research evidence should be highlighted here, the paper Xinning Song published in 2010 (Xinning Song: European 'models' and their implications to China: internal and external perspectives)² nevertheless that paper more or less limits its ambition to catalogue existing research done by Chinese scholars on different EU policy areas. As Xinning Song explains³ European Studies in China developed very rapidly in the last twenty years. The reason for this is twofold: the EU-China relations have been growing wider and deeper and so has economic interdependence, but also Chinese scholars and decision makers acknowledge the "relevance of European models to China's domestic political and social development, as well as China's external relations".⁴ He reviews Chinese EU studies in the following areas considered most relevant by Chinese academia and the

² Xinning Song: European 'models' and their implications to China: internal and external perspectives. Review of International Studies, Vol. 36. Issue 3. July 2010. pp. 755-775.

³ Ibid.

⁴ Another positive factor is that the acceptance and esteem of Europe and the EU is fairly high in the Chinese society.

political class: European party politics and the issue of democratic socialism; the European social policy and social security systems, EU regional policy, European foreign and neighbourhood policy, the European concept of effective multilateralism, moreover Europe as an example of peaceful rise, and finally "functionalism" i.e.: the step-by-step, sector-by-sector approach to reinforcing cooperation and how it can be applied to East Asian regional integration.⁵ Xinning also claims that Chinese would like to learn more from Europe than the United States, partly because they consider the EU as a "social power" as opposed to the US. Moreover the esteem of the European civilization is quite significant in the Chinese academic and political class.

The first institutions for European studies in China in the 1980s were the Institute of Western European Studies at the Chinese Academy of Social Sciences, the European Documentation Centre at Fudan University in Shanghai, and the China Association for Western European Studies. At the beginning most of the studies focused on individual Western European countries rather than on the European integration as a whole. In the late nineties, European studies in China got a new impetus when the EU and the Chinese government launched the first EU-China Higher Education Cooperation Programme (1997–2001) as one of the major objectives of the programme was to promote European Studies in China. More than a hundred Chinese and European universities and research institutions, as well as a thousand Chinese and European scholars took part in the programme. Moreover about twenty new centres of European Studies were established at Chinese universities and research institutes. EU studies (including political science, economics, law sociology, international relations, history) has not only started to flourish but also became deeper, more strategic and better organized.

The present paper puts EU-China relations and potential fields of know-how transfer in a historical and also a socio-economic framework with a multidisciplinary approach and selects three areas of focus considered most pertinent (multilateralism, social policy and regional policy). The choice to select these three domains was motivated by the conviction that these are the key areas for Chinese policy making to successfully accomplish the two most important political imperatives for the country:

- *the successful geopolitical integration of China in the global order and*
- *the successful management of internal imbalances (regional and social) that could*

⁵ Free trade agreements (FTA's) and the New Silk Road Strategy are good examples for this

otherwise destabilize the country.

There are obviously other areas outside the analysis of this paper where the EU experience could be relevant, such as soft power projection⁶, or the issue of “peaceful rise”⁷, consumer rights, corporate social responsibility, corporate governance and environmental protection. Even the Franco-German historical reconciliation is referred to sometimes as a process worthwhile to study for China for reconsidering its relations with Japan. But these are considered less strategically important by this paper. Moreover already with the selection of three focus areas the present paper has a very broad range of topical coverage including a brief overview of the history of Sino-European relations, current day geopolitical issues, as well as social and regional policy issues. It also gives overviews of selected EU policies which can especially be helpful for Chinese readers. Although it aims to provide fresh evidence on the different fields it assesses, it should in principle be considered as an overview and also as an introduction to a series of more elaborate papers focussing on the individual topical issues.

As far as the level of mutual understanding as a prerequisite to effective know how transfer and/or cooperation, is concerned, a lot remains to be done. Barriers are partly historical partly due to differences in general political features and partly because of cultural and ideological imprints. This holds true even if EU studies have a long history in China and China studies in Europe are getting ever more prominent in social science and international relations studies.

China's rise seems to herald a new global order therefore it is not only important to know how China's policies develop, but also should be seen as a key opportunity for Europe to influence Chinese strategies and policies. There is a fundamental uncertainty as regards the future global order - several theories compete at this point. There seems to be a point on which all commentators seem to agree: there is a new global order emerging in which China will play an important role. The paper aims to give an overview of these competing and sometimes contradictory views.

As regards *multilateralism in international relations*, the EU is a key partner for China in

⁶ More on this in these recent papers: Shambaugh, David: China's soft power push – The search for respect. *Foreign Affairs*, July/August, 2015.; Nye, Joseph S.: The limits of Chinese soft power, Project Syndicate, 10 July, 2015.; Tao, Xie: China's soft power obsession. *The Diplomat*, April, 2015.; Funnell, Anthony: China pushes to expand its soft power through cultural export. ABC Net, Australia, 6 May, 2015.

⁷ More on this in Zheng Bijan: *China's new road towards the peaceful rise*. Beijing: Central Party Press, 2005., or Song, Xinning: *Rethinking of the theory of hegemonic stability*, China Bok Review, Hong Kong, 1988.

building a multilateral global order, but the EU is not really a suitable model to conceptualize "multilateralism" for three reasons: the EU is not a true hard power, the EU and the Chinese concepts of "multilateralism" have significantly different meanings, and finally, the EU itself by definition has no nationalistic ambitions on the global scene. As far as China's future participation in the global order is concerned there are characteristics in present time China politics that warrant optimism as opposed to the fears of the emergence of a hostile bi- or multipolar order. Notwithstanding the fact that China is a hard power,

- *it wants to be part of the world order, its interest dictates that;*

- *it does not define itself against an enemy;*

- *it has been and is willing to embrace capitalism;*

- *it has no agenda or intention to export ideology.*

These characteristics render China's geopolitical strategy clearly distinct from the former Soviet Union. China has a traditionalist approach to international relations, where in principle the "no interference with national sovereignty" is the key bottom line which is mostly motivated by the sense of insecurity of a non-democratically elected government.

As regards *social policies*, even if there is no EU-level social model and even policy coordination on this issue is rather weak at European Union level, the EU is an obvious model for inspiration, especially some of the EU member states' practices. Nevertheless European social models themselves have come under pressure and proved unsustainable lately, so China is best advised to look at the more sustainable versions of the European social models, such as the reformed German or some features of the Scandinavian ones. Moreover Chinese studies on the European social systems has often been ideologically motivated, therefore often produced biased results. The key issues with the Chinese social security system are underfinancing, insufficient coverage, geographical fragmentation and inefficient institutions. This mix of challenges constitute a significant risk to the sustainability of social order in the long run.

As regards *regional policy*, the EU system can be interesting for China to overcome the following shortcomings of the Chinese system: the lack of a single official organization specialized in regional management; the failure to identify the optimal target region for regional policy; the lack of effective financial support instruments; the over-dependence on government and failure to include non-governmental actors.

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I. Historical context and the possibility of mutual understanding

In the long run our principles are our interests. Europe has an established and clearly articulated value set. The Chinese government has a distinctly different one. But there are overlaps. China is an authoritarian country and an ever more assertive hard power. This however does not mean that a higher level of mutual trust and better cooperation is impossible. One way to get there is better understanding and empathy. Geopolitics: enmity, rapprochement, concrete political or military decisions besides straightforward interests are often based on perceptions and influenced by the (lack of) understanding of the counterpart. That is what one can call the geopolitics of perceptions which is probably a more important part of international politics than we think. This holds true in the Sino-European relations as well that have a long history.

If one tried to take a quick look at China's few thousand years of history with a Chinese eye, one saw a vast country with a sophisticated culture, which for thousands of years was miles ahead of the rest of the world both in terms of wealth and intellectual achievements. A people that gave the world porcelain, gunpowder, paper, the compass, steel-making, and the printing press. And a country that managed to protect its territory from invading barbarians for long centuries. A country that at one time considered itself so developed and perfect that it sealed its doors off to the outside world, much to its own misfortune. But, one day, China's splendid isolation was disturbed as men from Europe appeared. Even the most knowledgeable of the European had a limited understanding of China and its people at that time. David Hume considered non-whites (including the Chinese) to be inferior peoples. Immanuel Kant believed that the Chinese race was a mix of Hindi Indians and Mongols.

Zhongguo or "Central Kingdom", i.e. the middle of the universe -- this is what China was to the Chinese (surrounded by devils: black devils in Africa and dog-headed big-nosed ones in Europe). Social autism and a tendency to isolationism, which caused China's 19th-century decline, have always been characteristic of this great nation, the most ancient of all living cultures. Chinese culture has had an impact on all of Asia for thousands of years and since the Middle Ages (the European "Middle Ages" that is) on Europe too. China, as is so often the case, only looks homogeneous from a distance. There may be no borders, but this continent of a country is just as diverse genetically, linguistically and culturally as Europe. In the light of

its heterogeneity and size, it is even more puzzling that China is the oldest political unit in the world.

One of the secrets is that the elite exercising political control has always been the sole holder of all wealth, law and justice. The political function has always dominated the way Chinese society is organized. There have never been strong separate religious, economic or military elites as was customary in Europe. Political power is the absolute power in China, and the one and only focus of this political power is the state. This is something we must keep in mind when assessing today's China with its malformed democracy and uncompromising immense state projects. In China there is hardly any public opinion, there are only decisions and implementation. The Himalayas keep China conveniently closed off from the West and India. Westerners must accept that China is different from our Indo-European cultures: the way it sees the world, politics, arts, law and religion is completely different. God and property are sacred values in the West -- not in China. We seek the truth, the moral, the punchline, all of which are worthless to most Chinese. Westerners and Indians divide the world into categories; the Chinese tend to see the world as dynamic, accidental and symbolic.

The relationship between China and Europe has always been shaped by two factors. The first one, distance, proved to be insuperable for a long time but was surmounted with the help of modern technology and improved transport. The second one, trade, remains a central element of Sino-European relations. Trade links between the two continents can be traced all the way back to early Christianity. The volume of goods transported on the famous Silk Road showed a considerable imbalance from the beginning. All Rome could offer in return of a wide range of goods were precious metals and valuables. This trade imbalance has always been present, but today is caused by China's role in the global supply chain rather than by its self-sufficiency.

During the rule of the Yuan Dynasty (which was of Mongol origin) from 1271 to 1368, travel to China became easier as the areas between China and Western Asia were mostly controlled by Mongol khans. The gates of China opened to foreigners. Kublai Khan even sent his envoys to Pope Clement IV with a request for a hundred Christian missionaries to promote Christianity and Western sciences among the Mongols. The Venetian merchant Marco Polo was probably the best-known foreign visitor ever to set foot in China and Mongolia. He arrived in 1275. On his account, when the 21-year-old was led to the Khan, he offered his

services to the great Khan, who accepted, eventually rewarding the young Venetian with senior administrative posts. He spent the next twenty or so years under Kublai Khan. Marco Polo was appointed a member of the Khan's Privy Council in 1277 and for three years he was a tax inspector in Yanzhou. In his book on his epic journey, Marco Polo describes a flourishing, developed and wealthy China handed down from the late Song dynasty and yet unspoiled by Mongol rule.

Marco Polo was only the first of many Europeans who made the long trip to China. Still under the Yuan Dynasty, Pope Nicholas IV sent Giovanni da Montecorvino as a Roman legate to the Great Khan, and he was consecrated as the first archbishop of Peking in 1307. Mongol emperors, who never had an unclouded relationship with the Chinese they governed, had the habit of appointing foreigners to public office, opened China to foreign traders and allowed -- sometimes even promoted -- all kinds of strange new religions. The Yuan era was the last period of the Empire when China was not characterized by introversion. From the 15th century on, China practically sealed off its gates to the outside world.

Portuguese vessels first landed in China in 1514, followed by the Spanish in 1543 and the Dutch another five decades later. European missionaries tried for centuries to gain a foothold on Chinese soil. One of the most successful missionaries was the Italian Jesuit priest Matteo Ricci, who traveled around China disguised as a Buddhist monk before settling in Beijing in 1601. The Chinese were usually more interested in European technological innovations than spiritual dogmas (yet another Chinese trait we consider contemporary but in fact one with a very long history), and the Jesuits were happy to satisfy their curiosity. Ricci, who took the time and energy to learn about Chinese culture, introduced several technological novelties, among them the watch. (He ended up being named the patron saint of Chinese watchmakers.) Until the 19th century, Jesuits fulfilled an important cultural mission in the Chinese court, playing a vital role in the promotion of Europe's cultural, scientific and technological achievements.

Between 1500 and 1800, China had a significant impact on the modernization of Europe. From the beginning of the 16th century, there were continuous and direct relations between Europe and China. Geoffrey Hudson labeled this period "China Besieged", by which he meant

that European nations drew a cordon around China both by sea and land but were never able to conquer it⁸. In fact, European traders were restricted to a handful of ports, and although the Jesuits brought with them a superior knowledge of mathematics and astronomy, resulting in a more accurate calendar, European presence never left a lasting mark on the Chinese mentality.

The impact was much more significant the other way around: Europe was more influenced by China than vice versa. The reports of the Portuguese and Jesuits on China's achievements in standards of living, urbanization, technology and governance had a major impact on Europe at the time of the Enlightenment. Leibniz and Voltaire, two key thinkers of the Enlightenment, were greatly influenced by Confucianism and Chinese philosophy. The philosopher Leibniz praised the Chinese for their efficiency in adapting ethics and politics to practical life. Voltaire was impressed in particular by the secular nature of Confucianism and by the absence of clerical influence within government.

Some Chinese ideals were used as a basis for new theories. One example is Francois Quesnay, who in the 18th century started out from his theory on "natural order" and -- influenced by Chinese philosophy -- arrived at his economic doctrine of *laissez faire*. Others, such as Rousseau, were more critical of China. Nevertheless, China's influence on the European continent at the time is unquestionable. The import of porcelain and tea established new social customs; the cult of Chinese products bred the fashion of *chinoiserie*, which spread from the affluent to the rising middle classes. Europe's admiration for China stemmed from its perceived superiority but, by the end of the 18th century, people's enthusiasm for all things Chinese faded due to the Enlightenment, the industrial revolution and China's resistance to change.

It took several decades from the arrival of Portuguese vessels on the Chinese coast to establish serious trading links between Europe and China. In 1699, England set up a trade representation in Canton in South China, which became and remained the center of Chinese-Western trade for centuries. Despite earning a hefty profit from customs duties levied on

⁸ More on this in: Yahouda, Michael: The Sino-European encounter. In China-Europe Relations, Routledge, 2008.

goods going through the port of Canton, China tried to restrict and control foreign trade as much as it could. England, on the other hand, wanted to boost trade and gain more access to Chinese markets and ports. A British embassy sent in 1793 to the court of the Emperor was given a welcome befitting a barbarian king's envoy offering submission, their gifts were considered as "tribute," but the Emperor refused to listen to British demands. Apart from trade restrictions, Britain had another problem with China (one of the world's biggest economies those days). While the West wanted tea, silk and porcelain from China, it had little to offer in return. European merchants had to pay in silver, the only commodity the Chinese would accept. As a result, a lot of European silver was ending up in Chinese pockets. (Curiously, history repeats itself: two hundred years on, the trade balance between China and the West looks uncannily similar. The West buys what China exports. It is not accidental that China had accumulated trillions of dollars in reserves by the beginning of the 21st century.) By the 1820s, however, the flow of silver to China was reversed as Britain found a product that tickled China's fancy: opium. With contraband opium Britain could finally reverse the trade deficit and get its silver back

In fact one of the most shameful episodes in European history was Britain's illicit opium trade that the Chinese government tried to curb by confiscating and destroying large quantities of contraband opium in crackdown in 1839. In response, the British blockaded the city of Canton and the First Opium War broke out. Faced with the superior British fleet and army, China was defeated and forced to sign a treaty in 1842 which ceded Hong Kong to Great Britain and opened five key ports to British trade. With a series of treaties the colonizing powers managed to open almost a hundred Chinese ports and over thirty concession zones. Still, the West could never take full control of this vast country, let alone make it an exclusive colony of a single power. Instead, the rival colonial empires each established their own areas of interest on Chinese territory. Western powers launched another military campaign against the Chinese government, which became known as the Second Opium War (1856-60). As a result of the opium wars, China lost much of its sovereignty to foreign powers. The once great Chinese Empire was forced into semi-colonial status.

By the end of the 19th century, China was no longer a remote, mysterious land sealed off from the outside world. With the help of its merchants and missionaries the West had

penetrated the Great Wall. In the 19th century; China underwent a shock therapy of social, economic and intellectual changes and was dominated by Europeans. A series of military defeats and embarrassing treaties delivered a serious blow to China's national pride and traditional worldview. The disdain for foreigners shifted into anti-European sentiment and mass xenophobia. The most extreme example was the Boxer Rebellion of 1900. This popular uprising by the "Righteous Fists of Harmony" -- called Boxers in the West -- was a violent anti-imperialist, anti-Christian movement triggered by Western expansion into North China. The rebel leaders called for the death of all foreigners and Christians in the country. European, Japanese and US troops easily quashed the rebellion. Under the terms of the Boxer Protocol, the West exacted enormous war reparations from China and the Legation Quarters occupied by foreigners were removed from Chinese jurisdiction.

To the Chinese the Opium Wars marked the beginning of long years of humiliation and exploitation by foreigners. This is the period where we find the roots of China's mixed feelings towards the West: on the one hand, they admire the developed Western economy and technology as well as the achievements of Western civilization; on the other hand the idea of being colonized stirs animosity towards the West as a whole.⁹

In the 19th century, Europe brought extensive and rapid changes to a country that had been stable for thousands of years and whose society, economy and culture had been used to slow,

⁹ This interpretation of the past is not shared by all western scholars. As Axel Berkofsky for one puts it (*See in: Berkofsky, Axel: EU-China relations: rhetoric v. (a very different) reality. January 28, 2015. Center for Strategic and International Studies*) "more often than not the Chinese request to (unconditionally) endorse a Chinese version of history and current affairs with China as a victim of Western and Japanese imperialism during what Beijing calls the 'Century of National Humiliation' (the 100 years from the Opium Wars in the 1840s until the founding of the People's Republic in 1949). He goes on saying that "those scholars who refuse to sign up to official Chinese interpretations of the past and present of Chinese domestic and foreign policies are accused of not understanding China and its 5,000-year history. Such Chinese 'history lessons' have become a lame exercise imposed on scholars and analysts who have read and written a book or two on China." I would add that any incident of the past should not be regarded as an excuse for revenge, and ideally nor should it be taken as a source of a moral high ground. This is one of the most powerful common understandings that the EU itself is based upon.

gradual change. At the turn of the 19th century, China's agriculture, which employed 80% of the 400-million strong population, still used ancient technology and obsolete methods. As the country's population grew, the area of farmed land remained unchanged. Farming technology too was unchanged, well behind the times. Rural communities were largely self-sufficient, capable of producing little marketable surplus. These economic circumstances considerably limited urbanization and industrialization. What China was unable to do on its own, Europe did for her: the Chinese economy was in these years largely built with and therefore dominated by foreign capital. The banking system, shipping companies, railroad construction, mining, and certain industrial sectors, such as iron and steelmaking and textiles, all owed their birth to Western investment. The Chinese elite had to decide how much of the old China it could try to keep and how much of the West to accept for the sake of modernization. It remains a disputed question whether China would have been able to modernize itself without the West and whether the West fulfilled a mission by modernizing China or simply destroyed the old China.

Western ideas breached the Great Wall of China way before the Opium Wars: this process began with the translation of the Bible and other religious texts into Chinese. However, the translation of Western literature into the local language only began on a large scale in the early 19th century. At this time the Chinese elite became interested in the West, its military, industrial and technological advances, as well as its philosophy, political institutions, social structures and literature. Various schools of thought sought to copy Western models and modernize the traditional system of Confucianism. China sought to modernize itself to be able to keep up with the European invaders. But it was too late; China was unable to lift itself out of trouble. It proved too feeble and had fallen too far behind the West for such a bootstrapping act.

Europe's position in China was considerably weakened by the two world wars and reached its lowest ebb during the Cold War. With the Cold War over a reunified Europe and an ever-changing China were given a new opportunity to reshape their bilateral relations. However, a new breaking point appeared alongside the traditional geopolitical opposition: Europe and China had drifted apart ideologically in the wake of Communism's victory in China.

We have seen that throughout the 19th and 20th centuries Europe had a crucial impact on China. The key legacy of this period, which China refers to as "the century of shame and humiliation", lay not so much in the military defeats and conquests as in the psychological and intellectual spillover effects. Before, the Chinese intelligentsia had always seen conquerors as barbarians who might have been superior in military terms but whose material and intellectual inferiority to Chinese civilization was unquestionable. In the wake of its defeats in the two Opium Wars, China realized that it faced an unprecedented historic challenge. Yet, the reasons behind China's defeat were considered mainly technological; thus the solution was thought to be a better navy and improved weapons. The slogan, which held true for Mao's China and continues to hold true today, is: modernization to the greatest extent possible in order to preserve the Chinese state and culture. In other words, changes necessitated by practical challenges are only accepted as long as they do not affect the core of the system.

Mao Zedong proclaimed the People's Republic of China on 1 October 1949. The Middle Kingdom was transformed into a Communist dictatorship. Chinese policy, however, has come a long way in the last fifty years. While Stalin was a real father figure for Mao, Khrushchev was simply a distant cousin. After Mao's death, China began dismantling the ideological and economic walls built around it. During the Cold War years, between 1949 and 1989, Sino-European relations were shaped by ideological opposition as much as by the two sides' links with the superpowers. The relationship between NATO member countries and China was primarily defined by US foreign policy. Accordingly, relations are best described as icy until 1971, when US-Chinese relations were normalized (and even started improving). From that point on, Europe made advances towards China, remaining careful not to upset its sensitive links with the Soviet Union. China wished to amend ties with Europe to bypass the US embargo, and later, in the '70s and '80s, to gain access to European civilian and military technology as well as to reinforce its position vis-à-vis the Soviet Union.

From the 1970s, political and economic ties developed steadily. European countries re-established diplomatic representations in China, which pursued the policy of the "Three Worlds". In the Three Worlds theory Europe belonged to the Second World, the middle element between the two superpowers of the First World and the developing countries of the

Third World. The aim was to align Europe against the Soviet Union. But the huge political and ideological gap between China and Europe was a natural obstacle to such strategic cooperation. Later, economic reforms turned China's attention to Eastern European countries, whose new economies were more similar to its own than Western Europe's. Nonetheless, China did recognize the danger that Eastern European economic reforms and Gorbachev's *perestroika* posed to its political system. The increasingly close relations between China and Europe were cut off abruptly with the Tiananmen Square shootings in 1989. Europe was hoping that China would soon follow in the footsteps of the Soviet Union and Eastern European regimes and the Communist system would dismantle. These sweeping political changes came as a shock for China. Once again, Europe and China became estranged. But the wounds healed rapidly and relations warmed up soon. The handover of Hong Kong in 1997 and of Macau in 1999 were symbolic. While China negotiated these handovers with the UK and Portugal, trade talks were conducted with the European Union. The years that followed marked a meteoric rise in trade relations. The EU became China's number one trading partner. But the biggest leap forward was that China relaxed its ideological rigidity as it entered the mainstream of global capitalism squaring the circle and reconcile capitalism and markets with autocracy. In modern China, especially among the most dynamic social class of entrepreneurs, economic capitalism is no longer an obscene word; it is rather a model to imitate, the key to prosperity and progress.

II. European know how transfer to China and Chinese views on Europe

In the nineteenth century Europe's key cultural impact on China has probably been its influence in modernizing the Chinese state. In the 1870s and 1880s, Chinese engineers who visited Europe realized in no time that Europe's successes were not just due to technological advances but were more deeply rooted.

One returning scholar was Yan Fu, who translated the works of Montesquieu and Adam Smith, which introduced Western ideas to China and changed the way subsequent generations saw the world around them. Thomas Huxley's *Evolution and Ethics* made the theory of social Darwinism popular. Although the writings of Bakunin and Kropotkin led some Chinese towards anarchism, but the most influential streams of political thought among the elite were those of liberalism and socialism, which then made their way into the wider society through nationalism aimed at China's modernization. Until the end of World War I the teachings of liberalism dominated public thinking, but the Treaty of Versailles sent China the message that the Western powers had exchanged their liberal worldview for the policy of force. In the post-war years, socialist ideas quickly caught on as they emphasized the common good and not the individual as the key motive of restructuring society.

The teachings of socialism and Marxism gradually became more widespread in China. It had been a widely held belief that these ideologies could only become successful in a developed capitalist country, but the Bolshevik revolution demonstrated that Socialist and Marxist ideas could release enormous energies from the tyrannized classes of underdeveloped Russia. One of the founders of the Chinese Communist Party, Li Dazhao believed that since China was even less developed than Russia, its revolutionary potential was greater.

Europe influenced China in several other ways throughout modern history. China had to abandon its historic hopes of becoming a universal power and to settle for being just a state like any other, only bigger. This meant the acceptance of a Westphalia-type setup, which introduced the new concepts of sovereignty, territorial integrity and clearly defined borders.

The two key events of the post-World War II era that have left their mark on China's view of Europe were the consolidation of the Communist regime in China and the process of European integration. Following the end of the Cold War, many Chinese scholars were convinced that the globe would be dominated by one superpower and several regional powers, which would eventually lead to a multipolar world order. Studies on Europe are usually based on this presumption, therefore Chinese analysts usually first discuss whether the European Union can be considered an independent international power, in particular whether it can act independently of the United States. Independence from the USA has become China's yardstick of Europe's place in the world.

There is no such thing as an independent approach to Europe's role in today's world. Chinese analyses of Europe's place in the world often reflect their own preconceptions. Observations about Europe mostly reflect the hope that the international order is on its way towards a world in which there is not one single dominant power but several politically equal regional centers, a world with a culture characterized by diversity and an economy characterized by interdependence. Even though some Chinese authors do understand the complexity of decision-making procedures in the European Union, the difficulties of finding consensus in an enlarged Europe, and the traditionally pivotal role of the Franco-German axis, the majority of them more or less see the EU as a single actor on the global scene. At the same time Chinese are fully aware of Europe's weakness on the international political scene, which is largely due to the Union's cumbersome and non-coordinated foreign policy profile.

The Asia-Europe Foundation conducted a survey in 2006 on how the Asian media, the elite and the ordinary citizen saw the European Union. Three leading newspapers were observed for a full year for the frequency of EU-related news, their relative significance and themes. The biggest daily published about 60 pieces of news on the EU monthly, while the leading TV channel featured a dozen news items on the EU monthly in its evening news program. Most of these news items were not leading ones and were usually unaccompanied by any commentary. The researchers queried 400 ordinary Chinese citizens about their knowledge and opinion of the European Union. The majority of respondents said that China's key partner was the USA, followed by the EU, and somewhat surprisingly adding that the EU was likely to take over America's pole position at some time in the future. In links with the EU, trade and finance were considered the most important. Most respondents associated the EU with the euro and trade when asked the question: what is the first thing that comes to your mind when you hear

the term EU? There was a general consensus that the euro was the most important symbol of the European Union. The third part of the survey involved interviews with representatives of the Chinese political, economic and media elite as well as of civil society. 95% of the interviewees said that the EU was a major power, and they also agreed that the EU was one of China's key partners alongside America and Russia. The opinion of the political elite was more positive than the economic elite's: the latter gave an unequivocal answer, putting the USA as clearly the number one partner of China. However, to the question whether the euro would ever replace the dollar in international money markets as the leading currency, the economic elite gave a surprisingly open and positive answer: most respondents did not rule out the possibility of this scenario. Let us not forget though that this was before the Eurozone crisis. The opinion of the political elite differed: they believed that, due to America's political dominance, the dollar would maintain its top spot. In general terms, the EU was considered most important by the political elite and the least important by the media elite, but all four groups expected the EU to take on a more important international role in the future.

The EU became China's leading trading partner in 2004, and China is now Europe's second most important trading partner behind the United States. The total value of EU-China bilateral trade grew more than sixty-fold since 1978, and Europe has worked its way up to become China's number one supplier of technology. Germany is China's key European trade destination, absorbing a third of all Chinese exports to the continent.

To many Chinese authors Europe symbolizes the spirit of the modern age, all the more so as they see their own aspirations materialize in European policies. Chinese analysts agree that Europe is not only keen but increasingly manages to build a key international position independent of the USA since the end of the cold war. More and more Chinese academics realize that the EU not only talks about the necessity of an effective multilateral system but also puts those ideas into practice. Some believe that this European aspiration stems from Europe's postmodern foreign policy orientation and the neoliberal school of international relations. The majority of Chinese have an overly generalized and idealized view of Europe's position in the global pecking order. They understand that the EU lacks one of the key prerequisites for status as a global power – military power – which is somewhat counterbalanced by soft power and economic might. Accordingly, many Chinese scholars consider the EU as an incomplete and unbalanced pole of power. Some Chinese analysts are convinced that both Europe and China wish to strengthen economic globalization and curb

political globalization, i.e. American political and cultural hegemony. Moreover interestingly many in China believe that the Chinese economy is already more open than the often protectionist European economy.

China does not see Europe as having a global strategic vision - primarily because Europe is divided internally hindering it to speak with one voice on the international political scene. Due to these internal rifts in Europe, apart from trade policy, Sino-European relations take place at the level of the member states not only with the Union as a whole. China - known to steer clear of sensitive issues during international talks - does support Europe's soft-power policy on the surface, but in reality has always been avid for hard solutions. The failures of Europe's foreign policy in the Balkans and the Middle East have exposed the weaknesses of the soft-power approach to China too.

The one area where Europe's economic, political and symbolic unity is beyond question is the single currency, the euro. Having said that, China still has no idea whom it should negotiate with on international monetary issues. Europe's institutional representation is muddled, unlike in the United States, where there is a Treasury Secretary (finance minister) and a Chairman of the Federal Reserve (central bank governor) and that is it. According to Chinese predictions, in 30 years' time there will be three major currencies in the world: the yuan, the dollar and the euro.

China, including its intelligentsia – for several reasons - still has a rather haphazard and changeable view of the EU. In the 1970s, China saw the EU as the embodiment of the capitalist world, the state-monopoly and imperialism, a political union of Western imperialist countries. It speaks volumes about the age that, in the seventies, the Eastern European press commented on European integration in much the same way. The Chinese defined the European Union as an ally of the USA, as Washington's instrument to control Western Europe and as a political formation born out of the rivalry between the Soviet Union and the United States.

These beliefs were based on Lenin's theory of imperialism and the Maoist "three worlds" concept. Back in those days, the popular Chinese line of thinking saw three reasons for the nations of Western Europe to create a European Union. Firstly, European integration was thought to be the upshot of the unbalanced development of capitalist politics and economics.

America's power was believed to be superior but provisional, which would gradually give way to a rising France, Germany and Italy. With this predicted shift of power, the Chinese thought that the aim of uniting Western Europe was to gain progressive detachment from the USA. Secondly, the European Union (the Common Market) was regarded as a product of the competition between Western Europe and the United States. With the spread of the Soviet Union's sphere of influence and the collapse of the colonial system, the West was no longer best placed to compete for the markets of the industrialized and developing world. The Chinese were in no doubt about the objective of the six founding members of the Common Market: to secure their grip on key markets. Thirdly, the Common Market was seen as an offshoot of state-controlled monopolist imperialism. Monopolization is one of the basic features of imperialism -- Lenin tells us. The European Coal and Steel Community was the first step towards international monopolization and a logical continuation of the Italian, German and French monopolist economies' post-war development. The EU symbolized to the Chinese the highest level of European monopoly, created between private and state monopolies.

In the Maoist "Three Worlds" theory, Western Europe was America's ally but also China's potential partner for a joint fight against the Soviet Union. Intriguingly, from an intellectual point of view, in the 1960s and 1970s China had a bigger impact on Europe than vice versa. Many Western European intellectuals and the student movements of 1968 saw their own aspirations - namely their rejection of the establishment - in Mao's Cultural Revolution. This only went to show how fragmentary their knowledge of the reality of the situation in China really was. Chinese analysts reckoned that the aim of the USA was to subdue Europe by way of its economic, political and military unification. When Europeans realized what the USA's plans were, they brought into being their own Union in order to be able to counteract American and Soviet weight through economic and political unity. Nevertheless, in military terms, Europe needed America and NATO to protect it from the Soviet threat as went the Chinese version.

These rough-hewn theories were then replaced in the 1990s by a more sophisticated and better grounded view of the EU. From this point on European studies became more social science oriented in China, devoting more attention to how the EU and its policies work. Chinese academia changed its opinion and no longer believed that the European Union had been founded to counterbalance another economic or political world power. China now understood

that the main motivation behind the EU was to secure the conditions for economic development and long-term peace through regional cooperation.

China began to study Europe and the EU methodically, dissecting it from an economic, political and cultural perspective. In the late 1990s, China recognized that Western powers were still members of the same family and that globalization only drew family ties closer. Hence, the main trend of development of international relations pointed towards a multipolar world rather than towards one without any poles. In such a world order the European Union's mission would not be to simply act as one of the poles but to use its political and economic clout and become a key diplomatic player.

This Chinese fascination with European studies stems partly from the fact that they see Europe as a potential model for integration involving China and Taiwan or the Asian economies. The market economy reforms led not only to economic growth but also created new social problems in Chinese society, such as regional disparities, the growing gap between the rich and the poor, problems of public health and the mass influx of the rural population into cities. These problems generated a degree of social instability that could undermine the position of the ruling Communist regime. In response to these domestic social challenges, Chinese researchers started looking into the welfare and social security systems of European countries and into the regional policy of the European Union. It is significant that most of the Chinese scholars visiting Brussels came to study European social policy. This keen interest is attributable to the fact that China can only envisage a successful social security model with a strong state presence; therefore the Chinese are more curious about European achievements in this field than about the American model based on the idea of self-support. For some Chinese intellectuals, the model focusing on social equality and environmental friendliness instead of economic efficiency could serve as an example when implementing the long-cherished Chinese dream of "harmonious social order". Just as European thinkers such as Voltaire or Leibniz once felt that another distant society was much closer to the ideal society, some Chinese may feel that way about Europe today.

The peaceful rise of China is the number one priority of the Chinese political elite, who collect all available analogies and lessons from around the world. China has several lessons to learn from the integration of modern Europe. European countries first fostered close links with one another and then extended various forms of cooperation to more and more areas on

their way towards widening integration. The success of this process could serve as an example for the future development of an Eastern-Asian Community. On the other hand, while rising to the rank of a global actor through this process of integration, Europe was wise enough to maintain good relations with the USA within the framework of their political and military alliance. Thanks to the Atlantic alliance and their economic interdependence, the USA did not see Europe's integration as a challenge to its dominance. The Chinese often refer to the USA-EU alliance as the "Western collective hegemony", indicating the strength of trans-Atlantic ties. In parallel with its rise, the European Union commanded an increasingly important role in international institutions in the creation of which the USA had a decisive part. In fact, Europe became a major international player without becoming a competitor or challenger of the USA, and it did so by aligning itself to the international order built by the United States. As China assumes a growing role in international organizations it can rely on the EU's effective doctrine of multilateralism as a model to follow, as opposed to the USA's unilateral instincts. So a proper management of relations with neighbouring countries, key global powers and the international community is the key factor. The ongoing enlargement of the Union is seen in China as proof of the fact that the EU is an attractive club that more and more countries wish to become members of, which in turn further strengthens its international clout. The 2004 Big Bang enlargement of the European Union - the reunification of Eastern and Western Europe - confirmed that Chinese conviction. Nonetheless, some of the ramifications of this last round of EU enlargement make China somewhat anxious. Most of the new member states had been liberated from Communist rule only a decade or so earlier, and with the Soviet Union now gone and consigned to the history books China remains the only major country governed by a Communist party.

Some in Europe have the belief that Europe could become China's "tutor", introducing this vast country to the world of fundamental European values such as soft power, consensus-based foreign policy, multipolarity, a social model built on justice and solidarity or environmentally-conscious living and business. But China has a different view. No doubt that China is sincerely interested in, studies and uses the achievements of the West and of Europe, but the idea of Europe becoming China's tutor is mere fantasy. Nevertheless there is a middle ground how one can approach this issue. Continuing intensive exchange of views and structured dialogue at different levels, reinforcing institutionalized political and academic contacts to enhance the depth of Chinese knowledge about Europe's values and achievements would definitely be beneficial for both.

As Xinning Song puts it¹⁰, although the "EU is a semi-supranational and semi-intergovernmental institution and China is an authoritarian one-party state" but studying European "models", i.e.: policy solutions, and their potential implications for China's domestic development and its foreign relations is indeed important for the Chinese.

¹⁰ Song, Xinning: European 'models' and their implications to China: internal and external perspectives. *Review of International Studies*, Vol. 36. Issue 3. July 2010. Pp. 755-775.

III. EU-China relations - overview

The EU is China's most important market and technology partner. China has started to invest in infrastructure projects, the energy sector, real estate, and high-tech companies. The EU is the second most important destination for Chinese investments after Asia, surpassing even the United States. European investments in China are even much more voluminous. While trade and economic cooperation is the most important element of the EU-China relations, they cover a very broad array of domains including culture, diplomacy, security and global governance issues. The EU and China are in negotiations to establish a bilateral investment treaty which over time could pave the way to a free trade agreement. There is nevertheless more to this cooperation than economy. As Shi Zhiqin, dean of the department of international relations at Tsinghua University points out¹¹ "beyond material calculations of economic stability, the European project is an atypical project that seeks to unify former existential enemies into a *sui generis* political construction, and this is something that China endorses as it seeks a harmonious multipolar global order and a new type of great power relations."

In his 2014 paper¹² Jiang Shixue remarks that "After 40 years of development, China-Europe relations have developed into exemplary North-South relations. In 1975 China and the European Economic Community established diplomatic relations. In 1983 China and the European Community entered into full-fledged diplomatic relations. The EU-China Strategic Partnership of 2003, which has developed on the basis of the 1985 EU-China trade and cooperation agreement, has grown to include foreign affairs, security matters and international challenges such as climate change and global economy governance. The EU-China Strategic 2020 Agenda for Cooperation agreed at the EU-China Summit in 2013 is the current framework document of Sino-European relations. Already the 17th EU-China summit was held in June 2015 (these summits are normally held annually). Cooperation is based on three topical pillars: politics, economics and trade and finally people-to-people relations. Over 60

¹¹ Zhiqin, Shi: It is the 40th anniversary of China-EU relations. Where do they stand? (interview). *The Diplomat*, July 27, 2015.

¹² Jiang Shixue: How to further improve China-Europe relations. Discussion paper for the 11th Annual Conference on the Taiwan issue in China-Europe Relations, Shanghai, China, September 14-16, 2014.

regular high level and senior officials' dialogues - on foreign policy matters as well as technical topics such as industrial policy, education, customs, nuclear energy and consumer protection – underpin the three pillars. Human rights – a contagious issue for the EU-China relations are discussed as an integrated part of the EU-China relationship under their agreed 2020 Strategic Agenda - with little success. Jiang Shixue argues that the reasons of the EU being such an important partner for the EU are the following: the EU is a huge market; it has very sophisticated technologies; it is an ideal place for investment (with rule of law, legal and political stability as opposed to Africa); the EU is also helpful in making the yuan an international currency; the EU is also an important geopolitical actor; as well as a key partner for China's participation in global governance. Key factors of improvement of the EU-China relations are the following according to Jiang: to solve trade frictions, including recognizing China's market economy status by the EU; promote mutual understanding between people, institutions, the political and cultural spheres; to respect each other's bottom line interests (here obviously references are made to Tibet, Taiwan); to seek common grounds in international actions (though again by "respecting differences" – the usual Chinese caveat on cooperation) and enhance mutual trust at various levels; to enrich the content with concrete joint activities of the several cooperation frameworks.

*China's Policy Paper on the EU*¹³ adopted and published by the Chinese Foreign Ministry in 2014 states that "since the release of China's first policy paper on the European Union by the Chinese government in October 2003, the China-EU Comprehensive Strategic Partnership has made important headway. Guided by the annual China-EU Summit and focusing on the three pillars of political, economic and people-to-people exchanges, China and the EU have promoted all-dimensional, multi-tiered and wide-ranging cooperation. China is the EU's second largest trading partner. The EU has been China's top trading partner for 10 years. The annual trade volume has exceeded 550 billion US dollars and there have been over 5 million visits between the two sides each year". The Policy paper talks about two major forces, two major markets and two major civilizations, one is the cradle of the western culture the other one a key representative of the oriental culture.

¹³ China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation (2nd April, 2014)

The 2014 policy paper on the EU draws a blueprint for the China-EU cooperation for the next decade. It states that multi-polarity and economic globalization have deepened; cultural diversity and global IT usage have been enhanced; the overall strength of emerging markets and developing countries has been growing. The paper also declares that "with the significant growth of its overall strength, China is playing an important role in major international and regional affairs but China remains a developing country that suffers from severe lack of balance, coordination and sustainability in its development".

The paper states: China and the EU have far more agreement than differences and the Chinese government intends to work with the EU and its member states to implement the *China-EU 2020 Strategic Agenda for Cooperation* that has the following key facets: China-EU partnership for peace; for growth; for reform and for civilization to bring the two major civilizations in the East and West closer. Apart from a better coordination on global political and foreign policy affairs, the paper envisages an enhanced cooperation in macroeconomic policy within the G20 and in defence and security. The paper reiterates the Chinese request that the EU should lift its arms embargo and maintain tightly its one-China policy. Apart from political cooperation, the Policy Paper elaborates on the following areas of cooperation: economy and trade; urbanisation, fiscal and financial cooperation; industry, agriculture, transportation, science, technology, IT; climate, energy, environmental protection; judicial matters and finally education and culture. 2012 was declared the EU-China Year of Intercultural Dialogue. Almost 100 multilateral events, involving two or more EU Member States, were part of the Year's official calendar. A further 100 bilateral projects also took place, covering all cultural sectors as well as education, research, multilingualism and youth. The EU-China Year of Intercultural Dialogue is the second in a series of thematic years in EU-China relations. 2011 was the EU-China Year of Youth. Also in 2011, EU and China extended the scope of their cooperation by creating a 'third pillar' of their strategic partnership, through the EU-China High-Level People-to-People Dialogue. The number of Chinese students at European universities has multiplied six-fold between 2000 and 2010, reaching a total of over 120 000. The EU has provided Erasmus Mundus grants to more than 2 000 Chinese students in six years, the Chinese government has committed to provide 10 000 scholarships to Europeans who wish to study at Chinese universities.

Looking behind the optimistic official declarations and often rather vague blueprints we see a more sober reality. Axel Berkofsky argues¹⁴ that contrary to the optimistic rhetoric by both the EU and China since the adoption of the strategic partnership more than a decade ago, the reality of EU-China cooperation and the results of institutionalized bilateral exchanges, are sobering. Many of the problems and controversies covered by the bilateral dialogues have been discussed for years without progress. This is especially true for trade, investment, market access, government procurement, intellectual property rights, and other matters European business has been complaining about for years. The list of obstacles European investments in China confront is still very long. The list of achievements of actual EU-China cooperation in regional and global security is even shorter. Moreover China remains utterly nontransparent about its defense policies as well as on its regional security policy strategy in general. Sino-China relations would definitely develop much faster should the Chinese Communist Party allowed a gradual political pluralism and participation in China.

According to several authors (Jing Men¹⁵, Jeremy Garlick¹⁶, Richard Balme¹⁷, etc.) the EU-China relations cooled and the enthusiasm of the early 2000's disappeared for several reasons contrary to the obviously broad set of common interests and the intensive economic relations. But this can prove to be a temporary phenomenon. The impact of the new European Commission's policy focus on China¹⁸ and Europe's recovery from the crisis is still to be seen. But issues like intellectual copyright, China's dealings with tyrannical regimes and the state of the rule of law in China on one side, and the issue of the EU arms embargo on China, and the reluctance to grant market economy status on the other will definitely hinder relations. Shi Zhiqin argues the period from 2003 to 2005 was a golden age for China-EU relations, but after 2005, relations cooled for European fear of Chinese economic competition and because

¹⁴ Berkofsky, Axel: EU-China relations: rhetoric v. (a very different) reality. January 28, 2015. Center for Strategic and International Studies

¹⁵ Jing Men: EU-China relations: problems and promises. Jean Monnet/Robert Schuman paper Series. Vol. 8. No. 13.

¹⁶ Jeremy Garlick: A critical analysis of EU-China relations: towards improved mutual understanding. Contemporary European Studies, 1/2013.

¹⁷ Richard Balme: A European strategy towards China? The limits of integration in foreign policy making. 2008.

¹⁸ It is a recurring criticism from the Chinese side that dealing with EU institutions is cumbersome (see more on this in Garlick, 2013.).

of the "election of more assertive politicians in Europe" Like Nicolas Sarkozy and Angela Merkel, who "became more aggressive toward China."¹⁹

Lack of unity in Europe also puts a strain on Sino-EU relations. Dealing with the EU makes it slow and more complicated to reach agreements. Several Chinese scholars and politicians hold that while China would like to have more streamlined relations with the EU, the slow decision-making system makes it impossible. China has realized that the EU cannot take swift actions and Beijing started to focus on bilateral relations with individual countries. Shi Zhiqin candidly admits²⁰ that "China also benefits from the competition between EU countries, which is not optimal for EU interests".

The established Chinese view on the Euro crisis that started in 2009 is that it is a critical point in the EU's history and also that this crisis is not only economic but political as well. It is also the general Chinese view that the longevity of the euro necessitates a stronger fiscal architecture and also a closer political union. "While China has been vocal about this necessary step, it is only Europe herself and the European constituencies that can take that very crucial step for their future."²¹ China watched EU member states suffering by the specter of bankruptcy high unemployment, serious political calamities and the emergence of populist and anti-EU political parties both in EU member states and in the European Parliament. According to a 2014 article by Shi Zhiqin²², the turbulent European economic and political scene and especially the emergence of strong anti-European parties could have several unfavorable effects on the Sino-European relations from slowing down the negotiations on the China-EU investment treaty, a recourse to a Fortress Europe policy, a more prominent general anti-China sentiment, and finally the populist right's support of Putin's Russia that could

¹⁹ Sarkozy and Merkel both met with the Dalai Lama, and in 2008 after the "chaotic passing of the Olympic torch in Paris" Sino-French relations have been very tense and an anti-French sentiment developed in China. China cancelled the 2008 EU-China summit just a few days before it was supposed to take place. (*Zhiqin, Shi 2012*)

²⁰ Zhiqin, Shi: Understanding China-EU relations. Carnegie Europe, October 15, 2012.

²¹ Zhiqin, Shi: Interview. The Diplomat. July 27, 2015.

²² Zhiqin, Shi: Could the EU's Political Earthquake Affect Sino-EU Relations? Carnegie-Tsinghua Center for Global Policy. July 16, 2014.

weaken or derail EU foreign policy which in turn would further erode the EU's position as a global power. A year later it is obvious that none of these fears materialized.

In the early 2010's China has realized that Europe is its key partner. The European economic crisis made it clear how dependent the Chinese economy is on European markets. But even more importantly Chinese geopolitical analysts has started to look at the EU as the balancer in international affairs in the period of US decline and a partner during the transition towards a multipolar world order.

As for the outlook of the relationship, one may foresee a slight realignment of strength in bilateral relations (and again perceptions) as the EU recovers from its worst recession and with the possibility of a major stock exchange bust in China ahead. The Chinese economy produced the slowest year of growth in a quarter of a century. The stock-market crashed already in July 2015. China has become a source of global foreboding²³ in spite of the official Chinese interpretative ideology which is labelled the „new normal” i.e.: a lower but steady growth will be the new stable and sustainable Chinese path.²⁴

²³ See more in Economist: <http://www.economist.com/news/leaders/21660535-world-should-worry-more-about-chinas-politics-economy-party-beach#VaVdf32zO1BK5yS1.99>

²⁴ See more on this interpretation in Hu Angang's article in Foreign Affairs May/June 2015: <https://www.foreignaffairs.com/articles/china/2015-04-20/embracing-chinas-new-normal>

IV. Multilateralism - geopolitics and international cooperation

The EU is a key partner for China in building a multilateral global order, but the EU is not a suitable model to conceptualize "multilateralism" for three reasons: the EU is not a true hard power, the EU and the Chinese concepts of "multilateralism" have a significantly different meanings, and finally, the EU itself by definition has no nationalistic ambitions on the global scene. As far as China's future participation in the global order is concerned there are characteristics in present time China politics that warrant optimism as opposed to the fears of the emergence of a hostile bi- or multipolar order. Notwithstanding the fact that China is a hard power,

- *it wants to be part of the world order, its interests dictate so;*
- *it does not define itself against an enemy;*
- *it has been and is willing to embrace capitalism;*
- *it has no agenda or intention to export ideology.*

These characteristics make China's geopolitical strategy clearly distinct from the former Soviet Union. China also has a traditionalist approach to international relations, where the no interference with national sovereignty is the key bottom line which is mostly motivated by the sense of insecurity of a non-democratically elected government.

1. A new world order

Thirty years ago China's share of world trade hovered below 1% but has increased more than tenfold since. Every year since the turn of the millennium, China has provided a quarter of the international economy's annual growth. China's entering the mainstream of the global economy was symbolically completed when it became a member of the World Trade Organization (WTO) in 2001. This added 800 million workers to the international labor force. China is now the biggest market and the biggest economy in the world. The West's economy and political elite are forced to ride the shock waves caused by China's rise. Western retailers source most of their stock from China. Millions of blue-collar workers have lost their jobs in the West as production is relocated to the Far East, and China's huge untapped rural labor reserve will not run out in the coming decade. The entry of China and India into the global labor market reduced the global capital to labor ratio by 55 to 60%. This is the single most important ratio explaining the phenomenon we call globalization. The development of

Chinese capitalism is fundamentally different from the previous British or American models though, where the technological innovations of their own inventors fuelled progress. China, on the other hand, imported ready-made solutions from the more developed parts of the world. China is also becoming an international financial power. It has become the leading holder of US Treasury debt and thus is now officially the American government's largest foreign creditor. China has also accumulated the largest foreign currency reserves in the world.

In 1820, China and India combined accounted for about half of the world output, while Europe only accounted for 24% and the US only 2% (!). China only exported, the West - primarily Britain, the hegemonic power of the 19th century - imported. A huge global trade imbalance was accumulated to China's advantage and China held an incredible amount of British silver. Today's situation is surprisingly similar. In the 19th century this led to the opium wars and to the end of the once mighty Chinese empire. In 1978 China accounted for less than 1% of global GDP. What the West sees now is indeed the re-emergence of China in an incredibly fast way.

China's middle class is expanding at an unheard of speed, and its wealthy few are becoming the wealthy many. Chinese society is undergoing rapid transformation, which alters people's self-identity as well. A poll published by the Chicago Council on Global Affairs²⁵ already in 2007 indicated that the Chinese believed that, in ten years' time, their country will be just as powerful and influential in the world as the United States. At the same time the majority of Americans, Chinese, Indians and South Koreans polled were of the opinion that China would pull ahead of the US in the global race. Clearly China is no longer just an economic power but also a political force to be reckoned with, often flexing its muscles to further increase American unease.

The turn of the new millennium saw the emergence of new centers of gravity, often in the form of non-centralized conglomerates of states with large differences among them and without a single political will. The most important such center of gravity is South-East Asia, which has a growing influence on the global economy and world politics. With the boom in the Chinese economy, the slow but steady recovery of Japan's economy, the reinvigoration of

²⁵ Chicago Council on Global Affairs: World Public opinion, 2007.

the "small tigers" and the strengthening regional roles of India and Australia, South and East Asia looks set to become the key focal point of the next world order. But with that role and power comes increased responsibility, in particular for the region's leading country: China. Issues that have been considered domestic in nature -- such as setting the yuan's exchange rate, the efficient organization of the textile industry, health care reforms, better and more transparent governance or curbing corruption -- will have a direct global impact.

As Asia rises, so does the West's economic, demographic, political and military significance erode. The days of the global rules and institutions established by the West are numbered. Most Chinese researchers, politicians and even the man in the street are convinced that, things will soon be back to normal as China is becoming the world's biggest economy just as it had always been until the beginning of the 19th century. (As late as the 18th century, China was the world's largest trading nation, conducting one third of global trade, with India as runner up boasting one sixth of global trade.)

By 2015 the era of G7/G8 – in other words: the era of absolute Western domination with US hegemony - is over. The 21st century will refashion the global political order as well as the global financial world. The hegemony of the dollar -- just as of the USA -- will come to an end. International institutions need to be reformed. It is just absurd for Belgium to have greater voting weight in the International Monetary Fund than India. At the moment international organizations are functioning inefficiently and are on the decline, which is not surprising, as they are institutions of the post-war West-centered world.²⁶ We are living in an era of G20 but this seems only an interim solution. The question is what world order follows? Suggestions are plenty.

There is Robert Haass's vision of a non-polar world order²⁷, more precisely a non-polar disorder, which is inevitably unstable in the long run. G3 is more of a Chinese idea. It is a

²⁶ Zhao Kejin concludes that "today it seems that EU states are taking a case-by-case approach toward China's initiatives to constructively reform the Bretton Woods system. They tend to support reform of the international monetary order, thus accepting RMB's inclusion in the SDR, yet they are not committed to sharing governance of the old institutions, as this would limit European influence and prestige." In: China's National Security Commission. Carnegie-Tsinghua Center for Global Policy. July 14, 2015.

²⁷ Robert N. Haass: The age of non-polarity – What will follow US dominance. Foreign Affairs. May/June, 2008.

multiple variable geometry in which different G3 setups can be envisaged (China, USA, Russia; China, EU, USA; China, Japan, USA) according to the needs of and relevance to the issue in question. G2 (a Sino-American tandem)²⁸ seems for the time-being to be a weird animal to the Chinese. China has at least two problems with the G2 setup: for the time-being, it does not want to expose itself as a real global power nor wants it to be drawn too close to the US. Westad argues²⁹ that even the future of the Sino-European relationship will not be decided by China or the EU but by the US. The American strategy vi-a-vis China and the EU during the time its global leadership is tested will be the determinant factor. He claims that the future global strength of the EU is also a factor of US strategy to a great extent.

Chinese politicians and scholars treat the West's loss of influence as granted, but there are people in China who worry about the possibility of America's rapid decline. The more realistic observers in Beijing believe that America's collapse (no matter how realistic this is anyway) would have disastrous implications, because China is not yet ready to build an alternative world order. Hence the objective should be to compel the USA to show more willingness to cooperate rather than bring it down.

"The rise of China is granted by nature. In the last 2,000 years China has enjoyed superpower status several times...China's decline is a historical mistake which should be corrected" -- the political scientist Yuan Xuetong wrote³⁰ in the *Journal of Contemporary China* in 2001, the year when the image of the USA's invincibility was shattered. "Isn't it possible that China, like all rising powers of the past, including the United States, wants to reshape the international system to suit its own purposes, commensurate with its new power?" Robert Kagan asked four years later in the pages of the *Washington Post*.³¹

²⁸ In 2009, some began talking about a G2 in the model of the G7, G8 or G20 and envisioned an Obama-Hu Jintao duo deciding the fate of the world. China was abashed by that talk of a G2 and was quick to deny any speculations about a bipolar USA-China world order.

²⁹ Westad, Odd Arne: *China and Europe: opportunities or dangers?* LSE Global Policy. 2013. 03. pp. 96-100.

³⁰ Yan Xuetong: *The rise of China in the Chinese eyes*, *Journal of Contemporary China*, 2001, Vol. 10.

³¹ Kagan, Robert: *The Illusion of managing China*. *Washington Post*, 15 May 2005,.

China is preparing itself, trying to identify the weaknesses and strengths of its rivals. Its vast administration, including the army and intelligence services, is busy calculating, analyzing, generating strategies, and suggesting dos and don'ts for China's rise. Meanwhile, the Chinese economy is growing at breakneck speed and beginning to reshape the global market. Chinese foreign policy has restricted its attention to local, or at most regional affairs, but the isolationist, policy of the nineties is inappropriate in the 21st century. China is a hard power with aspirations to project more soft power globally, but the country's true geopolitical character is still in the making. China has been involved in wars or armed conflicts with almost all of its neighbors and its assertiveness especially on the South-China Sea is getting momentum³². Still Chinese political leaders seem to be uncertain at this point how to define the future role of China in the emerging world order. It is indeed a major problem for the West that it does not see where China is headed; but it is a big problem for the whole world that China itself does not know either. In the meantime China is reinforcing its global security focus. Chinese President Xi Jinping already announced the setting up of the Chinese National Security Commission (CNSC).³³ In July 2015, the Chinese government passed a new national security law that will strengthen its role in China's national security policy.³⁴ The Chinese Security Commission decided to establish high-level communication mechanisms with the US National Security Council as security issues between China and the US already affect the entire globe, and especially the Asia-Pacific region. The hotline proposed by China between the Chinese National Security Commission and the U.S. National Security Council is meant to handle emergency situations.

³² China has been developing sea capable fortresses on the Sea. The artificial islands can station Chinese military. China is also taking every measure to avoid discussing this potential issue in the International forums like ASEAN summit. See more on this in: Bhattacharya, Ipshita: China ready to gulp in South-China Sea. Modern Diplomacy, August 18, 2015.

³³ The CNSC has three major tasks.

- To advise the Politburo (which oversees the Communist Party) and the highest levels of the leadership on security strategy.
- To coordinate between different departments throughout the party, the government, the military, and society.
- To conduct crisis management and risk management, for both internal and external security threats.

³⁴ Kejin, Zhao: China's National Security Commission. Carnegie-Tsinghua Center for Global Policy. July 14, 2015.

The transformation of the international order, the end of a hegemonic system, the appearance of a new power has often brought disaster in history. The only exception to this rule was the changeover of power between the British Empire and the United States in the 20th century, but this was a special case for two reasons. Firstly, the two nations were closely related culturally (in the broadest sense); secondly, that changeover happened during global wars in which the two Anglo-Saxon powers fought side by side. The map of the world is being redrawn again at the beginning of the 21st century. In a Huntingtonian world the birth of a new world order and the emergence of new global powers inevitably lead to a crisis or a global conflict. Zakaria and Khanna, two well-known analysts of current times are less pessimistic,³⁵ they talk about a world coming to terms with a natural multipolarity by the emergence of the second and the third world.

On a historical scale, America's rise to global power status was extremely quick: on the eve of World War II the US Army was smaller than that of the Dutch but by 1944 America's military output was double that of the Axis powers. The USA climbed to the top of the world with unprecedented speed and stayed there for a short century. In 2000 the United States was the strongest power in history, whose global supremacy was uncontested. Its budget showed a healthy surplus, its military might was unparalleled, its economic clout colossal. However, since 2001 the US's global position weakened. There is a lot of discussion about the end of the US supremacy and also on why has America's global dominance come to an end and how China found its way up? One obvious explanation is the dynamics of history: it is simply impossible to stop the emergence of new powers. If a civilization, culture, country or region can improve the efficiency of its economy, if it can put human, technological and financial resources at work in a massive way, and if the external environment is favorable, it will become successful. If this happens in a big enough country, it will become a world power. Another explanation is the mistakes committed by the United States: its misguided energy policy, its immensely expensive wars have not produced any tangible results but have emptied the federal coffers, eroded America's international image and gave China the chance to build up its economy, diplomacy and military almost unnoticed by the hegemon. In the meantime the US economy has become dependent on China (and vice versa for that matter): what China

³⁵ See more in Khanna, Parag: *The second world – empires and influence in the new global order*. Random House, New York, 2008. and in: Zakaria, Fareed: *The post-American world*. W. W. Norton & Co, New York, 2008.

produced the USA bought, and as a result China now holds trillions of dollars in US government bonds. The arrival of the turning point has been accelerated by the profound demographic and economic changes, the pace of globalization, 9/11, America's military failures and the economic crisis. As the Japanese prime minister said at the end of an international summit in late 2008: "History teaches us that crises create new order." The shift of geopolitical power towards Asia coincides with the end of a golden age of the West, which brought rapid growth, low inflation and considerable improvements in the standard of living, as well as with an economic crisis unseen in 60 years.

The American intelligence community³⁶ predicted a fundamental reshuffle of the world as we know it in the next few decades already a decade ago. The international order, as it was created in the wake of World War II, will be unrecognizable by 2025 -- they say, adding that the pace at which wealth and political power will move from West to East is unprecedented in modern history. The world will become ever more dangerous, but richer at the same time, which does not mean that the majority of the Earth's population will not face food and water shortages. Today's oil powers may become tomorrow's beggars, while developing countries and regions that build their economies on hard work will see stunning growth. The rise of the non-Western world, which began in the 1950s with Japan and continued in the '60s with the Asian tigers, became a full-blown trend with the emergence of China, India and Brazil and will continue for decades.

It remains to be seen whether China's rise will happen peacefully in the long run. The West is instinctively wary of geopolitical changes and knows also that dictatorships do not last long. Still, China needs peace in the world to be able to strengthen its economy, annex Taiwan at some stage and build an international order in which Asia and China play a central role. For the time being, China is not aiming at global hegemony or confrontation. Since the mid-nineties, China has been claiming to be a responsible, peaceful and cooperative partner of the West. A confrontation with America is unlikely to pay any dividends and is therefore not a realistic option. However it is encoded into Chinese culture that everything must have a counterbalance. A power without a counterbalance is unnatural and dangerous. Power must be balanced internationally without encroaching upon the independence or sovereignty of nation states. After the collapse of the Soviet Union the Chinese hoped that the Cold War era would

³⁶ According to the Global Trends 2025 report.

be replaced by a multipolar world order, and were disappointed to see the dawn of total American hegemony. China was shocked by the US intervention in Kosovo in 1999; bilateral relations were all but frozen, and China was afraid that the USA would use Taiwan and Japan to keep China at bay. This was the general view held by Chinese politicians and defense analysts at the turn of the millenium. But the world has changed immensely since then. Niall Ferguson talked about the end of Chimerica³⁷ - a marriage between the US and China in a completely intertwined economy where America consumes and China produces, China lends, America borrows, China exports, America imports. This cooperation was obviously a pretty problematic one therefore did not last for long. Both USA and China maintain strong suspicions of each other's intentions. Accordingly, both sides are hedging their bets and securing their positions should relations deteriorate. As long as the question of Taiwan is not resolved peacefully and definitively, hostility between China and the USA remains a realistic risk. Nonetheless, as long as the USA does not pose a threat to its vital national interests, China is willing to tolerate the current global framework but with an ever-growing determination to gradually change it from inside.

According to Kissinger, the United States must be aware of its supremacy but act as if global security depended on all global actors. This strategy can divide the psychological burden of responsibility and will allow the principles of freedom and democracy to dominate international politics. In other words: share power to hold on to power. Kissinger believes that China, with four thousand years of history behind it, must know something about survival, hence the West should avoid being condescending. Kissinger is convinced that China's rise will be the greatest challenge to the West as well as to China itself. Its political mentality, institutional culture and traditions do not predestine the US to accept easily the loss of its status as the world's number one power and become one of many global actors. Also, for the US multilateralism has a different meaning and importance than to European countries and the EU. For America multilateralism is the means of achieving its end of a stable world order with the USA as *the* leading power. For Europe multilateralism is the end itself.

Having said all this, in 2015 US's global military superiority is still beyond question. The US Navy commands a fleet bigger than the next 50 largest fleets together; America spends over a

³⁷ Ferguson, Niall - Schularick, Moritz: "Chimerica and global asset markets". 2007. and "The end of Chimerica". 2009. Harvard Business School. Working Paper 10-037.

billion dollars a day on defense. The US economy is world leader not only in term of output but also in the use of cutting-edge technology. America's intellectual and cultural impact -- from Harvard through Hollywood to McDonald's -- is the biggest soft power in the world. Not to mention the fact that the USA is not a status quo power, America is not afraid of change. Apart from its unwavering faith in democracy and in its own specialness, its embrace of change is one of its key distinguishing features.³⁸

The rise and reinforced international profile of China and Asia poses some inconvenient but crucial questions for the West. As Asia rises and Europe stagnates, an overhaul of international organizations naturally seems inevitable, however difficult that may be. The French president suggested that India should be given a permanent seat on the UN Security Council, but when the possibility of the EU being given a single seat on the Security Council (instead of the two currently held by France and the United Kingdom), he called it very unlikely that the EU -- which has trouble agreeing on much less contentious issues -- could find consensus on such a sensitive and crucial question.

What guaranteed the prosperity of the West, apart from its military might, was that the world order that emerged in the wake of World War II was shaped by Western ideas, rules and values. Global politics undergo seismic shifts the global order is realigned and the global value set might also be rearranged to a certain extent. This latter is much less talked about but equally important – in the long run, certainly. We are witnessing not only the competition of economies and military capabilities but of values as well. And what we experience is a new phenomenon: the rise of alternative values and institutions in the world in parallel with a certain level of democracy fatigue even in the West.

³⁸ A small note: things in the balance of the international order can change unnoticed and sometimes scholars and politicians got carried away by perceptions of visible trends while obviously disregarding the ones less obvious. One good example is the surprise at the collapse of the Soviet Union. In his book (*My Country, My People*) published in the US in 1935 Lin Yutang described China as a tired old man (in comparison with the dynamic, youthful West.) Some seventy years later my book on the future of Europe bore the subtitle: "The Old Lady and the Bull" (a reference to ancient Greek mythology) describing Europe as an old lady instead of the young girl who she used to be when she had been taken by Zeus disguised as a bull. Probably both of us were right at a certain moment in time, but the lifespan of truths in geopolitics seems to get shorter and shorter.

In parallel with the global power reshuffle new social models are appearing. These new societal models are not hybrids combining elements of Western society. They tend to be forms of state capitalism or non-liberal (pseudo) democracies, where elections are held regularly but a populist elite rules the country nonetheless. Many developing countries go through this stage in their development; the question is whether they will be able to move on and turn themselves into real democracies. At the same time Western liberal democracy shows signs of ageing and becoming rickety as cowardly political elites motivated only by polls discredit democracy altogether. Postmodern politics is drifting towards dim-witted media politics.

Does China's rise really mean that the universal expansion of the Western world and of liberal democracy have come to a halt? When China broke with dogmatic communism and opened itself up to the world, it spent three decades adopting Western principles, particularly in the areas of foreign and economic policy. China is opening a new chapter: it wants to create a new model of its own, which can become an alternative to the Western model and will surely be popular in all countries that have a dislike for the American dominated Western world order. When the "Chinese model" crystallizes it can offer the developing world (Africa, Latin America and the Middle East) an alternative to the Western liberal model. The new China does not only rebuff the West-dominated present, it also rejects eurocentric historiography and the eurocentric worldview as false and distorted, because -- it claims -- these advocate the global supremacy of Greco-Roman culture and underplay the world's oldest culture (i.e. that of China).

The fact that autocracy and state capitalism seem to prevail and flourish in the biggest country in the world is a powerful signal for many countries. There are speculations that the global system might soon have a viable Third Way (as opposed to the Western and the clear cut third world dictatorship models) which could be a desirable option for many Asian and African countries in the 21st century. It is not a certainty though. But if democracy is challenged by a strong and vivid alternative model on the global scale, remilitarization and old-school power politics could come back into fashion. China will have a responsibility as regards how to tackle these developments and their consequences in the long run.

Francis Fukuyama asks³⁹ in 2010 whether liberal democratic principles are really universal or have been revealed not to be. His answer is that they are universal - but this is not as sure as it was a decade ago. He asks what the democratic world can do with Putin's transformation of Russia into an "electoral authoritarian" state, the undermining of democratic institutions by Hugo Chavez in Venezuela, and the rise of China as a successful authoritarian modernizer. Are these systems true and viable alternatives of old-fashioned democracy? They are most probably not in the long run, but liberal democracy is not the only alternative to all-out dictatorship in worldwide politics anymore. As he puts it: "The next phase of global history will be a challenging one, as America and Europe stumble to get back their economic balance. It seems doubtful that either the US or Britain will achieve the degree of growth in the next generation that they did in the previous one. But one of the great advantages of democracy is that it does not depend for its legitimacy on continuing high levels of economic growth, as the Chinese system does. As we move forward, it is important to keep in mind the simple power of the idea of a government by, for, and of the people. We need to match those high ideals with unglamorous but steady investments in institution-building if liberal democracy is to deliver on its promises."

Robert Kagan says that ideology still matters in geopolitics, and one should add perception as well to ideology. China's strength comes partly from the fact that the world sees it as strong, the future great power. At the same time, part of America's weakness stems from the fact that it sees itself as a declining power⁴⁰. A change in these perceptions could cause significant shifts in times of uncertainty and global transition. Is China potentially an even bigger a power than we imagine or - as Ari Van Assche puts it – does the West only make a dragon out of a dragonfly⁴¹?

China is changing geopolitics, surely. Is China going to change the rules of the game? It is doubtful, but this is still a puzzle to the Chinese themselves. China might as well be much less powerful as it seems, based on a shaky "Leninist corporatism" whose development is

³⁹ Is the Age of Democracy Over? Spectator. February 10, 2010.

⁴⁰ An example: According to a 2009 survey by Penn, Schoen and Berland Associates, 81% of Chinese think the USA will stay ahead of China in innovation, while 41% of Americans think so. (in Newsweek, 28 November 2009.)

⁴¹ Van Assche, Ari: Are We Making a Dragon out of a Dragonfly? – Understanding China's Role in Global Production Networks. Burgundy Report, CIRANO Network, 2009RB – 03. January 2009.

completely based on stealing know-how and institutions from the West as Will Hutton points out.⁴² But there is a high probability that reality will prove otherwise.

2. Multipolarity and multilateralism⁴³

The international order can be stable if it is led by one hegemonic power/civilization, which writes the rulebook of the new world order and ensures the enforcement of these rules, by force if need be, provided the rest of the world cannot object it in a forceful way. There have been such world orders: *Pax Romana* (during the Roman Empire), *Pax Britannica* (the British Empire in the 19th century) and *Pax Americana* (in the 20th century), which united the West against the Soviet Union. Without a single hegemonic power, the rules of the game would be very different. In this case the balance of power will have to be maintained by international rules adopted together by approximately equally strong powers (multilateral order). Without a universally recognized and stable global rulebook and institutions, the world will live in constant instability and will be prone to drift into anarchy.

Multipolarity is a doubtful solution; it would require a constant balancing act from all the leading powers (unless international institutions with real power evolve and eventually a multilateralist order emerges). That will not be an easy feat to achieve since China prefers traditional intergovernmental cooperation and does not tolerate international institutions or other powers to interfere with its national sovereignty. European foreign policy strategists favoring harmonious multilateralism believe that the West must accept China's moderate foreign policy and back the gradual modernization process of the Chinese society. India must be integrated into the world of cooperative multilateralism and must be prevented from being caught up in the world of traditional power politics.⁴⁴

One theoretical option is the return of a bipolar world order: the dominance of two competing -- and probably antagonistic -- superpowers. The potential challenger to the USA is China.

⁴² Hutton, Will: *The Writing on the Wall: Why We Must Embrace China as a Partner or Face it as an Enemy*. Free Press/Little, Brown.

⁴³ According to the established IR terminology multipolarity is a structural-descriptive measurement word for a global order where several centers of power exist, multilateralism is a coordinated way of operating the international system. Nevertheless the use of these terms are not entirely precise especially in the political discourse.

⁴⁴ Western relations with Russia have already deteriorated to a point that was unprecedented since the cold war.

Another theoretical alternative is the already mentioned non-polar world of Richard Haass, (ex-president of the Council on Foreign Relations). In this world there are no poles of power, or rather it has dozens, but not all are national - some are supranational, regional, economic, religious or even terrorist organizations. In a world like that, where there is no coordination, it is impossible to provide common answers to global developments, and the world would be heading rapidly towards anarchy.

“Unsolved territorial issues, sporadic irredentism, conventional armament, nuclear ambitions, conflicts over exploitation of and access to the marine biota, other natural resources including fresh water access and supply are posing enormous stress on external security, safety and stability in Asia. Additional stress comes from the newly emerging environmental concerns, that are representing nearly absolute security threats, not only to the tiny Pacific nation of Tuvalu, but also to the Maldives, Bangladesh, Cambodia, parts of Thailand, of Indonesia, of Kazakhstan and of the Philippines, etc. All this combined with uneven economic and demographic dynamics of the continent are portraying Asia as a real powder keg.” – writes prof. Anis H. Bajrektarevic on Asia in his luminary policy proposal.⁴⁵

The consensus view is that China's optimal choice is a multipolar world. In the 1980's China's interest in economic multilateralism had its origin in political considerations instead of economic costs and benefits and partly related to its desire to end its diplomatic isolation after the Tiananmen Square episode. A quarter of a century later China needs to play a significant role in global economic governance. As a global economic power, with vast economic interests abroad, China is increasingly facing the same problems as other global players. China has already started to think globally and by the end of the first decade of the new millenium multilateralism has become an essential part of China's international policy. China has started to apply much pragmatism in its attitude toward global multilateral institutions. As Li Mingjing puts it⁴⁶, the main reasons why Beijing has embraced a more multilateral approach is because it believes that multilateral diplomacy is a powerful instrument to counter unipolarity and oppose the US. New Chinese concepts and actions can undermine the moral ground of US unilateralism. Expanding its multilateral activities also helps China to shape the emerging multilateral world according to its taste. Moreover a multilateral approach could help diminish the 'China threat' thesis and build a 'responsible power' image for China in the

⁴⁵ Anis H. Bajrektarevic: No Asian century without the pan-Asian Institution, Addleton New York, GHIR.

⁴⁶ Li Mingjiang: Chinese multilateralism: implications for Sino-US relations, East Asia Forum 27 April 2011.

world. Multilateral diplomacy also provides new platforms for international cooperation, especially in the East Asian region, again to facilitate Chinese interests.

During the financial crisis which hit the West most, China hoped that by the rearrangement of global strength the post-crisis global order would be less Western. These hopes were fulfilled to some extent and many in China think that the 'recent financial crisis marks a decline in the West's influence over global multilateralism — providing an opportunity for China to play a bigger role in international institutions.'⁴⁷ But there are certain strong constraints on China becoming a leading power in global multilateralism, such as China's own recognition of the still dominant role of the Western countries, the actual dominating global influence of US, but also other emerging powers' strife against China's international influence, and finally China's reluctance to take international responsibilities. It is therefore highly unlikely that China will overhaul, or even dramatically reshape, the multilateral architecture at the global level.

Li Mingjing is probably right saying that China will do what it has done in East Asian regional multilateralism in the past decade: "participating, engaging and pushing for cooperation in areas that would serve Chinese interests", without taking excessive responsibilities, blocking initiatives that are harmful to its interests, and refraining from proposing any grand visions, as the Chinese global multilateralism is pragmatic and lacks the urge to show a path to follow for the rest of the world like the US did. China therefore will continue rising from within the existing international order. But unlike the earlier struggle for UN and WTO membership, China has significantly increased its capacity to initiate multilateral institutions in which it has not only an equal, but a major role. These institutions nevertheless do not compare with the importance of the ones established by the West, but the new multilateral partnerships (Shanghai Cooperation Organization (SCO), Forum on China-Africa Cooperation, BRICS) are the stepping stones of the alternative order in which China plays a critical role. China is setting up alternatives to existing multilateral institutions without

⁴⁷ Ibid.

US participation.⁴⁸ The Shanghai Cooperation Organization is dominated by micro-agendas consequently it has failed to become a driver of globalization. China's main position within Central Asia is economic, though certain security issues also exist. China is extremely interested in Central Asia for energy supply. At the same time "issues of ethnic unrest in Xinjiang, China's western border, make cooperation and mutual understanding with Central Asia strategically advantageous" for China. "Thus Central Asia acts as a dual purpose economic-security bridge for China: a bulwark against Uighur and pan-Turkic nationalism/separatism and an energy hub for importing oil and gas."⁴⁹

In early 2015 the United Kingdom, Germany, France, and Italy joined more than 30 other countries as founding members of the Asian Infrastructure Investment Bank (AIIB). The USD 50 billion AIIB, launched by China, intends to meet Asia's enormous infrastructure needs, which are well beyond the capacity of today's institutional arrangements to finance. The European countries' decision to join in provoked American anger and the United States put pressure on countries to stay away - with little success. According to Shi Zhiqin⁵⁰ the AIIB issue reflects exactly a "security asymmetry" because the EU does not face a security competition with China. The EU members' states trust China more and are willing to cooperate on development initiatives. What we see is that China's initiative to multilateralize the financial system replicates American policy after World War II. Joseph Stieglitz argues⁵¹

⁴⁸ The Chinese-led NDB and Asian Infrastructure Investment Bank (AIIB), and the United States-led Trans-Pacific Partnership (TPP) are examples of both governments setting rules for new multilateral regimes without consulting the other nation.

⁴⁹ Crosston, Matthew: The Pluto of international organizations: The evolution of the SCO. *Modern Diplomacy*, August 13, 2015.

⁵⁰ Zhiqin, Shi: It is the 40th anniversary of China-EU relations. Where do they stand? (interview). *The Diplomat*, July 27, 2015.

⁵¹ Stieglitz, Joseph E.: Asia's Multilateralism, *Project Syndicate*, April 13, 2015.

that attempts to multilateralize flows of assistance (including the BRICS countries' launch of the New Development Bank in 2014) are likely to contribute to global development.⁵²

China sees BRICS as a multilateral platform to render the current international system to better reflect the increased power and interests of emerging economies. After the failure of the IMF reforms in 2010, the BRICS announced plans to build its own counterparts of the Bretton Woods institutions: the \$100 billion New Development Bank (NDB) and a \$100 billion crisis lending fund, called the Contingent Reserve Arrangement (CRA). Both are complementary to the Bretton Woods institutions, but focus on the needs of developing countries, prioritizing infrastructure and sustainable development projects.⁵³ The much promoted New Silk Road initiative is yet another robust example of Chinese politics going global.

China does not only reinforce its multilateralist efforts in the economic field but also in the security area. Apart from the Shanghai Cooperation (institutionalized in 2001) for military confidence building between China, Russia and Central Asian states, Chinese armed forces have engaged in joint international exercises with other Asian countries as well and agreed to giving a security dimension to the ASEAN Regional Forum as well.⁵⁴

China's relations with Japan and India are fraught with tension. Asia does not have a single hegemon yet, but soon it will have one, a key actor of Asian integration or disintegration. Asian countries are getting their act together, they are preparing for a future dominated by China, whose natural objective is to secure regional dominance. Japan and Australia entered into a security pact in 2007. On the initiative of Japan, India and Australia, a Pan-Asian alliance is being formed to create -- in the words of the Japanese premier -- a "new Asian order". Such embryonic organizations are the upshot of other actors in the region positioning themselves against China, as their efforts to establish a Western-type area of democracy and

⁵² Stiglitz also remarks that America's opposition to the AIIB is not unprecedented. The US also opposed Japan's New Miyazawa Initiative of the late 1990s, during the East Asian crisis. "Then, as now, it was not as if the US were offering an alternative source of funding. It simply wanted hegemony. In an increasingly multipolar world, it wanted to remain the G-1."

⁵³ Niu, Haibin – White, Nicole: New Wave of China's Multilateral Diplomacy. Cogit Asia, July 29, 2014.

⁵⁴ More on this in: Gill, Bates: China's new security multilateralism and its implications for the Asia-Pacific region. SIPRI Yearbook, Stockholm, 2004.

peace demonstrate. Democracy could be the one organizing principle capable of uniting a culturally heterogeneous Asian continent and serving as an excuse for self-defense integration against China. At the same time as mentioned previously, China, together with Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, has established the Shanghai Cooperation Organization which unites one-quarter of the global population and two nuclear powers.

China continues to extend its influence in South and East Asia, replacing the United States as the key trading partner of many countries in the region. The view remains strong in the USA that Chinese expansion happens to the detriment of America. The USA's continued military presence in the region and the inclusion of Japan and India in the US security network is supposed to serve the purpose of preventing China from becoming a real rival, a potent challenger. One of the main challenges is the absence of a third party capable of mediating between Beijing and Washington, and therefore the two sides must redefine the limits of the other's room for maneuver and mutually accept each other's presence.

Joel Wuthnow, Xin Li and Lingling Qi assessed the possible multilateralist strategies for China.⁵⁵ They found that four distinct types of multilateral diplomatic strategies are available for the Chinese government: watching, engaging, circumventing and shaping. Having examined several cases of Chinese actions on the global or international level in the economic and security domains they argue that China's multilateralism is a diverse phenomenon and for the time being cannot be „characterized as either status-quo or revisionist in nature.” A clear pattern emerges though: China is getting more and more engaging but with an „assertive tact” which goes parallel with Chinese interests becoming more entangled with the international system and its institutions.

It is clear that China is a force to be reckoned with, which also entails responsibilities for it. It no longer has the luxury of letting others take global decisions, often with implications for China itself. China has made a major advance to become a key actor in the global economy, but still has a long way to go before it can claim an equally prominent role in international politics. The latter can be achieved in more ways than one: a global power can impose its will

⁵⁵Wuthnow, Joel – Xi Lin - Lingling Qi: Diverse Multilateralism: Four Strategies in China's Multilateral Diplomacy. Journal of Chinese Political Science, 20 July, 2012.

upon others, or it can build alliances with countries that share its values and aspirations, or it can use international institutions to forge compromises that are acceptable to the greatest number of stakeholders. China's first focus is the economic and strategic integration of South and East Asia or, at the very least, to strengthen regional integration. This would serve the interests of the region and reinforce China's international standing too. The next challenge is to find its place in the global order; a place that is beneficial -- or at least acceptable -- to both China and the rest of the world.

As China is getting more and more self-assured, it would be ill-advised to think that the West needs China more than the other way round. This could prove to be a serious mistake in the long run. The Asian century is a narrative which is *à la mode* these days; it goes hand in hand with the paranoia about the fall of the West. It is true that the relative weight of the West is going to decline, and it is only natural. Nevertheless China has immense challenges ahead such as the problems posed by its social and regional disparities. These challenges may well prove to be too much to handle easily. It is therefore not the power of China that will alter the world the most: it is its weakness that could have a huge and certainly negative global impact. A successful and peaceful China's impact on the global order probably would be much less significant than that of a failing one.

3. EU as a partner and as model

The EU and its member states see China's rise mostly as an economic opportunity as well as an economic challenge. To the US, China is a major geopolitical challenge, a rival that could potentially break American global hegemony. Understandably, with no imminent geopolitical risk involved, Europe is more inclined to believe that China will be a cooperative member of the post-American new world order. Unlike the US, European countries do not have a military presence in the region and while there are obvious frictions (trade issues, industrial property rights, human rights, arms embargo and the market economy status of China) there are no unbridgeable differences between Beijing and Brussels concerning their views on the international order of the future. European countries support the "one China" principle. Economic and trade interests complement each other and the European Commission strikes a fundamentally positive note about China's emergence as a global power.

As said earlier the mainstream Chinese view on the possible versions of a new world order is that it will and should be a multipolar one simply because China's interests are best served by it, displacing American hegemony, boosting China's global role and influence and dismissing the global fear of China's rise. Chinese and European interests partly overlap, but there are major differences in their geopolitical situation: China is not part of the Western world or its security alliance but it has the potential to become a challenger of the USA geopolitically. Neither of those statements is true for Europe.

It is in the common interest of China and Europe, as well as a precondition for the creation of a multipolar world, that they narrow the gap between them.⁵⁶ Rapprochement between powers has been a key driver of peaceful development. Bridging the historic divide between Germany and France was a long and arduous task, but it was a *sine qua non* of European integration. Ideally this should serve as a model for East-Asia, but post-war East Asia is not like western-Europe: there is no NATO or EU to bind former enemies together. East Asia is much less stable: a mix of countries with very different levels of development, some democratic, some authoritarian. There is no agreement on common values or sometimes even on borders. The Korean peninsula, China-Japan relations and Taiwan continue to be potential flashpoints. How these will be solved obviously depends largely on China. Should the Chinese government look for a successful historical experience, the EU is certainly one to examine.

Chinese scholars hold – as explains Song Xinnig – that the EU's successful rise was made possible because the EU handled the three most important geopolitical relationships wisely, namely its relations with its neighboring countries, its relations with the dominant power (US), and its relations with international institutions. Therefore the EU's strategy should provide a good example for China.⁵⁷ As China assumes an increasingly prominent role in global affairs, it becomes more important to find a reliable international partner. That is one of the reasons why the European Union has become an important partner of China, despite all the incomprehension and numerous reservations in foreign policy. Chinese reforms and the policy of opening up to the outside world required an economically viable and politically

⁵⁶ This applies to the level of knowledge on the other party which is still very shallow especially as regards Chinese knowledge and understanding of Europe and especially the EU. As several authors argue (see for one *Odd Arne Westad (2013)*) much more intensive contacts between policymakers and scholars are needed to close the knowledge and cultural gap.

⁵⁷ Xinning Song: European 'models' and their implications to China: internal and external perspectives. *Review of International Studies*, Vol. 36. Issue 3. July 2010. pp. 755-775.

reliable partner. This directed China's attention to Europe, which ticked all the right boxes. Undoubtedly, Europe has the economic might as well as the political stability to fit the bill perfectly even in the light of the recent economic crisis which proved to be the gravest in the history of the EU. Chinese officials use expressions to describe EU-China relations such as: "stable political foundations and strong mutual trust"; "key economic partners with huge opportunities"; "growing consensus on key global and regional issues"; "resolving differences of opinion through dialogue" -- to pick a few representative examples of the political statements and diplomatic courtesies issued.

However Chinese diplomatic moves often run in the face of Western principles and interests, and have got China into trouble both with the EU and the USA. China has violated basic international principles by adopting a dissident position towards Iran, Sudan, Zimbabwe and Venezuela, and has frequently acted as the defender of the third world in a non-constructive manner, to give just a few examples. There are indeed several obstacles to the EU-China partnership becoming a true community of values: differing approaches to human rights, the issues of Tibet and Taiwan, violations of intellectual property rights and China's status as a market economy. China's political system and inclination for dictatorship are equally problematic. But the greatest test of Sino-European relations is to overcome the differences in political culture so deeply rooted in history.

Europe's interests are also best served by a stable multipolar world, in which China is a considerably reliable partner. But even if China and the European Union share the interest in a multipolar power arrangement which makes them potential natural partners, their relationship obviously cannot and will not be based on the Chinese hidden agenda of breaking America's hegemony. China may need Europe to help loosen America's grip on global dominance but it should not have false hopes: it will never have Europe by its side against the United States. As Shi Zhiqin puts it:⁵⁸ "the relationship between the EU and the United States remains strong, as the US is the only major state that significantly supports European security through NATO. The security interdependence between the U.S. and the EU has become even more important today after the Ukrainian crisis and the disputes with Russia."

⁵⁸ Zhiqin, Shi: It is the 40th anniversary of China-EU relations. Where do they stand? (interview). *The Diplomat*, July 27, 2015. (Shi Zhiqin is dean of the department of international relations at Tsinghua University.)

Even though the Chinese talk a lot about multipolarity, they see the world at present as fundamentally a bipolar one. The only international hard actor that matters to China is the USA. Europe is neither a counterweight, nor an alternative in geopolitics. Naturally, China welcomes any step that Europe takes away from the US position. There are several examples of this, the most important one being the status of Taiwan. China regularly reiterates its demand that on Taiwan Europe will never follow the US, and will stick to its one-China policy. Pursuing a multipolar policy is therefore useful to China even to prevent the US from extending or upholding its sphere of influence to the Asia-pacific region.

For several reasons it is rather difficult to build a real community of interests between Europe and China. First, though, the two sides should understand what they mean by multipolarity. Can postmodern Europe live with China's geopolitical definition, which uses Westphalian principles of balance of power, sovereignty and national security? For several reasons that will be explained below, Europe should not daydream about a breakthrough success in showing the example to China on multipolarity and global responsibility. This does not entail that Europe cannot be a key partner for China, but rules and principles governing the international order will probably not be imported from the old continent.

There are three major barriers for the EU to serve as a credible model for China in pursuing multilateral geopolitics. The first is that the European concept of multilateralism differs from the Chinese idea of multipolarity. The second is that multilateralism (or rather a multipolar geopolitical strategy) for China serves nationalistic objectives which by definition cannot be the case for the EU. The third reason is the EU's fragmented diplomatic and geopolitical profile which lacks the convincing edge.

David A. Scott⁵⁹ has a point arguing that although China and the EU use the term multipolarity and multilateralism in their diplomatic rhetoric, they do not mean the same concept by these words. Moreover the EU puts the emphasis on multilateralism, while China clearly cherishes multipolarity. In a speech the then foreign policy commissioner of the European Commission, Benita Ferrero-Waldner stated in 2005 that many in China talk about building a multipolar world, „for the EU however, it is not the number of poles which counts,

⁵⁹ Scott, David A.: Multipolarity, Multilateralism and Beyond...? EU-China Understanding of the International System. *International relations* 2013. 27(1) pp. 30-51

but rather the basis on which they operate. Our vision is a world governed by rules created and monitored by multilateral institutions.”⁶⁰ This could not have been made any clearer. China wants a global order in which the powers of independent nation states are balanced, so unipolarity is not possible, while the EU wants a coordinated system, where nation states cede and pool a certain amount of sovereignty and accept to be governed by common rules and coordinate their policies via strong international institutions. This is in fact what the EU has done over the last sixty years in Europe. Scott also argues that globalisation and the general erosion of the concept of nation state in the longer run plays against the hard interpretation of global affairs by China and makes the EU interpretation more reasonable. There seems to emerge an understanding and acceptance of this even in the Chinese academic and political circles as well which demonstrates that to take the EU as a model for multilateral geopolitics is not that outlandish any more.

As Christopher R. Hughes and Michael Leifer⁶¹ argue, nationalism has an important influence on China’s foreign policy, and multilateralism is an effective tool to support its nationalist interest of becoming a regional power and at the same time it helps avoid the confrontation with the US or regional powers such as Japan. Moreover as opposed to the EU, the Chinese type of multilateralism is based on the precedence of national sovereignty and therefore its capacity for geopolitical compromises is significantly weaker (see the Taiwan or the South China Sea disputes). Another facet of the nationalistic trait of the Chinese version of multilateralism is that it is shaped to a great extent to enhance and reinforce the role of ethnic Chinese in the South-East region.⁶²

The other major issue with the EU’s potential to become an international geopolitical model is that Europe hardly ever appears on the international scene as a uniform political actor. The European Union is an undisputed economic powerhouse, but in foreign policy and military terms it punches way under its weight. The EU is the world’s biggest economy; both its GDP and its share of world trade are bigger than that of the USA, and Europe is also the world’s number one trader. The United Kingdom and France are permanent members of the UN Security Council and both have nuclear weapons. But the EU due to lack of coordination of

⁶⁰ B. Ferrero-Waldner. Speech 2005. In: David A Scott (2003). p. 42.

⁶¹ Leifer, Michael (ed.): Asian nationalism. Routledge, 2000.

⁶² Hughes, Christopher R.: Nationalism and Multilateralism in Chinese Foreign Policy: Implications for Southeast Asia. *The pacific review*. 18 (1) pp. 119-135. "005.

policies has a humble global foreign policy and security role as compared to the US. The EU – even after the Lisbon treaty's reforms - still does not speak with a single voice, it still does not have a truly common foreign policy and the political union is still not a reality. "European foreign policy" is an obscure, complicated, multi-tier system. The general rule of unanimity in the field of CSFP decision making renders the EU slow and ineffective.

The evolution of a "common" European foreign policy has been a painfully slow process: the so-called European Political Cooperation (a synonym for consultations between foreign ministries) was only superseded by foreign policy coordination -- misleadingly labeled the common foreign and security policy -- a quarter of a century later. European defense cooperation is in an embryonic stage. Europe's total defense spending is about half of the USA's 350 billion (per year), but the main reason behind its military weakness is the fragmentation of its national armies. The number of American soldiers readily deployable overseas nears half a million, compared with less than a hundred thousand in the EU.

As we know from the American neoconservative Robert Kagan, Americans are from Mars and Europeans are from Venus. Another piece of terminology, which no article or book about foreign policy fails to mention is soft power and hard power.⁶³ The term soft power was coined by the neoliberal political scientist Joseph Nye in 1990. In international affairs, soft power denotes the ability to obtain what you want through non-violent means, by persuading the other party (country or region) through diplomatic, economic or cultural relations to adopt your values or models. The popular theory, which has inspired innumerable publications, goes on to identify America with hard power and Europe with soft power.⁶⁴ Europe is as this opinion goes a soft power that represents and disseminates its values and intends to protect universal human rights. The latest crisis situations (in Ukraine and in the Southern Mediterranean areas) showed that the EU is still not a real global player and without effective tools has limited influence on situations that create serious security challenges and threats

⁶³ Nye, Joseph S: *Soft Power: The Means to Success in World Politics* . New York: Public Affairs, 2004; Ian Manners: "Normative Power Europe: A Contradiction in Terms?," *Journal of Common Market Studies*. 40, no. 2, 2002, pp. 235–58.

⁶⁴ The US is also a remarkable soft power in fact. For decades it has been controlling the key trends in popular culture.

even in its closest neighbourhood.⁶⁵ In 2015 the President of the European Commission, Jean-Claude Juncker argued for the creating a European army⁶⁶ to face up with Russia and other new threats⁶⁷ nevertheless a project like this will not materialize quickly nor easily in a community of 28 where national budgets are under constant pressure and other major challenges such as immigration, economic stability, unemployment come first on the priority list.

Some Chinese analysts like Lai Suetyi and Shi Zhiqin claim that the way the EU handled the Ukraine crisis is a complete failure. They hold that 'EU member states' prioritization of their own interests above the fate of Ukraine, the failure of the EU and United States to reach an agreement on sanctions against Russia, and the fact that Putin directly discussed the issue of Ukraine's federalization with Obama without consulting the EU—demonstrate that the EU has failed the test.⁶⁸ As a result – they argue - the EU has missed the chance to play its unique role as lead mediator. As the crisis has turned into a power struggle between Russia and the United States, "the EU is no longer considered a party in core discussions". The Chinese scholars also claim that the Ukraine crisis is not only a failed test for the "EU and Germany but also a significant opportunity for China to usher in a new relationship among large powers."

⁶⁵ Another problem is that the European defence capabilities have been gradually reduced over the years (European Defence Agency data). 1 million 450 thousand soldiers served in the EU member countries in 2013, 500 thousand less than in 2006. This number is equal to the force of the United States, and one and a half times higher than the size of the Russian armed forces. At the same time, the EU countries spent only 190 billion euro (12% of total world spending) for the military, 1% less than the previous year. From 2006 to 2013, the European defence spending declined by 15% (€ 32 billion), and stood at only 1.45% of the EU's total GDP. World military expenditure in 2013 totalled 1.747 billion \$, around 2.4% of World GDP. However, China (188 billion US \$) and Russia (88 billion US \$) continuously increases the military budget. 80% of the European defence spending produced by the "big three" countries (France, Germany, United Kingdom), although each of them is reducing its defence budget. Although the EU officially has 485 thousand deployable and 110 thousand deployable and sustainable troops, the European forces capability to fight modern conventional warfare raises serious doubts. In the Wales NATO summit most of the European countries promised to increase the defence budget but only one country (Estonia) will spend 2 % of GDP on defence in 2015.

⁶⁶ A European military union is not a new idea: as early as in 1952, under the threat of the Korean War and the Soviet military preponderance, the establishment of the European Defence Community (EDC), including a joint military force under European control and command was tabled but was refused by the French National Assembly in 1954. There is still no breakthrough on this front, nor is on foreign policy.

⁶⁷ Jean-Claude Juncker calls for the EU Army. The Guardian, 8 March 2015 <http://www.theguardian.com/world/2015/mar/08/jean-claude-juncker-calls-for-eu-army-european-commission-military> accessed at 10 March 2015.

⁶⁸ Suetyi, Lai - Zhiqin, Shi: EU's Ukraine test. Carnegie-Tsinghua Center for Global Policy. July 22, 2014.

According to a 2015 research by Carnegie Europe⁶⁹ "with few exceptions, European governments do not think or act strategically." Moreover there is little ambition to shape foreign policy on the EU level. Another conclusion was that "instead of the EU forging a common strategic outlook, the union has achieved the opposite: ambition, if it exists at all, is inward looking and based on the national level, on narrow interests, on short-term goals." Ambition seems to have little to do with projecting a strong EU to the world. Only Germany (with Russia) and France (in the Sahel) showed resolve to act, but even these countries do not seem to have a coherent proactive and long-term foreign policy strategy. On issues of common concern like the pressing problem of migration member states are reluctant to give the EU a major role. There is also an "extraordinary lack of interest in the Islamic State and the serious security and social challenges that the militants pose for Europe." Europe seems to think that is living in a comfort zone which is a false assumption in reality. On another major issue, the Transatlantic Trade and Investment Partnership (TTIP) there is huge dearth of public discourse. As a conclusion the paper holds that "most countries neither see the relevance of Europe nor want to make Europe relevant" which is somewhat an exaggeration but still there is a long way to go to the establishment of a truly common and effective European foreign policy.

In sum, the EU seems a reasonably adequate *partner* for China in multilateral actions and even in the process of the establishment of a new multipolar global order. Although the EU is not as easily manageable as BRICS and other non-western countries may be, but it is certainly more powerful partner especially when economic clout is concerned. The EU is also a politically stable and calculable player. The deeply rooted Chinese view that Europe is not only a place of big business and cutting edge technology but also of high culture also plays in favour of long-term cooperation. On the other hand, the EU is not an ideal *model* for present day China because of different interpretation of national sovereignty as well as multilateralism, and also because of the relative weakness of the EU in global affairs.

⁶⁹ Judy Dempsey: Europe's Pathetic Lack of Foreign Policy Ambition. Carnegie Europe August 7, 2015.

V. Social policy

1. Welfare state

"Welfare state" means different things in different countries. In the US generally means nothing more than "welfare provided by the state". In Europe it encompasses a broad system of *social protection*. In many "welfare states", notably those in Western Europe and Scandinavia social protection is not delivered only by the state, but also by independent, voluntary, and autonomous public services. The "welfare state" in these countries is then a system of social protection rather than a scheme operated by government.

The basic goal of social policy is the promotion of social welfare. After World War II in Western European countries strong state intervention was a la mode, which was true for the designs of social systems as well. Nationwide social policies were put in place including the establishment of massive bureaucratic entities to manage these policies. This has gradually changed and over the decades the private sector and voluntary and non-profit organizations gained importance.

Welfare state (as it is understood in Europe) is historically a transnational phenomenon that dates back to the late 19th century when its main function was to respond to the problems caused by the capitalist industrialization, urbanization and demographic shocks.⁷⁰

In Germany the post-war settlement was based on the idea of a 'social state', sometimes called 'social market economy' where economic development was the key driver to achieve social welfare. Social benefits are earnings-related, and those without work are less protected. Public expenditure on welfare should be compatible with the need for economic development and growth. This system has developed through a corporatist structure on the basis of decentralized mutual aid associations. Social insurance for health, some social care and much of the income maintenance system, is managed by a system of independent funds.

⁷⁰ Jæger, Mads Meier - Jon Kvist: Pressures on post-industrial societies: Better is more or less state welfare. Conference paper. 4th International Research Conference on Social Security. Antwerp, 5-7 May 2003.

In France social protection is based on the principle of solidarity: as prescribed by the first article of the French Code of Social Security, nevertheless this term is used in different senses. Solidarity is based in societal interdependence and mutual responsibility. This is now applied at national level by extending the scope through the creation of a national regime for health and social security. Since the 1970s this pattern of solidarities has been supplemented by social inclusion, to bring excluded people into the national social net. The current French system of welfare is a very complex and expensive net of services with a lot of special arrangements for different groups and categories of people.

The Swedish social model is often seen as an ideal form of 'welfare state', offering extensive institutional care as a universal minimum to its citizens. It puts an emphasis on social equality which also entails that Sweden has the highest level of spending on social protection in the OECD, and the lowest proportion of income left to independent households because of high taxes - less than half its national income. This 'institutional-redistributive' model combines the principles of comprehensive social provision with a certain level of egalitarianism that intends to limit societal differences.

According to Anthony Giddens, one of the fathers of the "third way" of the Blairite reformed left in the UK, a social model presupposes the existence of five criteria: i) a developed and interventionist state, where the taxes collected represent a significant part of the national income; ii) a strong welfare system, which serves all citizens, especially the needy; iii) a system guaranteeing the reduction of economic or other disparities; iv) social partners and trade unions, which play a key role in operating the welfare system and protecting workers' rights; v) increased welfare and employment as a key element of all political initiatives. Europe's social policy systems have played an important part in shaping the continent's economy and its unique social model, which has gone through several shifts in emphasis over the decades.⁷¹

Surprising it may sound, but several welfare provisions were introduced in China earlier than in Western Europe. Here not only timing is worth noticing but also the fact that these welfare measures were obviously not connected to democracy or workers' rights like in Europe.

⁷¹ Giddens, Anthony, and Diamond, Patrick, and Liddle, Roger: "Global Europe, Social Europe", Polity Press, 2006.

Comprehensive provisions of water, food supply, famine relief and education were introduced for the needy as early as the 18th century in China. These provisions had a completely different ideological backing than the social provisions later in Europe. These were hand-outs from the sovereign. According to Confucian political ideology⁷², the emperor was the provider of social order, as a benevolent father of the society. Moreover Confucianism stresses a moral obligation to help but not in a universal sense like in Christianity but rather focused to the family. Inequality between people is taken absolutely normal and hard workers for their efforts upholding the society should be rewarded. This leads to the acceptance of exclusion of poor people and to a certain sense of aversion to seek government support. In turn the government has no *obligation* to grant social security which in this culture is not a *right*, but it grants it as a benevolent authority for moral reasons.⁷³ As Lin Ka explains, the different understanding of welfare is obvious from the examination of the Western and Chinese meanings of the word “welfare”. While “welfare” in Europe comes from the Norse “*Velferd*” (fare well) and German “*Wohlfahrt*” (well-being), the Chinese “*oruzhi*” translates into happiness sent from heaven or a benevolent superior.⁷⁴ In the West the welfare state and social care is based on citizenship and related social rights while the Chinese welfare system is more collectivistic in which local communities and family bonds play important roles.

2. The European social systems

The EU is a union of welfare states, not a welfare union. Social policy is a loosely harmonized area in the EU based on more or less voluntary cooperation between member states. Cross-EU welfare payments are also non-existent. Individual member states retained their sovereignty in this domain. The European Community was founded for political and economic reasons, therefore at the time of its establishment it had no social ambitions. These came later especially after the 1970s crises.⁷⁵

⁷² Confucian virtues are strong family bonds, benevolent paternalism, social harmony, discipline and strong work ethics.

⁷³ This logic is still present in the old age care in rural areas in the absence of institutionalized social protection schemes.

⁷⁴ Lin, Ka: Transformation of the Chinese social security system: collective welfare vs. state welfare. Turku University. 2014.

⁷⁵ The powers of the Union have developed through incremental development of marginal measures in order to establish precedent and competence. For example, provisions covering cigarette packets, bus passes or language

The German concept of “social market economy” and the European social model are cognate ideas. The former sets out to guarantee freedoms, fair competition and protection of the weak through division of power, acts of legislation and institutional regulation. It is the task of the state to create the framework of an economic order that eliminates unjustified privileges and promotes social equality. In 1949 the Christian Democratic Union of Germany’s three – occupied – western zones set themselves the task of creating a “social market economy”, which was based on rejecting a planned economy, defending private property, fair and free competition, prices suitable for the market, independent control of monopolies, ensuring the social security of the vulnerable and negotiated wage agreements. They were opposed to the social command economy as well as the ultra-liberal state’s withdrawal from the economy. Justice, the state, traditions and morals, firm standards and values are the foundations of this social market economy, but the model – in order to control economic policy, social policy and market conditions – tries to reconcile interests and “protect the weak, restrain the immoderate, cut down excesses, limit power, set rules of the game and guard their observance. The market economy is a necessary but insufficient condition of a free, happy, just and orderly society” – Wilhelm Röpke, the economist wrote over half a century ago. The concept of the social model has undergone several modifications and has been interpreted in various ways.

In a wider interpretation, the European social model goes beyond social protection (pensions, health care) and includes areas such as benefits, social dialogue, lifelong learning and other active employment policy instruments, as well as the fight against poverty and discrimination. The model acknowledges the role of social dialogue, particularly in areas such as combating unemployment, linking work and training, and introducing new methods of work organisation. In Europe, the state lays down the fundamental rules of employment, and expectations for social protection have come to be deeply embedded in people’s minds. The realisation that economic development is a necessary but insufficient pre-condition of society’s development and its citizens’ welfare is much more embedded in European thinking than in the US. Accordingly, the welfare index – which measures economic development as well as quality of life – is superior to the American value in most European countries, which

teaching sought to establish competence in relation to public health, old people, transport and education. This has been resisted through the idea of 'subsidiarity', by which action should always be taken at the lowest possible level. The European Commission's approach to the development of policy is based on the incremental development of services, the progressive expansion of solidarity, and the insertion of those who are excluded. (Spicker, 2014.)

is an eloquent testimony of the advantages of the European model.⁷⁶

At the Union level, there is no single official definition of the European social model. Building a “European Social Area” through common standards and harmonising national social policies was a novelty of the nineties, although the Union’s social policy aspirations have been growing more and more ambitious since its creation. The Treaty of Rome in 1957 only set the objective of improving workers’ living and working conditions to help create a common market; today, the objectives range from full employment and a high standard of social protection through gender equality to solidarity between the member states. Even though social policy largely remains a national competence, there is a certain degree of coordination at Community level. The open method of coordination, which was introduced gradually, starting in the late nineties, is based on voluntary cooperation by the member states without any binding rules or trespassing of national competences. The open method rests on soft law mechanisms such as guidelines and indicators, benchmarking and sharing of best practice. Broad common strategic goals are agreed, which are translated into national action plans, the implementation of which is monitored and evaluated in comparative reports. Community social policy has taboo areas that it avoids, which typically include wages, salaries, social redistribution and related issues. Community social policy is quite limited in its scope: it mostly applies to specific groups and situations and tends to set minimum requirements. The EU has declared maintaining the balance between the liberal market economy and social security, or – in other words – between competitiveness and solidarity, a key priority of its policies.

The European socio-economic model rests on fundamental western values such as democracy, the rule of law, or respect for human rights and national self-determination. According to its self-identity, its economic philosophy is “more social” than the US or Asian models; social equality is more emphatic, and economic performance is viewed together with other goals

⁷⁶ EU countries are characterised by a large state, disposing of roughly half of GDP, the two extremes being Ireland (35%) and Sweden (60%). The weight of the state and its GDP disposition rate was increasing in Europe until the mid-nineties, partly due to the evolution of the social model (and primarily its redistributive policies, such as healthcare, education, unemployment benefits) and partly due to other macroeconomic trends (such as the obligation to repay state debt accumulated as an aftermath of the 1973 oil shock, or the anti-cyclical policies necessitated by the recessions of the eighties and the nineties). Taxes collected totalled 42% of GDP in the EU in 2003, compared with 26% in Japan and the USA and 17% in China and India. The average EU member state spends 27% of its GDP on social policy, while Japan and the USA devote 17 and 15% of state revenues to such purposes, respectively.

such as social cohesion, environmental protection or the general welfare of citizens. Accordingly, the state plays a stronger role than in other models. Still, critics say that the European social model is not really a model, and is not truly European. The EU economy functions through the cooperation of different cultures and languages, and we can hardly talk about a European society or European culture, only about the sum of European peoples and cultures. Employment, welfare, health and pension policies vary greatly from one country to another, and these differences only grow with each enlargement of the Union. In general the European social model brings to mind social justice and solidarity, but the mention of the European social model is often used to stress the difference between EU and US social policy. The welfare system was one of modern Europe's finest achievements.

The EU member states pursue different social policies. The EU may issue guidelines and set targets, but jobs are not created by Brussels. The welfare, healthcare and pension systems also vary enormously from one country to another. Obviously, there is no such thing as a single European minimum wage or an EU healthcare system.

When referring to the European social model, the adjective "European" has another dimension: an institutional one. Common values and principles may be important, but they are of little use without common rules and institutions. As already stated, the EU is rather weak in this sense. One can safely say that the Treaty of Amsterdam in 1997 was a turning point in European cooperation in the fields of employment and social policy. In addition to the open method of coordination, the member states entrusted the Commission with making proposals for legislation combating discrimination at the workplace and outside. From 2009, the Lisbon Treaty made the Charter of Fundamental Rights⁷⁷ – which only had the status of a political declaration before – part of the EU's legal system, which among other things enables the Court of Justice to use its rulings to force the member states to harmonise their legislation

⁷⁷ The Charter of Fundamental Rights of the EU brings together in a single document the fundamental rights protected in the EU. The Charter contains rights and freedoms under six titles: Dignity, Freedoms, Equality, Solidarity, Citizens' Rights, and Justice. It was proclaimed in 2000, but has become legally binding on the EU with the entry into force of the Treaty of Lisbon, in December 2009. It entrenches: all the rights found in the case law of the Court of Justice of the EU; the rights and freedoms enshrined in the European Convention on Human Rights; as well as other rights and principles resulting from the common constitutional traditions of EU countries and other international instruments. The Charter sets out a series of individual rights and freedoms including 'third generation' fundamental rights, such as: data protection; guarantees on bioethics; and transparent administration.

even in the absence of specific European legal acts.

Even though we cannot define precisely what is meant by “European social model” and the boundaries of the concept are rather blurred, there is a kind of European model, or model-family. When talking about the European social model it should be remembered that the concept covers a wide spectrum of social systems, there are major differences between the welfare, fiscal and transfer systems of the various member states. There are four more or less distinct welfare systems in the EU: the Nordic (or Scandinavian), the liberal Anglo-Saxon, the continental and the Mediterranean one.⁷⁸

The *Nordic (or Scandinavian)* model, which has become an example to follow lately, is characterised by guaranteeing – widely interpreted – social rights and high redistribution rates. The funding for maintaining the high standard of social protection comes from high taxes. Employment does not appear to be a problem; registered unemployment numbers are generally low, in which both the public and private sectors play their part (in some parts of Scandinavia, the public sector employs 30% of the workforce). There is active state intervention in the labour market, with training programmes and job placement schemes. Trade unions are the strongest in the world. An average 60% of workers are trade union members, but in Scandinavia and Denmark this figure exceeds 75%. Society is consensus-based, 82% of employment contracts are protected by collective agreements. As a result, income disparities are small, and the whole of society enjoys generous social care. The Nordic model is an ideal example of the welfare state and egalitarian society.

The *Anglo-Saxon* model is selective in providing care to its citizens; social care is not an inherent right. Accordingly, the level of redistribution is low and the state is of moderate size. Systems following this model have managed to cut back public spending through comprehensive reforms, which has led to an increase in the number of low-income families and in social inequalities. The reforms have included the privatisation of the pension system and trimming unemployment benefits, which is a guarantee of long-term sustainability. This model is an example of the self-provision approach.⁷⁹

⁷⁸ In 2004, the new members brought in their heterogeneous hodge-podge of models, which were typically market-friendly with little attention devoted to welfare aspects, making it all the more difficult to establish a single social image of Europe.

⁷⁹ The Nordic model is a mixture of the continental and the Anglo-Saxon models. The relationship between

The *continental* model, which is found in most countries of continental Europe, is a unique mixture of state interventions and family traditions, with a high level of social protection funded by payroll taxes. The system is characterised by high redistribution rates and inequalities in fiscal burdens. In the welfare system of the continental model, the focus is on creating new jobs in the public or private sector. This model if applied rigidly tend to yield modest results due to high labour costs and the budgetary burden of unemployment benefits to the many jobless. In its French version the state and other institutions under the national budget play a central role, and has sometimes a protectionist attitude which makes the continental model expensive and unsustainable in the long run in the face of globalization.

The *Mediterranean* model is similar to the continental one in many aspects, but differs in some others. The pension system has a more central role, while the family takes over some of the functions of the social safety net. This model results in striking inequalities in social benefits and blatant discrimination, which divides workers as well as the jobless (typically women and young people). Women are disadvantaged in these countries as they find their professional career and family life incompatible. The system is wasteful and often encourages early retirement instead of self-training and job-seeking. The worst example for this model is crisis-hit Greece.

The social systems of European countries thus show great differences and have gone through transformation in the new member states too in recent years. The state's role is important everywhere, but it is more direct in some countries than in others. One extreme is direct state provision, the other is a state that only regulates private sector service providers. The situation varies considerably in terms of the role of social dialogue, sectoral rules and corporations in protecting workers and shaping social benefits.

government and economy is a liberal one; politics has a non-interventionist approach towards markets (goods, services and labour alike), but the state's size and redistributive role is comparable to the continental model. In the Anglo-Saxon model, the approach to markets is clearly liberal and social provision is not of paramount importance. In the continental model, social provision is an important principle. The Anglo-Saxon model revolves around the economy and its social policy serves to rectify the shortcomings of the economy's operation. The Scandinavian model, on the other hand, subordinates all policies – including economic policy – to social justice. Nevertheless, the Nordic model has adopted a market-based approach; the rights of active workers are much stronger than those of the inactive labour force. The Scandinavian model increasingly puts employability (individual responsibility) as its focus, as opposed to the old attitude, which put the political burden of providing access to work on the shoulders of the state. In the Anglo-Saxon model, there is more room for weighing social justice against economic rationality.

It is important to note that considerable challenges⁸⁰ have to be faced by the European social systems in the 21st century. This is especially true in the case of those national models that bear the characteristics of the (stylized) Mediterranean or Continental types. A more flexible socio-economic environment is needed to respond global economic and demographic changes. Moreover the entry of China and India into the global economy has also brought billions of new workers into the global labour market, which has cut the global capital to workforce ratio by half. This dramatic development is causing fundamental social shifts east and west alike.

Due to these demographic⁸¹ and economic constraints welfare states have come under serious pressure in Europe forcing especially southern EU member states to introduce austerity reforms cutting back welfare provisions and toughen pension rules.

3. EU-China cooperation and Chinese research on European social policies

Although China obviously cannot afford a European-style welfare state, Chinese decision-makers and scholars have been turning to Europe as the most important reference for reforms. During the last forty years many Chinese scholars have turned to the social models

⁸⁰ Ageing is a also serious budgetary concern: the average male spent 11 years of his life in retirement in 1970, and 20 years in 2010 in Europe. Ageing, besides its many other economic and social implications, makes the costly welfare systems impossible to finance in the long run and holds back growth by about half a percent annually.

⁸¹ Demography has become a global issue. In 2015 there are more than 7 billion people sharing planet Earth. Out of every 100 babies, 57 are born in Asia, 26 in Africa, 10 in America and only 5 in Europe. Since the beginning of time, 100 billion people have been born into this world. At the time of Christ's birth, only 300 million people populated the six continents, every sixth person lived in the Roman Empire, and average life expectancy was 24 years. It sounds unbelievable but, in the mid-17th century, there were still only 500 million Earthlings living an average 30 years. Then came a dramatic change: the industrial revolution and, during the 200 years that followed, the global population trebled. The second half of the 20th century, the age of globalisation, also brought a 'population big bang' with less than 50 years required for the number of people inhabiting the world to double. About one fifth of this population explosion came from India and one tenth from China, which indicates that India will surpass China in the foreseeable future. By 2050, around 85% of the world's population will live in a so-called developing country. The population of these countries will increase threefold, while in Europe it will fall by a fifth. Another noteworthy trend is the acceleration of urbanisation and the emergence of the megalopolis. In the early 20th century, townfolk numbered a mere 150 million, a century later 3 billion people live in urban areas. Cities have always been one of the driving forces behind the development of human culture and modernisation, but modern-age urbanisation is more than that: hundreds of millions of people are moving from rural areas into cities or the suburbs to escape extreme poverty without the slightest chance of integrating into the life of the urban middle-class. Urban population is growing at three times the rate of rural population and, in 2007, *urbanites* outnumbered *villagers* globally. In the next 20 years, population growth will be concentrated almost exclusively in cities. In 2015 there are more than 20 megacities with over 10 million inhabitants, in some cases enormous conurbations of environmental pollution and urban poverty.

established in EU member states. The most popular model was of the Nordic countries, especially the Swedish. In the 1980s⁸² driven by ideological motives Chinese scholars considered it the best example to promote social and political reforms in China. Chinese were intrigued by the fact that the Social Democratic Party could sustain its power for such a long time. There were suggestions⁸³ that the only way to overcome the problems within the Communist Party (such as corruption) and the best way forward for China was democratic socialism – somehow in the Swedish sense. The Swedish social security system was also a key reference point. But as the authoritarian ideological grip tightened, these ideas were shelved. Nevertheless the establishment of the social security system has been an issue for the Chinese government since the 1980s, so research into EU member state practices continued. According to Xining almost all textbooks and academic works, books and articles on social policy and social security systems in China have a reference to European practices. From the 1990s, Chinese studies into the European social models have become more in-depth, more focused on individual policy areas such as medical care, employment, labour market, aging issue, pension system, and started to look at these issues from the perspective of what China could learn from European ways.

From the early 2000s these studies started to boom thanks to the EU-China Higher Education Cooperation Programme. 143 collaborative research projects were funded and 27 of them related to the EU social policies (social security system, welfare state, public health, aging, employment policy, environmental policy, etc.), about 20 per cent of the total. Among the 440 Chinese visiting scholars supported by the programme, 117 did research in social policies and social security systems. According to research by the Institute of European Studies at the Chinese Academy of Social Science, more than one thousand publications, including books, journal articles and policy reports, were published in Chinese on European social policies and social security system by the end of 2002.

In 2002 the Chinese government put forward a new strategy to improve the social standards of the society reducing wealth gaps. Studies on European social policies and social security systems thereby got another impetus.

⁸² Most influential works of this time were: Huang Su'an: A general survey of the welfare states in Western Europe, and Li Cond (ed.): The social security system in Western Europe.

⁸³ See more on this from Tao Xie and Song Xinning.

Chinese scholars generally hold that European social systems - unlike the American one - bring "social justice and harmony into the capitalist market economy", therefore constitute a good example for China to follow. By now the EU and China work closely at technical levels: in 2005 the European Commission and the Chinese Ministry of Labour and Social Security signed a Memorandum of Understanding on EU-China cooperation on Labour, Employment and Social Affairs. This encompasses social protection, social cohesion, labour legislation, labour market issues and social dialogue. The EU-China Social Security Reform Cooperation Project has also been kicked off in 2006⁸⁴.

As Zhou Hong explains⁸⁵ unlike other research areas the European social policy studies in China are multidisciplinary, encompassing demography, sociology, economics, history, law, finance and even philosophy. Most of the time research was driven by domestic needs and direct demand from decision-makers, especially when major labor market reforms were initiated. Therefore many of the research has been done with the explicit objective to show how the European example could be helpful in China. The topic of social justice and its implementation via social legislation has been a key research interest for Chinese scholars. Lately the complementarity and sometimes the contradicting nature of social policy planning between the EU and member state levels, moreover the role of the private sector in pension provision has raised the attention of Chinese researchers. Intensive research has also taken place in the field of social policy *reforms*. The thematic coverage of research encompassed poverty and family related issues, and family subsidies, old age pension, health care insurance, employment rules, youth unemployment, early retirement, part-time employment, but according to Hong excluded important issues like, the interaction between social and economic policies in Europe, institutional issues such as the interests and motives of key European social policy actors, social exclusion, social inclusion or social dumping. Hong

⁸⁴ It is meant to strengthen China's institutional capacity for social security policy development and administration and to make reforms to social security systems including old age pensions, unemployment insurance, etc. Several concrete pilot projects have been accomplished. There are three components of the project. Component 1 supports the National Development and Reform Commission (NDRC) in strengthening institutional capacity for social protection policy development and reforms. Component 2 supports the Ministry of Finance (MoF) in enhancing institutional capacity for financial management and supervision concerning social security funds. Component 3 assists the Ministry of Civil Affairs (MoCA) in improving the legal framework and policy enforcement of social assistance.

⁸⁵ Zhou Hong: EU social policy studies in China. *Asia Europe Journal*. 2004. 1. Pp.1-13.

criticizes the political (ideological) point of view of researchers that often neglected the analysis of contributions, actions and views of policy actors other than the ruling party in the country of study. He also claims that the level of cooperation between Chinese researchers studying social policy from different angles (EU-level, individual member state focus) and also with general EU-experts is insufficient therefore the research evidence is inadequately prepared and used.

4. The Chinese social security system – facts, problems, solutions

There are serious issues with the Chinese economy and especially with its social security system that might go unnoticed, forgotten amidst the celebration of the Chinese economic miracle. The chokehold of bureaucracy and corruption are strangling China. The best part of Chinese national holdings is in the state's hands; in key sectors such as banking, telecommunications, energy, the steel industry, the automotive industry or foreign trade, state-owned enterprises enjoy a monopoly. Investment suffers from rampant cronyism. Corruption not only costs China (being one of the most corrupt countries in the world) billions of dollars, but also undermines society's moral fabric. It is estimated that theft, fraud and payola add up to about 15% of GDP. If half of that money was spent on the health-care system, China could achieve a century's worth of development. According to the World Health Report⁸⁶ China has one of the worst healthcare systems in the world. Hospital treatment means indebtedness for many. The state of the environment in China also gives rise to concern; the Chinese economic miracle is a serious burden on the global natural environment.

The transition to a market economy is still an unfinished business and as regards social services the picture is even gloomier. Hundreds of millions of elderly people could be left without care, and hundreds of millions of peasants live at or below the subsistence level. The most serious challenge is the care for the elderly. Due to the official one-child-only policy and the closing down of former state-owned enterprises (which used to provide care for their retired workers), more and more Chinese retirees are finding themselves left without any kind of care or provision. While one tenth of the population (131 million people) was over the age of 60 in 2000, this ratio rose to 12.5% by 2010, and will rise to 17% by 2020 and 30% by

⁸⁶ <http://www.eum.hu/nemzetkozi-kapcsolatok/who/world-health-report-2008>

2050, when their number will have swollen to 480 million.⁸⁷ The country's traditional social care system has been falling apart, and the family ties that used to ensure that the elderly were not abandoned have already been ripped asunder. More and more people in China live in nuclear families or migrate to cities on the east coast to earn a living, leaving the elderly and the sick behind in depopulated villages. The state-owned firms that used to provide for their former employees disappear. China is a country of vast social disparities, and the gaps are getting wider, leading to thousands of local peasant revolts and conflicts every year. In a year, according to official statistics, there are more than 50,000 larger riots nationwide involving several million people. Instead of privatisation, land is often being expropriated which causes popular revolt. The most severe source of income inequality in today's China certainly lies in the striking urban-rural disparities. There are 70 million landless peasants and close to 200 million migrant casual workers wandering in the vast countryside. During the last few decades almost 450 million peasant have left the land and moved into cities. While some 200 million people were lifted from poverty, hundreds of millions are still threatened by it. Migrants' working conditions are also dire and 100.000 fatal industrial accidents take place every year. 80% of the population has no health insurance (57% in cities and 97% in rural areas).

If these issues remain uncontrolled and unresolved it might easily be the case that in twenty years' time scholars and politicians will be awed not by China any more but by India at least because of its demographic potential. Half of India's population is under 25 which is in clear contrast with the situation of the slowly ageing China, whose population will start to decrease in the near future.

This situation has indeed been a major issue for the Chinese government for years. As it is understood in the West social rights to guarantee high levels of welfare are a feature of advanced capitalist economies and constituting parts of democracies – as explain Stepan and Müller.⁸⁸ This may put the Chinese government in a somewhat awkward position from a

⁸⁷ United Nations Statistics Division (<http://unstats.un.org/unsd/default.htm>)

⁸⁸ Stepan, Matthias – Müller, Armin: Welfare governance in China? A conceptual discussion of governing social policies and the applicability of the concept to contemporary China. Cambridge Journal of China Studies. Volume 7. No. 4. 2012.

political/ideological point of view, but they applied a rather pragmatic approach: they had to establish a functioning social system anyway in order to avoid social disarray. The comparison of Western and Chinese social systems, including its structure, logic, institutions is nevertheless not easy. This is not only a result of the different political systems, Stepan and Müller argue that there are fundamental cultural differences and even terminology may be elusive to grasp sometimes due to language barriers. Nevertheless it is clear that Western (primarily European) social systems are key references to Chinese decision-makers, and as a result, the Chinese social system has ever more common or similar features with that of the West. Lately this also encompassed the involvement of market based solutions.⁸⁹ In 2010 Wen Jiabao argued that "Social programs designed to meet non-basic needs should be handed over to the non-public sector to let the market satisfy the multi-layered and individualized needs of society..."⁹⁰

This is a remarkable shift from the mentality of the pre-80's period when welfare in urban areas was originally guaranteed by the State Owned Enterprises (SOEs) which through their *danwei* (working units) provided a lifelong social security system. The rural population was provided with a minimum security through the public ownership of land and by the household registration (*Hukou*) system which also served as the control registry for the rigid rural-urban segregation.⁹¹

Social security (*shehui baozhang*) is the umbrella term for all different types of public social policies. Social insurance (*shehui baoxian*) and social welfare (*shehui fuli*) are the major strands of public social services. The *social insurance* programs include pension insurance, medical insurance, work injury insurance, unemployment insurance and maternity insurance. Insured employees and their employers pay contributions to the schemes (civil servants had a privileged situation). Insurance systems are gradually extended to the rural population.

⁸⁹ Nevertheless some western experts argue that the difference in the underlying logic and the cultural interpretation of social protection is so big (as presented earlier in this chapter) that "while in terms of privatization and decentralization there is evidence of convergence of Chinese and Western patterns, the underlying values and the understanding of welfare differs significantly."

⁹⁰ Quoted by Stepan, Matthias – Müller, Armin: Welfare governance in China? A conceptual discussion of governing social policies and the applicability of the concept to contemporary China. *Cambridge Journal of China Studies*. Volume 7. No. 4. 2012.

⁹¹ Sander, Anne - Schmitt, Christopher - Kuhnle, Stein: Towards a Chinese welfare state? Tagging the concept of social security in China. *The Perspective of the World Review* V. 4. No. 2. Aug. 2012

Social welfare in China is defined as social measures to help people in need, including the minimum livelihood guarantee (*dibao*), other guarantees and medical assistance systems. *Dibao* is a cash hand-out financed from taxes introduced from the nineties in cities and slowly extended to rural territories as well. There is also a traditional form of mainly community based help system is, the *wubao* which is delivered in kind (food, clothes, shelter, medical treatment) to needy households or individuals, including orphans and veterans. Families still play an important role in social welfare provision, especially in the countryside (family insurance – *jiating baozhang*).

During the last thirty years the logic and also the structures of provision of social services underwent major reforms. These were necessary since political and mainly socio-economic changes, such as privatization, and immense migration to cities from rural areas made the traditional work-unit based social security system in urban areas as well as the family based social system in rural areas completely dysfunctional. For decades the policy focus was growth, little attention was paid by the government to create a nationwide, coherent social security system. This had to be changed: the government realized how dangerous it is to run the country without a properly functioning safety net with sufficient funding and administrative capacities. Major legislative reforms have been launched to counter the rising socio-economic inequalities and to fill the immense gap in the safety net caused by the dismantling of work-units and the massive migration to cities.

In 1998, the government established a unified urban health care scheme compulsory for all urban employees, regardless of the type of enterprise. In rural health care the process is much slower, but in 2002 a framework for a renewed Rural Cooperative Medical Scheme was adopted.

After President Hu Jintao's assumption of office in 2003, a considerable shift took place as political attention from purely GDP-growth oriented policies towards a more balanced, sustainable and socially equitable approach to development was chosen under the motto of a "harmonious society". This refocus from GDP to social also means that the government wants to equalize social services until 2020 nationwide. From 2003 onwards social policy focuses on the inclusion of the large vulnerable groups such as rural residents, unemployed and migrant workers.

A major reform step was taken in 2010 by the adoption of the Social Insurance Law which specifies the functioning of the following social insurance programs: pension insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance. Moreover as a result of a number of institutional mergers and re-assignments of competences the Ministry of Human Resource and Social Security was established to have a single and relatively strong institutional actor in the field of social insurance. Nevertheless competences for health-related social policies remained scattered.⁹² But institutional reorganization seems to be on track and competences on the public social policies are ever more concentrated and the promotion of public welfare is now declared as an independent function and no longer is hidden behind the patchwork of cross-cutting ministerial and other organizational portfolios.

Although the gradual reform of the urban pension system started already in the late 1990s whereby pension coverage was extended from SOE workers to all urban workers, irrespective of the company's ownership type there still is no unified pension system for rural areas, only voluntary, poorly funded, and very fragmented schemes exist with a low popular coverage. According to official estimates, only 7% of rural people aged 60 or older receive any pension benefits.⁹³

China's urban pension system is based on three pillars since the late nineties: a social security net (Pillar 0), basic pension insurance (Pillar 1) and supplementary pension insurance (Pillar 2). Under this framework, pension funds are sourced from the government, enterprises and individuals.

According to Hu Yifan⁹⁴ the main problems of the Chinese pension system are the increasingly aging population, the low contribution rate, the low coverage, the fragmented management and the low return on investment⁹⁵. The collection rate⁹⁶ has declined from 25.1

⁹² Ibid.

⁹³ Sander, Anne - Schmitt, Christopher - Kuhnle, Stein: Towards a Chinese welfare state? Tagging the concept of social security in China. *The Perspective of the World Review* V. 4. No. 2. Aug. 2012

⁹⁴ Yifan, Hu: How vulnerable is China's pension system? *China.org.cn*. 10 June 2012.

⁹⁵ There's almost no market-oriented investment for the basic pension funds (Pillar 1) to ensure their sustainable development. Only 2 percent comes from interest, the rest by pension collections and financial transfers. The supplementary pension insurance's (Pillar 2) average return on investment was only 3.4 percent in 2010, far

percent in 2008 to 17.1 percent in 2010. Compliance is low because the mandatory contribution rates for employers and employees are excessively high (with 28 percent of wages it is almost the highest in the world). Moreover due to the fragmented nature of the system employees, especially migrant workers, often have to abandon their individual pension accounts when moving to another city.⁹⁷

In 2000, the central government set up the National Social Security Fund (NSSF), to serve as a buffer mechanism to mitigate pressure stemming from gaps in the pension system - with no success at all in reality.

The government introduced a rural pension plan in 2009 and a new urban pension plan in 2011. Before 2009, only 30% of the population had a pension; with these reforms the coverage grew to 55%, but in reality pension system was still like a patchwork varying from city to city, from urban to rural areas, and from public to private sectors. Small reform steps are almost continuous and as a result coverage gradually grows, but while the major part of the population is covered by one of several pension schemes in 2015 only about 30 per cent have a coverage that will guarantee a meaningful income. The basic pension is only 55 yuan (\$8.75) per month, which cannot guarantee even the minimum subsistence.

Pension reforms are necessary also because of the challenges (both budgetary and social) caused by China's quickly ageing population. The number of people aged over 65 will rise from 132 million in 2015 to 331 million by 2050 (and 480 million people will be over 60), while the number aged 15-64 will fall from 1bn to 849m, according to the projections of the UN.⁹⁸ The ratio of those aged over 65 to those aged 15-64 will rise from 13 per cent in 2015

below China's inflation rate of 5.4 percent. A lack of competition is probably the reason for low investment returns for Pillar 2. (Hu Yifan, 2012.)

⁹⁶ The ratio between contributors making payment on a monthly basis and the general number of contributors.

⁹⁷ Labor force migrates more and more frequently in China, so employees pay contributions in one province, but would receive their pension in another after retirement. As the basic pension funds are managed at provincial or municipal level, those provincial regions with greater labour force inflows will have a substantial surplus in their pension system, while ones lacking in contributions from in-service employees are often faced with a deficit. (Hu Yifan, 2012). Local governments, short of adequate funds, use the reserves accumulated in the individual accounts (Pillar 1) to pay the current pension claims supposed to be funded by the social pooling plan (Pillar 0), despite the fact that the two are supposed to stay separated, thus emptying individual accounts.

⁹⁸ United Nations: World Populations Prospects, 2015. <http://esa.un.org/unpd/wpp/>

to 39 per cent by 2050 in China. (From 2014 to 2050, China's median age will skyrocket, from roughly 35 to 46.) But even with the current low dependency ratio, many provincial pension systems have serious shortfalls that are filled by channelizing current workers' personal retirement accounts (nominative pre-funding mechanism to pay future pensions) to pay benefits to current old age pensioners. Underfunded pensions for non-government workers have been a source of labour unrest and popular outrage for years. According to a report co-authored by Ma Jun the funding shortfall in China's urban pension system between 2012 and 2050 is USD 6.3 trillion in current value terms.⁹⁹ By 2010, there was only 204 billion yuan (US\$32.37 billion) in the individual accounts, rather than the supposed figure of 2 trillion yuan (US\$0.31 trillion), creating a gap of a total of 1.76 trillion yuan (US\$0.28 trillion) for the government to fill. Therefore the central government looks into the introduction of a centralized management of the pension funds. As a reaction to this report the government announced plans to again reform its pension system.¹⁰⁰ Part of the government's plan is to raise the retirement age, which at the moment is 60 for men, 55 for women working in white-collar industries, and 50 for blue-collar female workers.¹⁰¹ In early 2015 the government announced the phasing out of the so-called dual-track urban pension system according to which corporate employees must contribute 8 per cent of their salary to the pension system but government employees do not have to contribute at all (for them the government was simply paying pension benefits from the general budget).

⁹⁹ Jun, Ma – Zhengyuan, Cao: Resolving mid- and long-term risks of national debt. 2012. Deutsche Bank, Bank of China, 2012.

¹⁰⁰ The report warned that only by delaying retirement age and increasing state funding will not solve the problem.

¹⁰¹ By 2030, China's baby boomers will enter their 60s and 70s. The rate of population aging has been higher in the country's eastern region, which is the more developed, but the problem has hit the central and western regions as well. Meanwhile, due to the one-child policy and higher rates of women's education and employment, the fertility rate remains low, at around 1.6 births per woman, lower than that of developed nations such as France and the United States. China has moved to relax the one-child policy in recent years, allowing couples to have two children if at least one spouse is an only child, but this has had limited impact. As of May 2014, only 271,600 couples, out of a possible 11 million, had applied for permission to have a second child. The country's statutory retirement age is relatively young—60 for men and 50 or 55 for women—and given increased life expectancy, many are looking at an average of 15 to 25 years in retirement. (The retirement age was set in the 1950s, when life expectancy was much lower.) Some are rehired after retirement; others start second careers. In early 2015 the government officially announced its intention to raise the retirement age. According to Baozhen (Luo, Baozhen: *China Will Get Rich Before It Grows Old - Beijing's Demographic Problems Are Overrated*. Foreign Affairs: May/June 2015.) raising the male retirement age to 65 could, by 2020, keep some 41.5 million men in the work force. In the meantime, early retirement means that more grandparents have time to care for their grandchildren, freeing up working-age mothers to take jobs.

Life expectancy in the country has soared and the fertility rate has plummeted, putting a heavy financial burden on the budget as well as on the next generation. China's fertility rate is 1.6, far below the 2.1 needed to at least sustain the population. The ratio of working-age adults to pensioners is 5:3, but the figure is expected to fall to 1:2 by 2035. The one-child policy puts pressure on the second and third generations of only children. A couple who are both only children will have four parents to care for, and their children could potentially have four parents and eight grandparents to look after. This is a particularly acute issue in China since only 45 percent of the income of elderly residents in China's urban areas comes from the basic pension insurance, while 37 percent from their children and less than 3 percent from the other two pillars. In rural areas the share of the support from the children is 54 percent. This is a clear illustration of the insufficient level of rural pension system penetration. Ageing is an issue in Japan, South Korea and Taiwan as well, but the standard of living in those countries is already high. So as it has been said several times, China is getting old before getting rich.¹⁰²

As far as social assistance schemes are concerned, the first experiment on the introduction of the Minimum Standard of Living Scheme (MSLS) took place in Shanghai in 1993. Later the central government promoted its nationwide adoption and accepted financial responsibility, therefore the scheme expanded rapidly. In 2006 MSLS's gradual extension to rural areas has been decided.

Contrary to subsequent reforms - on which it was possible to give only a very brief overview in this chapter - many western commentators are very critical with the Chinese social system. Spicker argues that in China the provision of social protection is a complicated mix of incomplete systems that include social assistance, partial social insurance and welfare

¹⁰² Some claim that this statement is false and China can get rich before or at least by the time it gets old. See more on this in: Luo, Baozhen: *"China Will Get Rich Before It Grows Old - Beijing's Demographic Problems Are Overrated"*. Foreign Affairs. May/June 2015. Baozhen argues that a rapid development in the standard of living and at the same time a stable and broad social protection system is attainable if ongoing reforms are delivered with success. There are several positive signs. Although China's working-age population has indeed shrunk, its employment rate has increased. In 2014, China's active work force consisted of 772.5 million people, 2.8 million people more than in 2013. This growth, despite a smaller working-age population, suggests that many underemployed Chinese, especially in rural areas, are being drawn into the work force. As the government enacts policies to encourage internal migration, including the revision of the household registration system and increasing investment in the mechanization of agriculture, more and more surplus unskilled laborers from rural areas will be absorbed into urban manufacturing and service industries.

services. Social insurance varies by occupation and location in a significant way. Social assistance offers a minimum subsistence guarantee, but despite its extension to rural areas there are still major gaps. The provision of welfare is limited, fragmented and excessively localized and largely inconsistent. It is also often liable to mismanagement, corruption or ignorance.¹⁰³ According to Stepan and Müller the Chinese social security system is fragmented and divided along occupational, administrative, jurisdictional and geographical lines.¹⁰⁴

Social policy reforms in China have been taking place for two decades now on a continuous basis. They can be considered the largest in human history in terms of the mass of people affected. This obviously takes not only immense amount of financial resources but time as well. Political stability in China is to a large extent contingent on a redistribution of the dividends of growth that guarantees an ever higher level of social protection to the society especially to the people in extreme need - migrant worker upheavals and strikes¹⁰⁵ clearly demonstrate this. Throughout the socio-economic transition process the key rationale behind the introduction of welfare measures has been to stabilize the Communist Party's rule by reducing social tension. The combination of socialist ideals and Confucian values in the grand design of the social system has also been persistent.

¹⁰³ Spicker, Paul: *Social Policy – Theory and Practice*, Policy Press, 2014.

¹⁰⁴ Stepan, Matthias – Müller, Armin: *Welfare governance in China? A conceptual discussion of governing social policies and the applicability of the concept to contemporary China*. *Cambridge Journal of China Studies*. Volume 7. No. 4. 2012.

¹⁰⁵ The largest strike in Chinese history took place in May 2014 when some 40,000 workers protested at the Yue Yuen sportswear plant in Dongguan. The reason was that a huge gap was discovered in the pension funds of the company. The company has underpaid its pension obligations for years and accumulated a gap of USD 31 million. This is in fact not a one-off event: it is common practice for companies to underpay pensions, while government turns a blind eye on it. The government concerned about losing manufacturing capacities has for years allowed major factory-owning companies to underpay pensions as kind of a “backdoor” savings. (Companies have been making pension payments equivalent to minimum wage salaries rather than real wages.) This however as already stated before in the chapter resulted in the huge nationwide underfunding in the pension budget.

Recommendations

To attain a balance between a flexible and effective market economy and adequate social security provision remains to be the main internal challenge for China for several years, maybe decades. To this end, the EU, especially some of its member states' models have been and continue to be a useful reference. As explained earlier the practicalities in the design and provision of social services in different EU member states are not uniform, but still there is an over-arching mentality (accepted by the political class and expected by the society) in Europe to value, sustain and promote social welfare. This remains to be so even if austerity due to budgetary and demographic constraints has already started to put constraints on the social provision systems in Europe. China is for the time being at a very different stage of developing its social model. The historical development and the consequent reforms of European social systems and particular elements of them can therefore be a very meaningful field of study for China.

Chinese and European social challenges (even in historical comparison) differ to a large extent, so does to some extent, the cultural perception of welfare provision. Nevertheless the European policy systems and solutions are valuable source of information from administrative, management and financial points of view.

On some issues such as ageing, China has similar challenges with Europe, and clearly needs to overhaul its pension system, including an efficient administrative centralisation, with better financial management and a much better corporate governance culture to guarantee that legislation is applied correctly and effectively.

Centralisation has never been alien to the Chinese political culture, therefore the fragmented nature of the pension, and other social service provision institutions reflect a well outdated mentality that these issues are not first grade political factors. There is an understanding now in the government that they indeed are, therefore it should be reflected in their management and supervisory administrative setup as well.

With huge masses on the brink of poverty in China, social inclusion should be a key area of action in the future. European states' and even EU-level practices can again provide meaningful examples for policy planning and implementation. On the EU-level the *European*

platform against poverty and social exclusion should be mentioned here which is one of seven flagship initiatives of the Europe 2020 Program. The platform is designed to help EU countries reach the headline target of lifting 20 million people out of poverty and social exclusion (as foreseen in the EU2020 program).¹⁰⁶

With the emancipation of Chinese urban employees, strikes and other forms of indications of discontent will get ever more frequent. Other less contradictory situations where effective communication and cooperation between employees and employers are nevertheless of key importance will be even more of a daily routine in China, therefore the long-term European (member state and EU level) experience related to the domain of *social dialogue* seems another area of meaningful know-how transfer.

VI. Regional policy¹⁰⁷

1. EU-China cooperation in regional policy - overview

The European Union is not a country governed by a single government, it lacks federal administration as well as a common language. EU cohesion policy framework is decided by member states and the European Commission, implementation is done mostly by national authorities.¹⁰⁸ Moreover economic and social challenges in the EU and in China are far from identical. Nevertheless common features in regional policy planning and implementation exist and both China and the EU could learn from one another in this respect. Both have large

¹⁰⁶ See more on this at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52010SC1564&from=EN> and at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52010DC0758&from=EN>

¹⁰⁷ This chapter is based upon the following paper: Attila Marjan – Chen Xi: China's Regional Policy – How it Could Benefit from the EU Experience, 2015, Brussels, Shanghai.

¹⁰⁸ Member States then use the EU funds to finance programmes – thematic programmes covering the whole country (on the environment or transport, for instance) or regional programmes. The European Commission is not involved in selecting projects (except for a small number of major projects) – this is done by the national and regional authorities responsible for managing the programmes. These ‘managing authorities’ lay down selection criteria, organise selection committees and – via a project tendering procedure open to all – decide which projects will receive European funding. The programmes are prepared by each Member State and/or region, and financed under the European Regional Development Fund or the Cohesion Fund. For European Social Fund (ESF) programmes. ‘Major Projects’ are usually large-scale infrastructure projects in transport, environment and other sectors such as culture, education, energy or ICT. As they receive more than € 50 million in support through the ERDF and/or Cohesion Fund, they are subject to an assessment and a specific decision by the European Commission. Search the database for details of Major Projects.

territories with significant economic and social disparities and both have the objective to achieve a balanced regional development. Territorial disparities often the source of social tensions, migration, and climate related issues are relevant for the EU and China alike.

The co-operation between China and the EU on regional policy has started already ten years ago. In 2006 a memorandum of understanding on regional policy cooperation was signed between the European Commission and the National Development and Reform Commission (NDRC) to exchange information and share best practices in the field of regional policy. In 2009 the above-mentioned memorandum was amended to make room for a strategic cooperation in the field of innovation and on regional clusters. Based on this cooperation a comprehensive study comparing the key aspects of Chinese and EU regional policy was published in 2010.¹⁰⁹ The report focuses on 15 selected key aspects of regional policy, including a historical review, regional policy's role in economic growth, definition of regions, regional planning, regional governance with Chinese characteristics, rural and urban-rural integration, sustainable development and climate issues.

In 2010, the European Commission launched CETREGIO¹¹⁰, a Chinese European Training Series on Regional Policy. CETREGIO intends to offer Chinese regional experts a source of reference for designing regional development policies focusing on regional policy legislation; statistical information systems; innovation and clusters; territorial cohesion; urban-rural linkages; and sustainable urban development. The programme also aims at strengthening links between European and Chinese regions. The EU-China Dialogue on Regional Policy Cooperation has also been set up that helps direct contacts between regional and urban authorities in a decentralized way, including the participation of the private sector in the dialogue. The commonly agreed key themes for the work programme of the Dialogue for 2014 were sustainable urban development, the issue of large cities, and major urban challenges including energy efficiency, low carbon economy. Industrial clusters and enhancing innovation capacity of regions also made to the priority list. The EU Commission and the Chinese National and Reform Commission agreed to create a joint multiannual roadmap to frame the common work, moreover the Guangzhou Development Zone was selected as a pilot area of EU-China regional policy cooperation.

¹⁰⁹ http://ec.europa.eu/regional_policy/cooperate/international/china_en.cfm (EU-China Cooperative Research Programme on Regional Policy – Research Report of the Chinese Expert Group, March, 2010.)

¹¹⁰ Since 2010, more than 150 Chinese decision makers from all 31 provincial level regions visited EU regional policy best practices sites.

Finally even the overarching “*EU-China 2020 Strategic Agenda for Cooperation*” includes a chapter on regional policy stressing the importance of the work done by the EU-China Dialogue on Regional Policy Cooperation and the need to continue direct contacts between regional policy authorities, joint research, training programmes and pilot projects.

Chinese scholars in the European Studies field looked into the EU regional policy already from the late 1980s. Since 2000, when the regional development strategy has become a priority project for China, research of EU regional policy has become abundant. The general view of Chinese researchers is that EU regional policy is a successful tool worth studying and look for viable references for the Chinese regional policy to counter ever increasing development gaps in the country. There are hundreds of research papers, policy reports and MA and PhD dissertations in China on how European regional policy can be the reference for China's regional development strategies.¹¹¹

Besides know-how exchange joint or coordinated development policy actions are also on the agenda: in June 2015 at the EU-China Summit the Chinese premier announced that its country could invest up to €10 billion in the EU's new EUR 315 billion infrastructure fund, the European Fund for Strategic Investment (EFSI). The Chinese pledge follows decisions by EU governments to join the Chinese-led Asian Infrastructure Investment Bank (AIIB), contrary to the misgivings of the USA. China also sees an opportunity in the European Union policy to digitalize its industry (an important thematic priority of EU regional policy) and public services which coincides with the Chinese Internet Plus plan, whereby everything is connected to a super-fast broadband network infrastructure.

Cooperation in regional policy is thus well established and ongoing for a decade, the question is how relevant it is for the parties. In order to look into this issue an overview of how EU and Chinese regional policies function is necessary.

¹¹¹ Song, Xinning: European 'models' and their implications to China: internal and external perspectives. *Review of International Studies*, Vol. 36. Issue 3. July 2010. Pp. 755-775.

2. EU regional policy and its financing

EU regional policy (sometimes called cohesion policy¹¹² - causing thereby a slight uncertainty) targets regions cities and poorer member states (through the Cohesion Fund) in the European Union to support job creation, business competitiveness, economic growth, sustainable development, improve citizens' quality of life and decrease regional development differences. The EU applies a 7 year long budgetary framework for planning and implementation. The current one runs from 2014 until 2020. In this period the EU spends EUR 351.8 billion –a third of the total EU budget – on cohesion policy. The EU regional policy is basically delivered through three funds: the European Regional Development Fund, Cohesion Fund and the European Social Fund. Together with a separate agricultural fund on rural development and a maritime and fisheries fund they constitute the EU's Structural and Investment Funds. Cohesion Fund is delivered to less well-off member states (whose GDP is lower than 90% of the EU average) and not to subnational regions¹¹³ like the other funds. Economic and social cohesion – as defined in the 1986 Single European Act – is about reducing disparities between the various regions and the backwardness of the least-favoured regions. The EU's most recent treaty, the Lisbon Treaty, adds another facet to cohesion, referring to economic, social and territorial cohesion. The accession of poor countries such as Greece (1981), Spain and Portugal (1986) significantly boosted the EU's consciousness of regional differences in the level of development, therefore the common regional policy was reinforced. The so-called structural funds were therefore integrated into a new broad cohesion policy system which focused on the poorest regions and a multi-annual programming approach was introduced. The seven year budget for cohesion policy that time amounted to EUR 64 billion. In 1993 the Maastricht Treaty introduced the Cohesion Fund, and the money available was doubled.

¹¹² Cohesion policy should also promote more balanced, more sustainable 'territorial development' – a broader concept than regional policy, which is specifically linked to the ERDF and operates specifically at regional level, but the use of these terms in practice is not really precise. The term cohesion policy gained true relevance after the accession of poorer southern countries and especially once Eastern-European countries joined in 2004.

¹¹³ EU member states have different ways of dividing their territories into administrative units. But for the purposes of managing EU financed programmes and comparing statistics, the EU devised the NUTS system - dividing each country into statistical units (NUTS regions). The EU is currently divided into 274 'NUTS 2 level' regions – the most important class of NUTS levels being the basis of regional policy funding. NUTS 2 regions have from 800 000 to 3 million inhabitants.

The 2004 so-called big-bang enlargement of the EU was not only an historical event but also increased the heterogeneity of the union on an unprecedented scale: the new member states, mostly former communist countries increased the EU's population by 20%, but its GDP by only 5%. The EU had to devote significant amounts to reduce the development differences between the old and new members.

For the 2007-2013 budget period (in 2007 the two poorest countries, namely Romania and Bulgaria joined too), the cohesion budget grew to EUR 347 billion of which 25 percent has been earmarked for research and innovation and 30 percent for environment protection and climate action. In the 2014-2020 budgetary period, the budget's size remained untouched contrary to heavy lobbying by rich member states who pay for the bill. National governments negotiated how the funds should be distributed in the EU Council and, even though all regions still benefit from cohesion policy, priority was given to countries and regions whose development was lagging behind. More than half of the budget – €182.2 billion – has been set aside for less developed regions, which have a GDP of less than 75 % of the EU average. €35 billion has been allocated to transition regions, which have a GDP of between 75 % and 90 % of the EU average, and €54 billion to more developed regions which a GDP of more than 90 % of the EU average.

Regional policy is the EU's most important common investment policy. EU cohesion policy helps other EU policy objectives such as education, employment, energy, the environment, research and innovation policies. it is a key financial support for the EU's overarching Europe 2020 Strategy.¹¹⁴ In the eighties EU regional policy was relevant mainly for the public sector in the form of state help for big companies and large-scale infrastructure subsidies, now it is

¹¹⁴ The five targets of the EU in 2020 are:

1. Employment: 75% of the 20-64 year-olds to be employed
2. Research & Development: 3% of the EU's GDP to be invested in R&D
3. Climate change and energy sustainability:
 - Greenhouse gas emissions 20% (or even 30%, if the conditions are right)
 - 20% of energy from renewables
 - 20 % increase of energy efficiency
4. Education:
 - Reducing the rates of early school leavers below 10%
 - At least 20 million fewer people in or at risk of poverty and social exclusion
5. Fighting poverty and social exclusion: At least 20 million fewer people in or at risk of poverty and social exclusion

much more focused on SME's, and on knowledge economy. This nevertheless entails some market related issues - such as guaranteeing public benefit by using public money - with which the EU and member states have to deal with carefully.

For the 2014-20 programming period, there are eleven thematic objectives that are financed by the EU cohesion policy funds. (Areas such as research and innovation, SME support, environment, transport, low carbon economy, transport and energy, employment, training, and public administration.) National and regional authorities specify in their operational programmes how they intend to distribute the available funding between the different thematic objectives. In some poor member states EU cohesion transfers are the most important sources of public investment (representing sometimes the 4 % of these countries GDP), thereby alleviating the countries' national budgets helping them maintain a modest budget deficit which is an EU requirement for both Eurozone and non-Eurozone members. In some cases (Slovakia, Hungary, Bulgaria) government investments are financed up to 90% from EU funds!

At the same time the assessment of the impact and efficiency of the EU's regional policy is a controversial matter. The European Commission publishes a so-called Cohesion Report on the development of European regions and the impact of EU cohesion policy. According to the data published by the European Commission¹¹⁵, for the 2007-2010 period the GDP per capita in the so-called Convergence Regions (regions with per capita GDP under the 75 percent of EU average) increased from 60.5 % of the EU-27 average to 62.7 % between 2007 and 2010. Nevertheless the direct impact of EU cohesion policy is very difficult to discern. It is estimated that EU cohesion policy generated an additional 600 000 jobs from 2007 to 2012, at least one third of them in the SME sector. 25 000 km of roads and 1 800 km of rail were constructed or modernised in the same period, 200 000 SMEs received direct financial support, and cohesion policy helped some 80.000 start-ups to get up and running. Every year, around 15 million people take part in the thousands of projects co-financed by the European Social Fund (ESF) across the EU. 2.4 million participants in ESF actions supporting access to employment found a job within 6 months between 2007 and 2010 and some 60 000 research projects were supported in the period 2007-2012. At the same time, EU cohesion policy

¹¹⁵<http://ec.europa.eu/eurostat/documents/3217494/5785629/KS-HA-14-001-EN.PDF/e3ae3b5c-b104-47e9-ab80-36447537ea64>

especially in the phase of its implementation is not without problems. Occurrences of misuse, waste or even corruption in relation to EU cohesion funds are a well-known. The poorer the country the graver these problems prove to be. This is one of the biggest obstacle to decrease territorial differences through cohesion funds in the EU.

To analyze territorial competitiveness at the regional level, the European Commission has developed the Regional Competitiveness Index (RCI) in 2010 which indicates the strengths and weaknesses of the EU NUTS 2 regions. The index builds on the methodology developed by the World Economic Forum for the Global Competitiveness Index, covering a wide range of issues including innovation, quality of institutions, infrastructure (including digital networks) and measures of health and human capital.

Eight out of the top ten regions in 2013 had also been featured on the 2010 list. It is also very important to note that seven out of the top ten most competitive regions are either capital regions or regions including large cities. It is even more important that at the lower end of the European competitiveness scale, regions also seem to have been stuck, therefore indicating the lack of success of EU's cohesion efforts in levelling territorial differences. The poorest regions are mainly Bulgarian, Greek and Romanian ones. The Greek economic crisis is yet another stark indicator that – since Greece has been and still is one the major beneficiaries of EU cohesion support – financial transfers do not work if the recipient countries' or region's institutional and legal framework is inadequate.

3. China's regional policy and its problems

Since its reform policy began in late 1970s, China has undoubtedly been the most rapidly growing country in the world. Meanwhile, however, there are increasing concerns over social and political instability resulted from regional economic disparities and polarization. Increasing imbalances can be observed not only in the economic development, but also in incomes, the quality and accessibility of public services, the level of development of a liberal market economy and economic openness in general. Therefore, the Chinese government has been impelled to implement a series of regional policy measures to alleviate regional disparities and promoting a coordinated regional development.¹¹⁶

¹¹⁶ According to the 12th Five-Year Plan - 2011-2015 – (*12th Five Year Plan: Optimizing the structure,*

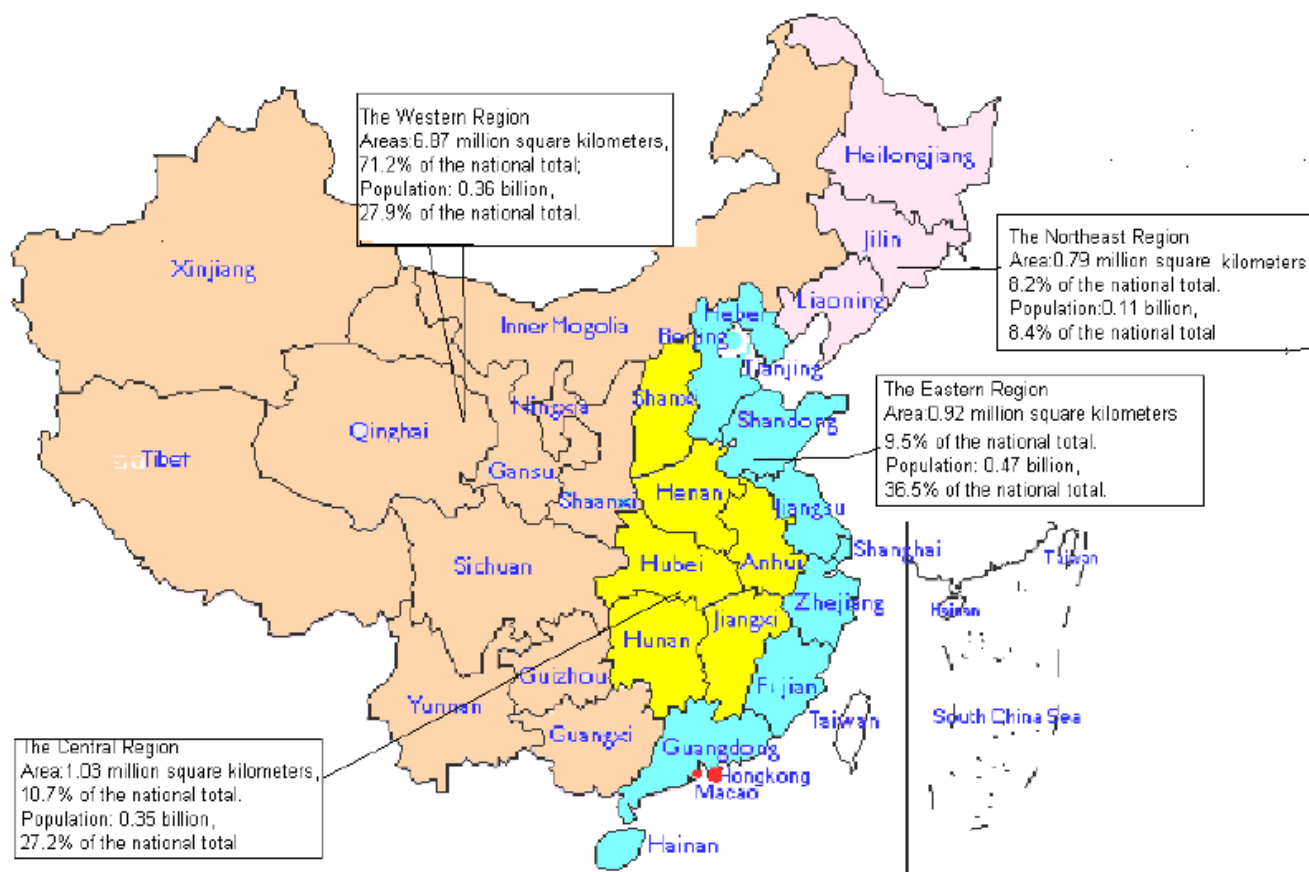


Figure 1. The Eastern, Central, Western and North-Eastern Regions of China¹¹⁷

It is also planned to gradually narrow the regional disparities, equalize basic public services, give full play to comparative advantages in different regions and deepen regional cooperation are some basic goals of China’s regional policy. It is reasonable to expect an observable level development in the targeted regions, especially the Western, the Central and the Northeastern areas, as a result of regional policy actions, yet whether these regions can keep up with the East remains an open question.

accelerating the coordinated regional development and sound urbanization development) of the Chinese government the following are the regional policy focuses (besides support to areas populated by ethnic minorities and border areas):

1. **Western region: promoting a new round of large scale development measures.** Infrastructure construction; building several key projects of water conservation and ecological, energy projects are the priorities, also agriculture and tourism.
2. **Northeastern region: comprehensive revival the old industrial base.** Here the plan is to upgrade industry and the financial sector.
3. **Central region: acceleration of development.** Grain production, energy and raw material and transport, clustering.
4. **Eastern region: Support high-end development.** Enhance international cooperation, develop hi-end strategic sectors, modern services and innovation.

¹¹⁷ EU-China Cooperation Activity on “Regional Policy” Within the Policy Dialogue between DG REGIO and NDRC Final Report of the Chinese Experts – English Language Version, December 2010, P.53

Coefficient of variation (CV), Gini coefficient and Theil index are the three most commonly used and popular measures in the literature of China’s regional inequality, which all reveal a similar trajectory of interprovincial inequality for the period from 1978 to 2006. According to Figure 2, interprovincial inequality increased only slightly from about 1999 to 2004, and declined for two consecutive years from 2004 to 2006. The relative plateau of inequality reached in the late 1990s and the subsequent decline since 2004 hint at a downward trend of interprovincial inequality, possibly related to efforts such as the Western Development Program.

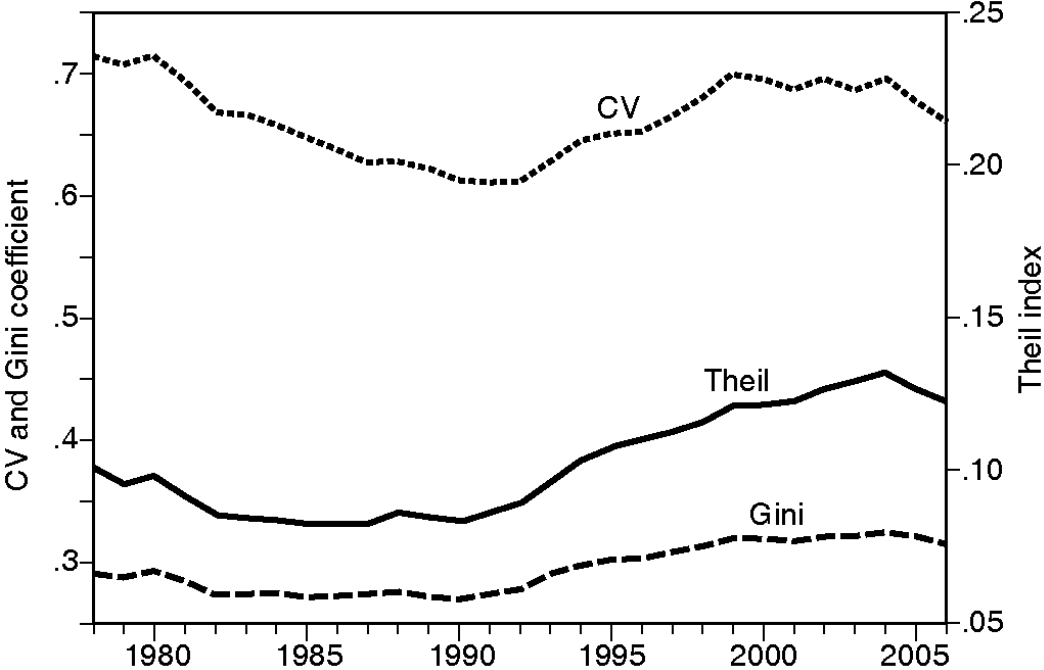


Figure 2 Interprovincial inequality in per capita GDP, 1978-2006¹¹⁸

Per capita GDP is another indicator of the overall level of economic development. As presented in Table 1 below, if we take the per capita GDP of Eastern China as 100%, the ratio between the central, western and northeastern regions with the former keep increasing in recent years.

¹¹⁸ Source: C. Cindy Fan and Mingjie Sun: Regional Inequality in China, 1978-2006, Eurasian Geography and Economics, 2008, 49, No. 1, pp.1-20

Table 1 Comparison of Per Capita GDP among Four Regions¹¹⁹

		2001	2003	2005	2007	2008
Per Capita GDP (RMB Yuan)	Eastern	13395.8	17330	23696.8	32089.1	37022.9
	Central	5763.4	7125.0	10576.2	14745.4	17816.7
	Western	5183.0	6438.0	9163.0	13186.4	15950.9
	North-Eastern	9857.5	11857.9	15934.5	21538.1	25929.2
Taking Eastern Region as 100%	Eastern	100.0	100.0	100.0	100.0	100.0
	Central	43.0	41.1	44.6	46	48.1
	Western	38.7	37.1	38.7	41.1	43.1
	North-Eastern	73.6	68.4	67.2	67.1	70.0

Source: China Statistical Yearbooks for the corresponding years.

Decomposing the Theil index into its interregional (between-region) and intraregional (within-region) components (Figure 3), one finds that interregional inequality increased sharply and continuously during the period from 1999 to 2004, and replaced intraregional inequality as the main determinant of changes in interprovincial inequality since 1993.

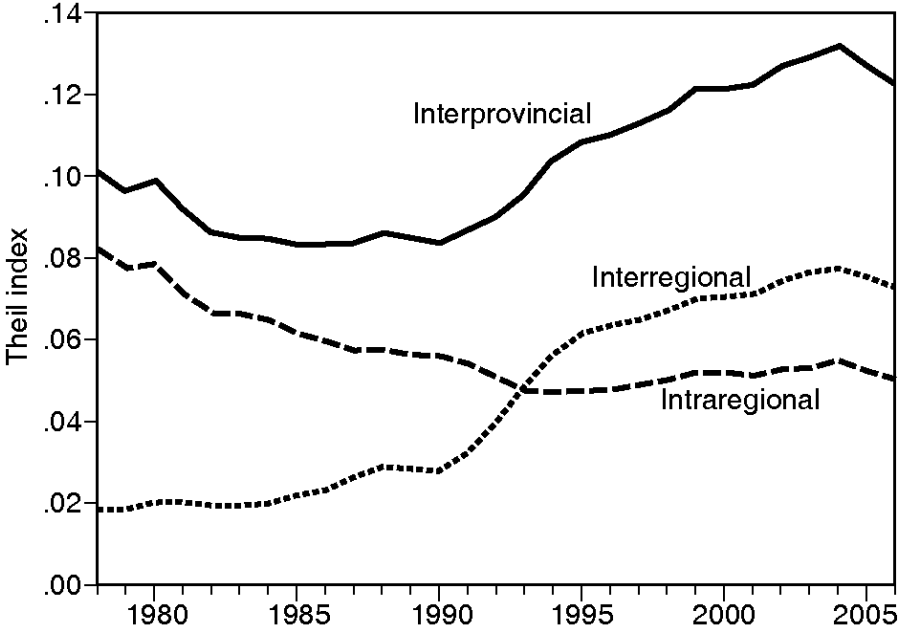


Figure 3 Decomposition of interprovincial inequality, 1978-2006 (Fan and Sun, 2008)

Besides, despite a smaller disparity in growth rate between the regions in recent years, the absolute disparities are still growing. The disparity in per capita GDP between the eastern and the western regions increased from RMB 14,885 to RMB 22,129 during 2005–2009.

¹¹⁹ EU-China Cooperation Activity on “Regional Policy” Within the Policy Dialogue between DG REGIO and NDRC Final Report of the Chinese Experts – English Language Version, December 2010, P.63

Table 2 Relative Disparity and Absolute Disparity in per capita GDP between the Eastern Region and the Western Region¹²⁰

	1978	2000	2009
Relative Disparity (times)	1.8	2.4	2.4
Absolute Disparity (RMB)	203	7120	17523

Source: *China Statistical Yearbooks* (2001 and 2007)

It is a fact that per capita GDP in western provinces accounts only for two thirds of national average and less than 40% of that of the East. Moreover besides the level of economic development, disparities exist in education, health and culture. The per capita educational expenditure budget of the western region was only 73.5% of that of the eastern region in 2008. In 2003, the GDP in the Eastern China was 2.38 times more than the Central region and 3.48 times more than the Western regions.

From the previous analysis, it is obvious that although the Chinese government make efforts to reduce interregional disparities and invest a lot in the least developed regions, the effect of China's regional policies are relatively limited. There are several reasons to explain this.

a. Lack of a single official organization specialized in regional management

Regional policy is the most important instrument for a government to achieve coordinated regional development, it is necessary to set a specialized official organization to design, implement, supervise and evaluate the whole process of regional policy. Currently, the Chinese National Development and Reform Commission (NDRC) is in charge of designing regional policies. However, regional development is only one of many duties of the NDRC. There are two main offices in the Ministry of Foreign Affairs which also take responsibility to promote the Go West Strategy and the Rejuvenation Strategy of Old Industrial Bases in the Northeast China, which are far from powerful and effective leading organizations. In the implementation of regional policies, Ministry of Land and Resources, and Ministry of Housing and Urban-Rural Development are also take part.

Apparently, none of above organizations has the full capacity and legitimate status to address the issue of regional disparities in a comprehensive and forceful manner. In practice, due to

¹²⁰ Ibid, P.121

lack of a single organization, different parties often have conflicts, overlaps and blind spots in regional policy management.

As opposed to China, the EU - as a department of the European Commission - has its Directorate for Regional Policy which is the key player in designing, implementing and managing and controlling Union cohesion policy. DG Regio employs some 700 professionals from all over the European Union using a wide range of expertise. Besides being the centerpiece of regional policy design and implementation DG Regio has become a knowledge base within the European Commission to inform policy making with regional data and intelligence. DG Regio works with EU member states, regions and other stakeholders to assess needs, finance investments and evaluate the results of EU cohesion policy in a comprehensive manner.

b. Failure to identify the optimal target region for regional policy

Regional policy should target specific problems and regions suffering from those problems. As mentioned above, China's current regional policy mainly focus on four regions—the East, the West, the Central and the Northeast. But China is such a big country that even the smallest region is larger than several European countries combined. (By means of the EU NUTS system, the UK, which only covers about 243000 sq. km, can be divided into 12 NUTS-1 areas and 37 NUTS-2 areas and take diverse regional policies targeting different problems.¹²¹) Considering of rather complicated and diverse situations inside the different regions, it is impossible to fix the regional problems by only four sets of predetermined toolboxes.

¹²¹ Zhang Keyun, *The Institution base of EU regional policy and China's regional policy in the future*, March 2010

Table 3. Territorial features of the four regions

Region	Scope
China	31 cities, autonomous regions and provinces
Eastern region	10 cities and provinces: Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan.
Central region	6 provinces: Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan.
Western region	12 cities, autonomous regions and provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Guangxi.
North-eastern region	3 provinces: Liaoning, Jilin and Heilongjiang.

At present, provincial units are generally regarded as the basis for China’s regional policy formulation. The Chinese government should think about a better identified framework for considering and formulating regional strategies and policy measures. In other words, there is a need to shift the basic level of regional policy formulation from merely administrative demarcation to problem-oriented areas which based on similar economic features and suffers from similar problems. Only by this can the regional policy be specific and clear, and therefore be effective. There are three levels of regional demarcation in China, namely the provincial level, the municipal level and the county level, are generally comparable. However, the county-level statistics in China are far from perfect, lacking in comprehensive statistical indicators. To strengthen the county-level statistics is a major challenge of the Chinese regional policy. As the report of the joint EU-China regional policy committee of 2010 states: the county-level statistics in China is unable to provide comprehensive and stable statistical indicators. Moreover the regional demarcation system in China has changed frequently. As the report claims in addition to a rapid social and economic growth and changes in the macro environment, there is no definite, long-term regional development strategy – frequent adjustments to the regional development strategy have led to frequent changes in regional demarcations. The authors of the report urge the Chinese government to decide which basic level should be used for regional strategies and policy measures. There is also a need to shift the basic level of regional policy formulation from the provincial level down to municipal or even county-level units, to reduce administrative complexity and getting closer to the level of

implementation. Regional demarcation is an important step in formulating a regional development strategy, and they are dependant on each other – without a long- demarcation would be less stable and without practical importance, while without a reasonable regional demarcation, a specific strategy (measure) is impossible to implement. Without comparable figures among regions, the formulation of reasonable regional strategies and measures is out of the question.

As already mentioned in the EU's NUTS system, countries are divided into three levels— NUTS1, NUTS2 and NUTS3. Regional policies are mainly targeting the NUTS2 areas, in order to avoid the targeted area from being over- ambiguous or over-fragmented. The main purpose of the EU's NUTS is to acquire comparable statistical data among the member countries.

The current NUTS 2013 classification (*Nomenclature of territorial units for statistics*) is valid from 1 January 2015 and lists 98 regions at NUTS 1, 276 regions at NUTS 2 and 1342 regions at NUTS 3 level. The NUTS classification is a hierarchical system for dividing up the economic territory of the EU for the purpose of:

- The collection, development and harmonisation of European regional statistics;
- Socio-economic analyses of the regions
 - NUTS 1: major "socio-economic" regions
 - NUTS 2: basic regions for the application of regional policies
 - NUTS 3: small regions for specific diagnoses
- Framing of EU regional policies (at NUTS 2 level)

At the beginning of the 1970s, Eurostat (the EU's central statistical office) set up the NUTS classification as a single, coherent system for dividing up the EU's territory in order to produce regional statistics. For around thirty years, implementation and updating of the NUTS classification was managed under a series of "gentlemen's agreements" between the Member States and Eurostat – now it is rule-based. The EU rules establish stability of the classification for at least three years with no change. Stability makes sure that data refers to the same regional unit for a certain period of time (this is crucial for statistics, in particular for time-series analysis). Sometimes however member state national interests require changing the regional breakdown of a country. When this is the case, the county concerned informs the European Commission accordingly. The Commission in turn amends the classification at the end of period of stability according the rules of the NUTS Regulation.

The basic principles of the NUTS system are the following:

Principle 1: The NUTS regulation defines minimum and maximum population thresholds for the size of the NUTS regions:

LEVEL	MINIMUM	MAXIMUM
NUTS 1	3 million	7 million
NUTS 2	800 000	3 million
NUTS 3	150 000	800 000

Principle 2: NUTS favors administrative divisions - normative criterion. For practical reasons the NUTS classification is based on the administrative divisions applied in the Member States that generally comprise two main regional levels. The additional third level is created by aggregating administrative units.

Principle 3: NUTS favours *general* geographical units because general geographical units are normally more suitable for any given indicator than geographical units specific to certain fields of activity.¹²²

c. Lack of effective financial support instruments

The effective implementation of EU's regional policy largely relies on its financial instruments. In the EU five major funds (European Structural and Investment Funds) constitute the financial framework of regional policy:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

Every EU region has the right to receive transfers from the ERDF and ESF (mostly poorer regions do so). Cohesion Fund is solely devoted to the poorest regions.

¹²² Source: Eurostat

The *European Regional Development Fund* aims to strengthen economic and social cohesion in the European Union by reducing imbalances between NUTS 2 regions. The ERDF focuses its investments on several key priority areas, such as innovation and research; digital development; support for SMEs and low-carbon economy. The ERDF also gives particular attention to specific territorial characteristics. ERDF action is designed to reduce economic, environmental and social problems in urban areas, with a special focus on sustainable urban development. At least 5 % of the ERDF resources are set aside for this field, through 'integrated actions' managed by cities. Areas in a naturally disadvantageous situation (remote, mountainous or sparsely populated areas) benefit from special treatment.

The *European Social Fund* invests in people to improve employment and education opportunities. It also aims to improve the situation of the most vulnerable people that are at risk of poverty. More than € 80 billion is earmarked for human capital investment in Member States between 2014 and 2020, with an extra of at least € 3.2 billion allocated to the Youth Employment Initiative. For the 2014-2020 period, the ESF focuses on the below four thematic objectives: promoting employment and supporting labor mobility, social inclusion and combating poverty, investing in education, skills and lifelong learning, enhancing institutional capacity and efficient public administration. 20 % of ESF investments are committed to activities improving social inclusion and combating poverty.

The *Cohesion Fund* is – as already mentioned - aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development. For the 2014-2020 period, the Cohesion Fund is open to the following EU member states: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. The Cohesion Fund allocates a total of € 63.4 billion to activities under the following categories: trans-European transport networks, notably priority projects of general European interest, and also big infrastructure projects under the so-called Connecting Europe Facility; environment; energy and transport projects, as long as they benefit the environment (energy efficiency, renewable energy, rail transport, intermodality, etc.) It is important to note that the payments from the Cohesion Fund can be suspended if the beneficiary member state has higher deficit than tolerated by EU rules (3% of GDP).

The European Agricultural Fund for Rural Development (EAFRD) is devoted to the development of rural and agricultural territories, while the European Maritime and Fisheries Fund (EMFF) is directed to the fisheries and maritime sector.

Apart from the European Structural and Investment Funds there are other types of funds to support either member states or states that want to join the EU. The European Union Solidarity Fund (EUSF) was set up to respond to major natural disasters and express European solidarity to disaster-stricken regions within Europe. Also the EU has separate fund for countries that are on their way to join the EU as members (including Turkey), the so-called Instrument for Pre-Accession Assistance (IPA). The IPA is made up of five different components: assistance for transition and institution building; cross-border cooperation (with EU Member States and other countries eligible for IPA); regional development (transport, environment, regional and economic development); human resources (strengthening human capital and combating exclusion); rural development.

A relatively new instrument is the European Fund for Strategic Investments (in which as mentioned earlier China also indicated its interest to participate), which is established in close partnership with the European Investment Bank (EIB) in the order of at least €315 billion in private and public investment across the European Union. This will especially support strategic investments, such as in broadband and energy networks, as well as smaller companies with fewer than 3000 employees. The proposal also sets up a European Investment Advisory Hub to help with project identification, preparation and development across the Union. Finally, a European Investment Project Pipeline will improve investors' knowledge of existing and future projects.

Besides the different EU Funds the European Investment (EIB) also contributes to the execution of EU policies through loans, guarantees and equity investment. The EIB is owned by the EU member states, more than 90% of its activity is focused on Europe but it also supports the EU's external policies to some extent. The EIB also provides professional advice and project management capacity. The EIBS four priority are innovation and skills, SME finance, climate action, strategic infrastructure. EIB generally finance one-third of the projects but sometimes 50%. Its staff is around 2000 people. Its younger brother, the European Investment Fund is a specialist in SME risk finance. The EIB is the majority EIF shareholder with the remaining equity held by the European Union (represented by the European

Commission) and other European private and public bodies. From 10bn in 1988, the EIB's annual lending jumped to EUR 79bn in 2009, and it was EUR 77bn in 2014.

As opposed to the EU China lacks such a comprehensive financial toolbox to meet local needs. Policy largely depends on individual central fiscal transfers and China hardly deploys funds or loans addressed to specific regional issues. Thus, without a stable and institutionalized financial support mechanism, economic assistance to the least developed regions is largely funded via national economic and social development plans.

d. Over-dependence on government and failure to include non-governmental actors

A great achievement of China's economic reform over last 30 years is to diversify the source of capital input. Less fiscal investment from government, more capital resources allocated by the market, such as private investment and foreign direct investment. But the least developed regions are still over-dependent on government investment. China's regional development still unduly depends on government investment, leading to several negative consequences. Excessive fiscal investment may distort the allocation of capital resources and consequently be inefficient. In other words, the capital is less productive. The productivity of capital in western areas is much lower than the East. In the East, if capital increases 1%, GDP will rise by 1.03%; while every 1% increase in capital can only deliver 0.933% increase of GDP in the West (Liu and Qiu, 2006). Due to a worse soft-environment, the foreign direct investment (FDI) in the West is far behind than that in the East. FDI plays an important role in improving regional economy. It can not only provide more capital supplies, but also brings advanced technologies and management experience. FDI can be an indicator of the quality of investment conditions, legislations, labors, and the degree of openness. During the period from 1987 to 2007, the FDI in the West accounted for less than 5% of total amount (Liu, 2009).

Besides, government investments prefer heavy industry and infrastructure construction. The qualities of investing conditions, legislation, labor market and the degree of general economic openness in the West remain relatively low.

Prof. Anis H. Bajrektarevic describes in the following way the scenery surrounding China: “The Sino economy is low-wage- and labor intensive-centered one. Chinese revenues are heavily dependent on exports and Chinese reserves are predominantly a mix of the USD and US Treasury bonds. To sustain itself as a single socio-political and formidably performing economic entity, the People’s Republic requires more energy and less external dependency. Domestically, the demographic-migratory pressures are huge, regional demands are high, and expectations are brewing. Considering its best external energy dependency equalizer (and inner cohesion solidifier), China seems to be turning to its military upgrade rather than towards the resolute alternative energy/Green Tech investments – as it has no time, plan or resources to do both at once. Inattentive of a broader picture, Beijing (probably falsely) believes that lasting containment, especially in the South China Sea, is unbearable, and that – at the same time – fossil-fuels are available (e.g., in Africa and the Gulf), and even cheaper with the help of warships.”

Descriptive and predictive on China, prof. Anis H. Bajrektarevic concludes: “Opting for either strategic choice will reverberate in the dynamic Asia–Pacific theatre. However, the messages are diametrical: An assertive military – alienates, new technology – attracts neighbors. Finally, armies conquer (and spend) while technology builds (and accumulates)! At this point, any eventual accelerated armament in the Asia-Pacific theatre would only strengthen the hydrocarbon status quo. With its present configuration, it is hard to imagine that anybody can outplay the US in the petro-security, petro-financial and petro-military global playground in the following few decades. Given the planetary petro-financial-tech-military causal constellations, this type of confrontation is so well mastered by and would further only benefit the US and the closest of its allies.”¹²³

The Chinese government has tried to motivate other players' involvement by introducing preferential tax measures. It did play a positive role in enhancing economic growth and also boosting corporate profits in the West at the beginning. Tax preferences in the West benefited state owned enterprises more than privately owned ones. In general over-dependence on government policies does not provide optimal results.

¹²³ Bajrektarevic, Anis: Geopolitics – Europe of Sarajevo 100 years later, DB 2015

As opposed to the Chinese practice, the outreach of regional policy institutions towards other (including different types of non-governmental) stakeholders is well-established and institutionalized. One of the key principles of the management of EU regional policy is “partnership”. DG Regio, as the central hub of EU regional policy builds partnerships with and between business, research, educational and public actors. The European Commission also encourages the Member States and regions, as well as enterprises, universities and research centers to cooperate in order to maximize the effects of Cohesion Policy investments and other EU financial sources and programs. The ‘RegioNetwork’ is an on-line collaboration platform for representatives of European regions and other stakeholders in the European Union's regional policy. The so-called Regions for Economic Change Initiative fosters networking and mutual learning of other regions' experiences in improving their innovation capacity, ICT connections and human capital or in giving their industrial clusters development.

4. Conclusions

The European Union and China are different in many ways. One is a confederal type union, the other is a country. EU member states are market economies, as opposed to China which is while applying a series of market based economic policy tools, still is a special form of a centrally planned economy. In the field of regional policy also one can detect several differences in institutions, needs, policy considerations, tools and concrete measures. Moreover in the EU Union-level cohesion policy has an additional function to nation state development policies although in some poorer regions and member states it in itself constitutes the entirety of development policy. And yet, there are important lessons Chinese regional policy actors can learn from the EU experience. There is a specific area where Europe might be able to contribute with know how: urbanization which is indeed a key phenomenon in current day Chinese development. The country was overwhelmingly rural a few decades ago, but 45% of people in China lived in cities already in 2010. That’s projected to reach 60% by 2030, exacerbating a range of challenges from sanitation to the residential status of migrant workers. European experience can contribute in urban governance to establish a human-centered urban environment for hundreds of millions of Chinese people.

Moreover this learning process is not and should not be a one-way exercise. The EU has also been looking at the Chinese example as a source of inspiration, but this aspect falls outside the

scope of this paper.

As this chapter hinted, EU regional is not a *perfect* model, especially when efficiency is concerned, but still has important lessons to offer to China. EU cohesion policy has clear boundaries, rules, institutions, and financial instruments. Regional policy's status and also longevity is also guaranteed by the reference to it in the basic EU Treaty. Cohesion policy in the EU has a longstanding and relatively stable institutional setup, and also stability in policy directions once these directions are established by the member states. At the same time a considerable level of flexibility is also present through flexibility instruments, funds and procedures. The system of regional demarcation in the European Union is also dependable and stable. The funding framework is complex but rule-based. The planning and implementation of regional policy in the EU is an inclusive act: people, local institutions, market forces, regions, civil society are involved. In sum, the following features of the EU regional policy are considered the main advantages of EU regional policy worth considering by China:

- The existence of a strong specialized institutional hub to coordinate the policy all over the EU;
- Clear, effective and stable regional demarcation regime to manage and control regional policy;
- Robust and transparent financial support system in the form of the several EU funds;
- Designing and implementing regional policy in partnership with a broad spectrum of stakeholders (partnership), instead of a government dominated investment policy.

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