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**EU-CHINA CO-OPERATION
IN GLOBAL GOVERNANCE:
GOING BEYOND THE
CONCEPTUAL GAP**

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INTRODUCTION

BALAZS UJVARI

The European Union (EU) and China are both central actors in international affairs, collectively accounting for almost 40% (in current market prices) of the world's gross domestic product (GDP).¹ While addressing the key global challenges of the 21st century increasingly requires an entente between these two actors, their relationship is often plagued by conflicting interests. Whether or not the EU will grant market economy status to China still looms largely in the trade relations of the two; the EU is still yet to lift its arms embargo on China; and they also differ in climate action responsibilities, to name a few.

In addition to conflicting interests, the EU-China relationship is also hampered by the existence of 'conceptual gaps': the two entities tend to attach different interpretations to the same notions and concepts. These conceptual gaps manifest themselves in all walks of life. They are even visible in everyday social interactions between European and Chinese officials, scholars and businessmen. When Chinese international relations scholars arrive in Europe to exchange views with their counterparts in European think tanks, for example, the difference in mindsets often surfaces instantly: while the receiving Europeans tend to follow a pre-arranged schedule and speak with multiple voices, their Chinese interlocutors often seem to be oblivious of formerly agreed time constraints and speak almost exclusively through the most senior member of the delegation, relegating other delegates to an observatory role. In addition to such everyday occurrences, conceptual gaps between Europeans and Chinese also exist with regard to some key concepts in international relations: sovereignty; human rights; democracy; strategic partnership as well as global governance and multilateralism. These conceptual gaps also explain why China and the EU often position themselves differently at the international stage when addressing issues of global concern.

The existence of conceptual gaps in Sino-European relations is, of course, not a novel area of research, and has generated a considerable amount of literature in the recent past.² In addition to describing the conceptual differences, several contributions have also been written to reflect on ways to overcome these gaps. While these have

¹ ec.europa.eu, The EU in the world – 2016 edition, 2016, p. 79, last accessed on 23 March 2017.

² S. Keukeleire and Ching Lin Pang, 'Conceptual Gaps in China-EU relations: Global Governance, Human Rights and Strategic Partnerships – Review', *Global Affairs*, 1(1), 2015, pp. 105-107; S. Keukeleire and T. Delreux, *The Foreign Policy of the European Union*, 2014, Palgrave Macmillan, pp. 317-320.

tended to focus on the issue of sovereignty,³ rule of law⁴ or strategic partnerships;⁵ the diverging approaches of China and the EU to global governance and multilateralism has received less attention – a void this paper intends to fill.

The EU's preferred interpretation of multilateralism has long, but especially since the European Security Strategy (ESS) of 2003, amounted to a support for a set of universally applicable legally binding commitments, with little appetite for tailor-made arrangements to accommodate the distinct preferences of various country groupings. In addition to favouring majority decisions, the Union often proves eager to chip away at the sovereignty of contracting parties, while also formulating a strong link between economic policies and human rights considerations as well as environmental and social standards.⁶ Arguably, this approach is reflective of the EU's *modus operandi* when it comes to internal decision-making and can be seen as a projection of the 28-country bloc's own way of functioning onto the international scene. In recognition of the EU's declining relative weight in international affairs combined with persisting Eurosceptic tendencies internally, the recently-endorsed EU Global Strategy (EUGS) has somewhat softened the above stance. The document appears to be fond of decision-making in a bottom-up manner as an alternative to proceeding through international bodies in a top-down fashion. In other words, the EUGS appears to give more room to bi- or plurilateral arrangements as building blocks towards broader multilateral frameworks, as with the approval by the United Nations Security Council of the outcome of the E3/EU+3 negotiations with Iran.⁷

In contrast to the EU, China appears to favour consensus-based decision-making that, in turn, results in voluntary clauses and a strong emphasis on national sovereignty. It also invariably considers its development through economic growth to be a priority, showing reluctance to subscribe to stringent environmental and social standards given their possibly adverse impact on the country's economic performance.⁸

This Egmont paper aims to identify ways of overcoming the deadlock that often characterises EU-China co-operation in multilateral institutions and processes due to their differing interpretations of global governance. Addressing this conceptual gap has become an increasingly pressing issue of late given new US president Donald Trump's rather isolationist position and critical stance towards multilateral bodies. Cooperation between the EU and China becomes therefore ever more crucial now as

³ P. Zhongqi, 'Managing the conceptual gap on sovereignty in China-EU relations,' *Asia Europe Journal* 8(2), 2010, pp. 227-243.

⁴ M. Burnay; J. Hivonnet and K. Raube, 'Bridging the EU-China's gap on the Rule of Law?', *Asia Europe Journal*, 14(1), 2016, pp. 95-106.

⁵ M.U. Stumbaum, How to make the Strategic Partnership Work: EU Co-operation with China in Security Affairs, Clingendael essay, 12 July 2012.

⁶ S. Keukeleire and T. Delreux, *Ibid*, pp. 317-320.

⁷ B. Ujvari, The EU Global Strategy: from effective multilateralism to global governance that works, Security Policy Brief, no. 76, Egmont Institute.

⁸ S. Keukeleire and T. Delreux, *Ibid*, pp. 317-320.

they are the two actors most apt to fill the vacuum a backtracking US would create on the international scene and provide new leadership on global governance. The paper draws on the perspectives of four Chinese experts of EU-China relations, each of which focuses on a particular policy domain when reflecting on how to render the co-operation of the two sides more effective in multilateral fora.

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THE EU AND CHINA: MISMATCHED PARTNERS ON DEVELOPMENT

HAI YANG

For several decades, developed countries have been the leading players in international development, offering annually billions-worth assistance to developing countries with the stated moral objective of assisting in their social and economic development. However, the growing importance of ‘new kids on the block’, most notably China with its substantial financial weight and expanding global engagement, has brought to the fore the divergent perspectives and approaches between emerging and traditional donors. More recently, the Chinese government under the leadership of Xi Jinping has undertaken a series of high-profile actions focusing on developing physical infrastructure and improving regional connectivity, such as the Belt and Road Initiative (BRI), Silk Road Fund (SRF), Asian Infrastructure Investment Bank (AIIB), and New Development Bank (NDB)¹. Taken together, these noteworthy China-backed multilateral initiatives, coming at a time of global power shifts and economic doldrums, have given rise to renewed speculations about the intensifying competition between the ‘donor cartel’ and non-traditional donors, as well as their profound implications for the landscape of development finance and the rising powers’ ulterior motive to reshape/upend the existing global order.

The European Union (EU) prides itself on being the world’s largest donor of official development assistance (ODA). The EU and 19 Member States sit on the official coordinating body – Organisation for Economic Cooperation and Development’s (OECD) Development Assistance Committee (DAC), and constitute a dominant force in setting the rules of the game for development. Even China used to be a beneficiary of the EU’s bilateral development assistance, from which it graduated in January 2015. But facing the continual rise of emerging donors, particularly China with its distinct approach and ambitious initiatives, the extant architecture of development cooperation spearheaded by Europe and the United States is being contested. In response to such fast-changing realities, it would be useful for EU policymakers to have a more nuanced understanding of Chinese views and approaches with regard to development cooperation and how China’s development agenda differs from that of the EU. In so doing, Europe can better assess the future impact of China-led structures epitomised by the BRI, SRF, AIIB and NDB on the global development landscape and on the prevailing norms and practices related to development cooperation. After

¹ The NDB is a multilateral development bank established jointly by the BRICS (Brazil, Russia, India, China and South Africa).

knowing what might be at stake and what are the prospective benefits, European policymakers can potentially transform these China-led multilateral initiatives into a unique opportunity to establish more cooperation with China and maximise European strategic and economic interests, as already exemplified by the EU-China Connectivity Platform aiming to explore synergy between Europe's €315 billion investment plan and China's grandiose BRI.

Different views, different models

China's approach in respect of development cooperation has been influenced by its domestic context and experience. Over the past several decades, the overriding priority for the ruling communist party has been to deliver economic growth and alleviate extreme poverty. It is believed that once economic liberalisation and development reach a particular phase, political reform, insofar as democratisation, good governance, transparency, accountability, and improvement of human rights are concerned, will follow in due course.² Also, owing in part to the 'Century of Humiliation', China in general adopts a sovereignty-bound approach and stresses the principle of non-interference. But it incrementally takes a flexible approach because Beijing aspires to be (perceived as) a 'responsible stakeholder' befitting its role as a major power, which in turn requires the rising power to step up efforts in facilitating development and maintaining peace. Moreover, Beijing is confronted with the daunting task of protecting overseas Chinese nationals and investments, menaced by state failure, regional instability and terrorism. China's expanding security footprint in Africa (e.g. deploying combat forces in South Sudan and Mali in UN peacekeeping framework and building a naval base in Djibouti) and the Middle East (e.g. playing a mediating role in the Israeli-Palestinian conflict, Syrian civil war, and Sunni-Shia divide) is a case in point. For the EU, development entails as preconditions democratic institutions, strong governance, and human rights. Democratic reform and structural adjustment are deemed integral to inclusive and sustainable development. With such different views on development, it should come as no surprise that China and the EU adopt rather diverging approaches to development cooperation.

Anchored in the camp of developing countries, China embeds foreign aid within the framework of South-South cooperation and views it as a vital instrument of economic diplomacy in its ever-expanding dealings with developing nations, notably in Africa, Central Asia and Latin America. Chinese official narrative dictates that development cooperation shall be grounded on the doctrines of non-interference, equality and mutual benefit. In the latest White Paper on China's Foreign Aid released in July 2014, it stipulates unequivocally that "When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not

² Y. Huang, 'China's Conflict between Economic and Political Liberalization.' *SAIS Review of International Affairs*, 32(2) 2012, pp. 51-63.

interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development. The basic principles China upholds in providing foreign assistance are mutual respect, equality, keeping promise, mutual benefits and win-win.”³ Equally significant to note is that as an outlier of the extant DAC-dominated aid system, China does not follow the OECD’s definition or practice of development assistance.⁴ According to the 2014 White Paper, Chinese foreign aid consists of three types: grants, interest-free loans and concessional loans. In a strict sense, trade, investment and commercial loans, which make up a sizeable portion of China’s growing presence in countries with rich natural resources and huge market potential, fall outside the aid category. Another important feature of Chinese aid is its preoccupation with physical infrastructure construction, not least in Africa and Asia. Among China’s cumulative foreign aid from 2010 to 2012, 44.8 percent went to economic infrastructure projects (e.g. transport, communications, electricity, energy), as opposed to 27.6 percent for social public facilities (e.g. hospitals, schools, water supply).⁵ An explanation may be that traditional donors tend to shun long-term large-scale infrastructure projects owing to their hefty investment requirement, low returns and long payback terms, and China as a latecomer was quick to fill the relatively easy niche. As for geographic focus, from 2010 to 2012, 51.8 percent of aid was directed to Africa, followed by 30.5 percent for Asia.

By contrast, setting governance and macroeconomic conditionality has been an enduring commitment of EU development cooperation, at least on paper. Dubbed ‘Normative Power Europe’, the Union has long been linking its ODA and preferential trade arrangements to the political will and resolve of partner countries to respect democratic values and undertake painful reforms. The human rights clause (human rights, rule of law, democratic principles) was first incorporated as a fundamental element in Lomé IV Agreement (1990-2000), which served as an overall framework for governing the trade and aid relations between the EU and the African, Caribbean, Pacific countries. Subsequently, the clause was expanded to include good governance in the Cotonou Agreement (2000-2020). Regardless of the coherence and effectiveness of applying incentive-based conditionality in practice, EU institutions and politicians have emphasised over and again the instrumental use of development partnerships to promulgate in developing countries democratic values, including, *inter alia*, “respect for human rights, democracy, fundamental freedoms and the rule of law, good governance, gender equality, solidarity and social justice.”⁶ Apart from

³ White Paper on China’s Foreign Aid 2014, Information Office of the State Council, P.R. China, Beijing, July 2014.

⁴ Two defining features of ODA: is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent.

⁵ White Paper on China’s Foreign Aid 2014 (Chinese version).

⁶ ec.europa.eu, European Consensus on Development, 2006.

the notable difference on conditionality, a close look at the sectoral and project priorities reveals that Brussels does not have such a prominent emphasis on physical infrastructure as Beijing. In 2014, only 11 percent of EuropeAid (European Commission Directorate-General for Development and Cooperation) disbursements went to sectors related to economic infrastructure (transport, communications, energy), whereas sectors related to social infrastructure (civil society and government, education, health, water supply) accounted for a whopping 36 percent.⁷ Such a sectoral breakdown can be also seen from 2004 to 2013.⁸ As regards regional distribution, the lion's share of EU aid goes to Africa and its eastern neighbours.

Different agendas, fruitless cooperation

For the time being, both the European and Chinese approaches to development cooperation are equally problematic and suffer from systematic problems. On the European side, conditionality has rarely been implemented in a consistent fashion and EU aid operations have often been criticised for incoherence and double standards. The EU's laudable efforts to leverage development assistance for democracy and human rights promotion and specifically as a catalyst for political change, or more explicitly elections, have met strong resistance in certain target countries. This is partially because prioritising democracy downplays the fact that for poverty-stricken populations the quintessence of development is economic growth and improvement of infrastructures and livelihoods. Also, the elite and grassroots of these countries have become increasingly disillusioned and reluctant to give the EU *carte blanche* to interfere at their expenses, given that they have less costly alternatives. On the Chinese side, a great number of countries to which China provides 'no-strings attached' aid and development finance are authoritarian, corrupt and unstable regimes, resulting naturally in a higher risk of defaulting. Without the guarantee of good governance safeguarded by solid institutions and respectable officials, it is difficult to envisage that the destitute can benefit much from the aid offered. In addition, Chinese aid projects, under the purview of the Ministry of Commerce and usually implemented by profit-seeking enterprises, are associated with commercial gains and skewed towards extractive industries, often causing environmental and reputational problems. Admittedly, Beijing does give aid to countries with little resources, but aid packages in these cases are contingent on political support for issues vital to China in multilateral fora (e.g. One-China Principle, South China Sea). Furthermore, Chinese aid is often tied with service contracts for Chinese companies. As such it remains debatable whether Sino-centric development cooperation is genuinely mutually beneficial and conducive to the sustainable development of local societies. Due to these problematic practices often associated with

⁷ ec.europa.eu, EU Annual Report on Development and External Assistance, 2015.

⁸ ec.europa.eu, EU Annual Report on Development and External Assistance, 2014 and 2013.

mercantilist neocolonialist behaviour, China has come under mounting pressure from both Western donors and local communities.

Diverging approaches and competing interests have not only led to mistrust, mutual bashing and lack of consensus, but have also curtailed the scope and discounted the efficiency of development cooperation between the two otherwise complementary actors, both in bilateral and multilateral settings. Bilaterally, institutionalised EU-China dialogues on Africa, Asia and Latin America have yet to translate into an effective mechanism for achieving substantive common ground on strategic issues including development and security. In 2008, the European Commission proposed an EU-China-Africa trilateral dialogue on African development but so far it has failed to materialise, caused in part by discordant approach and interest between the EU and China. In multilateral fora, Beijing has been participating in the China-DAC Study Group, launched in 2009 aiming to promote mutual learning between China and DAC members with the aim of improving aid effectiveness; China has also been a member of the G20 Development Working Group, established in 2010 in a bid to foster a collective accord on development. But in both occasions EU-China coordination has been piecemeal, if not dismal. While the EU attempts to 'socialise' China and promote universal regimes with binding rules, Beijing's main objectives to partake in such intergovernmental fora are to legitimate its own approach, boost credentials of emerging donors and steer discussions on the post-2015 development agenda in a non-binding setting.⁹

The way forward

The participation of 14 EU Member States as a founding member in the AIIB,¹⁰ the EU-China Connectivity Platform, the accession of China to the European Bank for Reconstruction and Development (EBRD), the co-financing arrangements between the AIIB and the EBRD and the European Investment Bank, have opened up new prospects for joint action. In particular, co-financing infrastructure projects might allow an awaited combination of safeguards with efficiency. Nevertheless, to turn a rising China into a real strategic partner on development, Europe needs to capitalise on the recent Beijing-led multilateral initiatives and take a step forward in its engagement with China.

⁹ C. Castillejo, 'Engaging China on Development', Policy Brief no. 151, FRIDE, March 2013. For more details on the respective position of China and the EU on the post-2015 agenda, see: Council Conclusions on a New Global Partnership for Poverty Eradication and Sustainable Development after 2015, and China's Position Paper on the Post-2015 Development Agenda.

¹⁰ More EU countries including Belgium and Hungary are getting ready to join the Bank, see: Balazs Ujvari, Egmont Papers 85, online at <http://www.egmontinstitute.be/wp-content/uploads/2016/06/ep85.pdf>. The application of these two countries was formally approved by the board of governors of the AIIB on 23 March 2017.

To that end, European policymakers would be well-served to take specific actions. First, EU development actors, at European and national levels alike, could agree on certain common lines and act in unison in an effort to narrow the gaps between high-flying rhetoric and sobering reality concerning both their dealings with China and the application of conditionality. European development projects ought to be guided more by the real needs of partner countries than by the domestic considerations of donors. Second, rather than attempting to socialise China, Europe needs to demonstrate understanding by recognising the diversity of development paradigms and aid models, and giving credence to the utility of the Chinese approach, with a view to finding better practices. Third, EU may need to leverage further institutionalised bilateral dialogues, partnerships, and multilateral fora not only to boost cooperation on bilateral policy priorities (e.g. low-carbon development, urbanisation), but also to better coordinate positions and policies on regional and global development-related challenges (e.g. infrastructure financing gaps, state failures, regional conflicts).

It takes two to tango, however. To bridge the salient differences, Chinese policymakers likewise need to make substantive adjustments. First, to measure up to the prevailing norms and standards, China needs to continue to optimise its bureaucratic structures of foreign aid and improve the overall quality of delivery by channeling aid through more diversified credible conduits and better coordinating the efforts of a growing array of actors involved. Second, the authorities concerned could oversee that profit-seeking enterprises respect necessary environmental and social standards and integrate more local actors in implementing projects to offset the negative perceptions of 'tied aid'. Third, Beijing ought to encourage and facilitate Europe's participation in the already-available China-led multilateral platforms while simultaneously seeking more win-win cooperation with European actors on the ground and in extant multilateral fora.

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FREE TRADE TALKS: DIFFERENCE BETWEEN CHINA AND THE EU

HUANG JING

Free trade has played a key role in underpinning globalisation in the past decades. Both the European Union (EU) and China, the two largest trading entities in the world, have developed vested interests in furthering international trade liberalization efforts.¹ In view of the deadlocked Doha Development Round (DDR), China has joined the global trend of negotiating free trade agreements in bi- and plurilateral fashion. Despite Beijing's involvement with free trade agreements (FTA), the country retains an interest in the further liberalization of trade in non-agricultural products through the World Trade Organisation (WTO). The EU, along with its continued support for the WTO track, is also engaged in a number of FTA negotiations, not least with Japan, Indonesia and the Philippines. The fact remains, however, that the Union finds its primary interests in the liberalization of trade in services – an area that largely escapes the DDR's agenda. In light of these structural differences in the stance of Beijing and Brussels – which currently also pursue negotiations on a bilateral investment treaty with a view to potentially concluding a comprehensive FTA in the mid-term – on global trade relations, the prospects of improved co-operation are worth a scrutiny.

Sticking points

(1) Economic growth versus legal standards

In order to avoid trade diversion resulting from burgeoning FTAs, China in 2007, moved to adopt a free trade area strategy and set out to enhance bilateral and multi-lateral economic cooperation.² Thus far, the country has signed 14 FTAs, of which 12 have entered into force. Through these accords, China mainly aims to further eliminate tariff and non-tariff barriers on non-agricultural goods, improve market access and create more business opportunities notably for its state-owned enterprises. In contrast to the United States' and the EU's hitherto prevailing strategy of pursuing mega-regional trade deals (Transatlantic Trade and Investment Partnership, EU-Mercosur trade talks or the Trans-Pacific Partnership), China has privileged bilateral agreements, some of which have had a notable economic impact. For instance,

¹ ec.europa.eu, Countries and regions: China, last accessed on 23 March 2017.

² Xinhua, President Hu Jintao's Report at the 17th Party Congress, 24 October 2017.

following the ratification of the China-Chile trade deal in October 2006, their bilateral trade has increased at an annual rate ranging from 20 to 65 percent. In the wake of the China–New Zealand FTA, China replaced the United States as New Zealand’s second-largest trading partner. Finally, in the six months following January 2010, when the FTA between China and the Association of Southeast Asian Nations (ASEAN) came into full effect, their bilateral trade increased by 49.6%.³

Just like Europeans may find it difficult to understand China’s continued urge for unhindered economic growth, the Chinese also often fail to grasp the domestic reasons that push EU negotiators to champion governance, environmental or labour standards in FTAs. For the EU, a FTA is an international treaty that entails profound legal ramifications. Considerable changes to domestic regulations, challenges from the European Court of Justice and a possible veto by the European Parliament are all issues of serious concern during the negotiations. While China has also had to implement changes in domestic legislation in line with its WTO commitment,⁴ doing so for Beijing is less cumbersome given the specificities of the Chinese political system.⁵ Besides, it is very rare for an international treaty signed by the Chinese government to be challenged by a domestic legislative institution, which explains the lesser emphasis on legality in China-negotiated FTAs. Instead of compulsory dispute settlement mechanisms, for example, China prefers non-litigious and conflict-avoiding means of dispute settlement.

(2) Step-by-step versus catch-it-all

The second point of divergence in the EU’s and China’s approaches to trade negotiations concerns the scope of the agreements they seek to conclude. In this regard, China has a clear preference for a step-by-step approach. A quintessential example is the China-Pakistan FTA that has evolved through four stages: the conclusion of a Preferential Trade Agreement in 2003, the launch of the Early Harvest Programme in April 2005, the inking of the China-Pakistan FTA itself in November 2006, finally complemented by the Agreement on Trade in Services in February 2009 to facilitate investment co-operation. China’s FTA with the ASEAN provides another example of the very same approach. Between the Framework Agreement on Comprehensive Economic Cooperation in 2002 and the creation of the ASEAN-China Free Trade Area (ACFTA) in 2010, China and the ASEAN had signed seven agreements, including trade in goods and services, trade dispute settlement and investment. Even after ACFTA

³ G. Wang, ‘China’s FTAs: Legal Characteristics and Implications’, *The American Journal of International Law*, 105(3), July 2011, p. 505.

⁴ K. Zeng and W. Liang (eds.), *China and Global Trade Governance: China’s First Decade in the World Trade Organization*, Routledge, 2013.

⁵ In order to join the WTO, China had fundamentally rebuilt its legal regime on external economic relations, which had been accomplished without painful bargaining or making much fanfare in the public discourse. See: T. Y. Man, ‘National Legal Restructuring in Accordance with International Norms: GATT/WTO and China’s Foreign Trade Reform’, *Indiana Journal of Global Legal Studies*, 4(2), Spring, 1997, pp. 471-507.

was built, the two sides continue to issue protocols regarding the implementation and amendment of the free trade area. In 2013, China and ASEAN signed, for example, a protocol to incorporate technical barriers to trade and sanitary and phytosanitary measures into the Agreement on Trade in Goods.

By sharp contrast, the EU usually aims to ‘have it all’ when negotiating trade deals. Having, in essence, developed a ‘template’ for FTAs, the Union appears to have a concrete vision as to what an overarching and high-standard trade agreement should look like. To strike a deal on a comprehensive set of issues, FTAs involving the EU take several years to negotiate. Talks on the EU-Canada trade agreement (CETA), which began in 2009 and ended in 2014, covered, for instance, government procurement, investment protection, intellectual property rights, sanitary and phytosanitary measures, geographical indications, sustainable development, regulatory cooperation, mutual recognition, trade facilitation, cooperation on raw materials, dispute settlement and technical barriers to trade, to name a few.

The Chinese elites are aware that the next-generation of FTAs will set a new benchmark for commerce and have already demonstrated a willingness to approach trade negotiations in a similar fashion. Yet, in the short term, Beijing is likely to continue its step-by-step approach, including through the Japan-China-Republic of Korea Free Trade Agreement as well as the Regional Comprehensive Economic Partnership.

(3) Particularity versus universality

Both the EU and China boast of a large number of trade partners. Their approach to (de)regulating trade with their partners, however, differs significantly. While the EU has tended to adopt a largely inflexible and unified approach towards all of its commercial partners, China has showcased more flexibility in accommodating their needs. Although the EU does differentiate between candidate countries, its neighbours without enlargement prospects or the African, Caribbean and Pacific group of states when negotiating FTAs, within these country groupings ‘one size fits all’ considerations tend to apply. In addition, the EU aims to use “trade agreements and preference programmes as levers to promote, around the world, European values like sustainable development, human rights, fair and ethical trade and the fight against corruption”, as was set out by EU Trade Commissioner Cecilia Malmström in the foreword of the EU’s recently published trade strategy.⁶

If one deems the EU’s approach a ‘universal’ one, China’s approach, by contrast, is rather ‘particularistic’. China-negotiated FTAs have exuded more diversity in terms both the form they take and the economic sectors they cover. In other words, trade deals negotiated by Beijing have tended to be more cognizant of partners’ particular

⁶ ec.europa.eu, ‘Trade for all: Towards a more responsible trade and investment policy’, October 2015.

needs and specific circumstances. This was well exemplified by China's approval of the Philippines's unilateral request for its agricultural sector to be excluded from the Early Harvest Programme in the context of the China-ASEAN FTA.⁷

(4) Broad versus narrow scope

China is a latecomer, but a quick learner. While China's initial FTAs merely dealt with trade in goods, the more recent agreements have been expanded to cover also trade in services and investment. In late 2013, the Chinese Communist Party (CCP) also decided to grant more attention to environmental considerations, investment protection, government procurement and e-commerce when negotiating FTAs so as to form part of the network of high-standard free trade zones evolving globally.⁸ The China-Australia FTA is largely representative of this approach. The agreement, which entered into force on 20 December 2015, covers intellectual property rights, investor-state dispute settlement, electronic commerce, financial services, transparency as well as environmental and public health considerations.⁹ As China continues to move up the global value-chains, producing increasingly sophisticated yet competitively priced merchandise, developed countries such as EU member states will increasingly shift the emphasis away from further liberalization of trade in goods towards that in services in their dealings with Beijing.

Another area of concern is the gradually increasing Chinese appetite to invest in crisis-torn Europe, especially in the continent's industrial sector. As the Economist noted in late 2013, "unfettered globalisation has been replaced by a more selective brand" where "policymakers have become choosier about whom they trade with, how much access they grant foreign investors and banks, and what sort of capital they admit".¹⁰ Indeed, the CETA and the Transatlantic Trade and Investment Partnership (TTIP) have proven that public concerns increase as FTAs go beyond pure economic issues and cover lifestyle-related matters, such as Genetically Modified Organisms (GMOs) or the audio-visual industry.

The next chapter

In general, as a keen student, China remains flexible and pragmatic in trade negotiations. By contrast, the EU, as a font-runner, continues to be more principled and rigorous in this field. In most cases, however, their differing attitudes can be reconciled. In fact, in line with its commitment to multilateralism, the EU has been much

⁷ G. Wang, *Ibid*, p. 499.

⁸ China.org.cn, 'The Decision on Major Issues Concerning Comprehensively Deepening Reforms in brief', 16 November 2013.

⁹ Dfat.gov.au, Free Trade Agreement Between the Government of Australia and the Government of the People's Republic of China, last accessed on 23 March 2017.

¹⁰ The Economist, 'The world economy: The gated globe', 12 October 2013.

more supportive of China's participation in multilateral trade talks, such as the Trade in Service Agreement (TISA), than for example the United States.¹¹

Crucially, for the momentum of global trade to be maintained, China and the EU must work together. As the EU is currently negotiating – or has already concluded – comprehensive FTAs with most of its ten largest trading partners, the rationale for doing so with China (the EU's second trading partner) is considerable. Negotiations on an EU-China Investment Agreement have been ongoing since November 2013. It has been recognised by Chinese and European political leaders that this agreement could serve as a precursor to an ambitious China-EU FTA.¹² At a time when the DDR remains stalled and the world's largest economy (United States) threatens to instill protectionist tendencies into the international trade system, the prospect of the China-EU FTA becomes all the more important. For such a treaty to materialise, three points will be critical to bear in mind.

First, the EU and China could build on the recognition that a reinvigorated global economy where factors of production flow freely is in their mutual interest. This is, however, not to suggest that the two must champion unfettered globalization as some may have wished in between the end of the Cold War and the onset of the 2008/2009 financial meltdown. What is critical is that the EU and China be united in sending a clear signal to the world that protectionism is undesired and that the world economy stands to gain from trade liberalisation. To pave the way for a future China-EU FTA, specifically, it will be paramount to address the recently-emerged public discontent in Europe towards free trade. One way to do so would concern a greater public diplomacy action, including a broader effort to consult NGOs and public institutions potentially leading to the incorporation of specific clauses to reflect public concerns.

Second, both Europe and China need reassurance from each other. Europeans intend to see the continued liberalization of the Chinese economy to ensure a level playing field and a larger room for maneuver for European investors. China, in turn, wants to ensure that the EU does not support an international trade system that, through a significant number of FTAs negotiated in a competitive fashion, aims to isolate or contain China. Nonetheless, if the CCP means to pave way for China's entry into high-standard mega-trade agreements, the country will need to make further progress in the field of environmental protection, intercultural property rights and market access. As for the EU, a greater recognition of China's efforts in terms of economic

¹¹ European Commission, 'EU backs China joining talks on Trade in Services Agreement (TISA)', Brussels, 31 March 2014.

¹² The latest EU strategy toward China in 2016 has stated the following: "Comprehensive Agreement on Investment is the EU's immediate priority towards the objective of deepening and rebalancing our relationship with China. China's latest white paper on the EU in 2014 stated that: "Actively advance negotiations of an investment agreement between China and the EU and strive to achieve an agreement as soon as possible to facilitate two-way investment. Start as soon as possible joint feasibility study on a China-EU FTA."

liberalization and an increased endeavour to work with sectors inside China that are most willing to embrace the change would be helpful. The European media and think tanks could do their part by telling the story of the large-scale changes occurring in China's economic system in the recent past. A successful compromise on the market economy status debate would also be a crucial step in this direction.

Finally, the prospect of concluding an FTA in the foreseeable future would also be greatly facilitated if the EU allocated more resources to familiarize Chinese government officials and diplomats with the legal dimensions of its trade policy. This could take the form of short training courses in Brussels, which would also allow Europeans to gain a better understanding of the issues of main concern for the Chinese side.

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EU-CHINA CO-OPERATION AND THE POLITICS OF CLIMATE CHANGE

BAI HEFEI & WANG HONGYU

Climate change is becoming one of – if not – the most acute global issues whose effective solution requires an unprecedented level of international co-operation. Amongst the direct consequences are rising sea levels and inter-state conflicts over increasingly scarce water resources, which risks generating refugee flows across borders or internally within countries.¹ The EU and China are both key actors in global climate politics given their present economic weight and pollution record. Europe as the pioneer of industrial revolution had once accounted for 90% of the planet's emission, whereas China now is the only country with an annual emission of more than 10 billion tons.² Yet, the approaches of these two actors to how global warming should be tackled often differ. This contribution explores the key areas of disagreement between the EU's and China's position in the negotiations pursued under the United Nations Framework Convention on Climate Change (UNFCCC) and identifies possible solutions to overcome these differences.

Differing positions on climate politics

The EU and China represent different interests and have therefore different objectives to strive for in international climate negotiations. Generally, the EU spearheads such talks and positions itself as a leader on global climate governance and thus often formulates ambitious positions on abatement targets. The EU's call for a robust, universal and binding climate regime is informed by its commitment to good governance and multilateralism. In other words, in seeking to promulgate stringent multi-lateral solutions in the face of climate change, the 28-country bloc also intends to export its internal *modus operandi* in terms of decision-making, demonstrate its internal cohesion and ability to speak with one voice on the international scene. As the largest carbon emitter and the second largest economy in the world, China faces massive domestic challenges but also pressure from the international community to mobilise significant efforts. However, to assume a greater share in the global endeavor to mitigate climate change, China must strike a careful balance between the process of ongoing domestic economic reform and climate change policies.

¹ climatemigration.org.uk, Climate and Migration Coalition brief Q&A on climate change and refugee crisis, last accessed on 23 March 2017.

² [Chinairn.com](http://chinairn.com), Carbon emissions, 20 January 2016.

Divergent approaches to climate change

Led by differing interests, the EU and China have tended to adopt differing approaches when climate change is concerned. Three points of divergence merit a more nuanced discussion.

(1) Disagreements on sharing responsibilities

The two parties tend to disagree on how to share the responsibility to act, largely attributable to different understandings of the principle of the Common But Differentiated Responsibilities (CBDR). It is worth adding that it is not the principle itself that is being challenged, given that it has been a guiding principle in international environmental co-operation since it was first put forward at the United Nations Conference on Environment and Development (UNCED) in 1992.³ China has been a staunch supporter of the principle. Beijing has long insisted that developed and developing countries should be allowed to undertake different commitments when it comes to measuring and reporting. By contrast, the EU has sought to create further dividing lines within the group of developing countries in recent years, thus singling out emerging economies (e.g. China) and pressuring them to assume similar commitments as developed ones.

As disagreements on the interpretation of the CBRD persist, the UNFCCC process has come to be led by a bottom-up approach, where countries determine independently their emission reduction targets, hence somewhat softening opposition between country groupings. However, it is not unreasonable to expect that varying interpretations of the CBRD principle will continue to hamper international climate action in the future.

(2) Disagreements on emission reduction targets

Another disputed area between the EU and China concerns the nature of emission reduction targets. The EU has long insisted on universally binding reduction targets, while China has preferred to call for voluntary arrangements with certain concessions for developing countries.

In the run-up to the 21st Conference of Parties (COP21), the EU had proposed a binding reduction of 40 percent in greenhouse gases by 2030 which would be measured against 1990 levels. The 28-country bloc's joint position represented the first concrete commitment and was considered to be a benchmark for the rest of the membership.

³ Un.org, 2012 UN Conference on Environment and Development, last accessed on 23 March 2017.

Despite appearing ambitious at first glance, the plan disappointed certain groups of states including the Association of Small Island States and non-governmental organisations such as Greenpeace.⁴ To ensure large participation and a broader validity, the 2015 Paris conference relied on Intended Nationally Determined Contributions (INDC). While this bottom-up approach did indeed pave the way successfully for an agreement acceptable to all parties, there remains a steep gap between what the totality of the INDCs would achieve and what would be needed to abide by the 2° C target.

Furthermore, as far as the regular review and tracking of the contributions is concerned, China will continue to demand differentiated treatment for developing – including emerging – countries, contrasting with the EU’s push for a unified approach. This means that, when the reduction targets are renewed every five years and the *modus operandi* of monitoring the INDC’s execution is considered, China’s position may again be at odds with that of the EU.

(3) Divergent views on green finance

The EU and China also have differing views on climate finance. Since the Group of 77 and China declared that developed countries should provide financial support to developing countries (as per the conclusion of the Bonn Climate Change Conference in October 2014) to help enhance their mitigation and adaptation actions,⁵ it has been a consensus that the former group would make available 100 billion USD a year by 2020. However, China insists that this sum should increase year by year with a clear timeline and roadmap and that most of the aid should stem from the public sector. However, the Paris agreement did not fulfill China’s vision, largely due to the EU’s opposition to providing a concrete promise to increase aid and the bloc’s insistence on the private sector being a key source of finance.

China itself should not, however, be relegated to a mere recipient of aid when it comes to climate finance. At the 2015 US-China Summit, for example, China committed to offering approximately 3.1 billion USD aid to developing countries to help their actions aimed at greenhouse gas emission reduction.⁶ In spite of the unconditional commitment, China’s delivery of foreign aid, in general, have long been criticized for several reasons including the lack of transparency and ignorance of governance standards.⁷ Moreover, in comparison to the EU, the biggest challenge China is facing is that its domestic climate mechanisms remain in an embryonic stage. Take the building of a carbon market as an example, while the EU already has a

⁴ eubusiness.com, EU’s 2030 climate plan draws mixed response, last accessed on 22 March 2017.

⁵ Unfccc.int, Bonn Climate Change Conference – June 2014, last accessed on 21 March 2017.

⁶ Ministry of Commerce of P.R.C website, 美联社称习近平的国际援助承诺增强中国外交力量, last accessed on 22 March 2017.

⁷ L. Xue, ‘China’s Foreign Aid Policy and Architecture’, *Ids Bulletin*, 45(4), 2014, pp. 36-45.

mature market, China is still at the experimental stage with an emission trading system pilot initiated in 2015.⁸ At the same time, avoiding double accounting and unleashing the role of public institutions including the Green Climate Fund and the Global Environment Facility are also potential areas of concern that may divide the two parties.

What is next?

Despite the above-mentioned differences, synergies in the EU's and China's handling of climate change could arise in line with the Beijing's 13th Five Year Plan and the EU's 2020 Strategy. To make that happen, both sides ought to adjust their overall climate posture and undertake specific actions on a set of issues.

First, the EU and China could try to approximate their overall position on climate governance. For the EU, it would be worth adopting a negotiating strategy that allows for the formulation of distinctive positions by the UNFCCC parties, thus drawing the lessons of the Copenhagen summit of 2009 where the Union pushed for a single set of binding targets applicable for the whole membership but ended up sidelined. To avoid this, the EU may continue to further the experiences of COP21, where it acted as a guide negotiating a deal in a bottom-up (based on individually set reduction targets) rather than top-down fashion (applying a universal reduction target to all members). The viability of the UNFCCC process may be increasingly contingent on the building of a mutual understanding among the largest emitters in the run-up to climate summits, which could serve as a benchmark for other parties.

In addition, since the G77 plus China group had split into several camps and held differing positions at COP21, opinions of all stakeholders including the Umbrella Group⁹ and the BASICS¹⁰ should be taken into account in order to ensure fairness and justice to all actors. Moreover, the UNFCCC process could be better linked to other multilateral platforms, notably the G20¹¹ and the World Trade Organisation (WTO), which could help settle some key issues. It is worth noting that the EU has already made significant strides to embrace an evidence-informed rather than evidence-based attitude to policy-making which gives more consideration to balancing differing climate governance goals.¹²

⁸ Z. Shuang, 'China's carbon market – progress and outlook', National Climate Change Strategy Centre, last accessed on 22 March 2017.

⁹ Although there is no formal list, the Group is usually made up of Australia, Canada, Japan, New Zealand, Kazakhstan, Norway, the Russian Federation, Ukraine and the US.

¹⁰ The group comprises Brazil, South Africa, India and China.

¹¹ news.xinhuanet.com, 'China Focus: China pushes green finance onto G20 agenda', 2 September 2016, last accessed on 17 March 2017.

¹² D.C. Rose, 'Five ways to enhance the impact of climate science', *Nature Climate Change*, 4(7), 2014, pp. 522-524.

As for China, the country should play a more influential role in climate politics, while also assuming more responsibilities. Beijing's revamped climate action could start with domestic economic reform on energy consumption and renewable energy development – steps that could allow the country to reduce the energy intensity of its economy. For example, China has launched the 2017 carbon market plan and formulated province-specific emission reduction ambitions which are both revolutionary actions in Chinese policy-making. Additionally, China should match its internal aspirations when acting on the global stage and adopt a more powerful discourse.

Second, the two parties need to invest more efforts into understanding each other's core narratives and establish cooperation based on fundamental mutual trust. As far as the most contentious issue – the CBDR principle – is concerned, several delegates at the Lima Conference in 2014 agreed that “differentiation was the elephant in the room”.¹³ The EU needs to gain a deeper understanding of China's and other developing countries' concerns about ambitious reduction targets while also supporting developing countries through the provision of climate finance, technology and capacity building. As for China, the country needs to strengthen its emission reduction commitments and make its policies more transparent.

Finally, the EU and China could take advantage of a broad variety of platforms to enhance cooperation in technology, finance along with their policy-making dialogue. The EU-China summit has been a significant platform for strategic planning on climate change since the 5th summit in 2002. At the 8th summit in 2005, the two parties formulated a joint declaration on climate change and have since continued to work towards their joint objectives. The regular ministerial dialogues and consultation mechanisms that take place between EU and Chinese officials also provide an important channel for the two sides to exchange views. Some key achievements include, for example, the joint declaration of the two parties in Brussels in December 2015 that proved to be an important step towards the eventual climate deal in Paris.¹⁴ Another concrete initiative, the Clean Development Mechanism subsidized by the European Commission, is committed to supporting CDM projects, staff training and technology development in China, which has already culminated in remarkable results.¹⁵ The EU and China should also further exploit the development opportunity residing in clean energy usage, carbon trading system building and green finance regulation.

In the future, Brussels and Beijing will need to optimize the above two channels even further to unlock the full potential of EU-China cooperation. Furthermore, co-opera-

¹³ A. Meyer, *Confronting the Elephant in the Room: Differentiation of Obligations in the Paris Climate Agreement*, UCSUSA Blog, 19 December 2014.

¹⁴ eeas.europa.eu, EU-China Joint Statement on Climate Change, 29 June 2015, last accessed on 17 March 2017.

¹⁵ For more information on the Clean Development Mechanism in China see: <http://cdm-en.ccchina.gov.cn/>

tion on climate change could go beyond EU-China relations, embracing also EU member states' bilateral relations with China as well as the relations existing between the two at the level of regional authorities.

Finally, the two can also learn from each other's central planning structures on green governance – the EU from China's unique central planning politics and increasingly liberalized economy; and China from the EU's systematic management of its member states.¹⁶

Conclusion

The EU and China have enduring disagreements on how to mitigate climate change. However, their differences are not impossible to overcome. Climate politics is arguably a unique field suitable for establishing mechanisms of cooperation between the EU and China. This is because both have deeply entrenched interests to shape policy-making on climate change and push forward the international negotiation processes. Having entered into force recently, the Paris agreement aims to ensure that global temperature rise by the end of this century remain well below 2 degrees Celsius above pre-industrial levels, pursuing additional efforts to limit the temperature increase even further to 1.5 degrees Celsius. Against this background, the EU and China ought to join forces to resolve their differences and strengthen the INDC system. What needs to be done first is the implementation of INDCs followed by their effective tracking on the domestic front. At the same time, the EU and China could continue to iron out their lingering differences through the provision of green finance, with the long term goal of establishing a global carbon trading system.

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¹⁶ S. Kalantzakos, 'EU and China: Leadership after COP21', Hellenic Foundation for European and Foreign Policy, Working paper no.72/2016.

EU-CHINA COLLABORATION ON INTERNATIONAL MONETARY ISSUES

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The global economic crisis, erupting in the United States in 2008, has raised doubts about the efficiency of the current dollar-led international monetary system. Several years later, the United States overcame the crisis by implementing a policy of quantitative easing, low interest rates and relying on the leading position of the US dollar in the global financial markets. As a result, the US dollar has kept its competitiveness and prevalence in the world economy. In contrast to Washington's prompt crisis recovery, the European Union (EU) is still sinking in the morass of the debt crisis while China has seen its economic growth rate gradually slow down. Despite domestic difficulties, China and the EU continue to have significant opportunities to co-operate in international politics and economics in leading the world towards a just global governance system and promoting inclusive development. In fact, their co-operation in the international system is perhaps more important than ever in light of new US President Donald Trump's expected isolationist approach to international relations and general scepticism towards multilateral institutions. This contribution argues that one of the essential topics in EU-China collaboration will concern the reform of the international monetary system and assesses the EU's and China's stance on the reform.

Challenging the primacy of the US dollar?

In retrospect, Europe is where some of the greatest progress in human civilization has been achieved. In the past two centuries, the continent has shifted its focus from being a colonising power that plunders other territories around the world to an entity that is led by the purpose of creating a modern civilization. Especially in the wake of World War II, Europe came to be associated with the image of a fast growing economy and mature society, rising from the ruins to become one of the most developed areas in the world – aided by the United States through the provision of economic recovery schemes (e.g. Marshall Plan) and the security umbrella of NATO. Given their shared values, the EU and the United States have continued to have close opinions on a variety of international issues, facilitating their cooperation on politics, economics, trade, finance and the reform of the monetary system. The two actors are, however, not always on the same page. Since the inception of the Euro as a joint currency for the 28-country bloc, cracks have gradually surfaced between the EU and its transatlantic partner on monetary issues. While a multiple international currency

system should allow for a transition towards a balanced international monetary system, this would represent a challenge to the dollar-led financial system and thus challenge Washington's interests. Although driven by differing interests, working towards a more diverse currency system is an area of potential co-operation for the EU and China.

The EU as a monetary power

To begin with, in order to render the Euro a strong currency able to stimulate growth across the EU, it is crucial that the Union stabilise the Euro area and strengthen the monetary and public financial management of the currency. In this case, the current slowdown in the deepening and enlargement of European integration may give ample time and space to solve the core problems such as the lack of adequate linkages between monetary and fiscal policies in both internal and external channels.

There is also significant room for improvement in the single-currency bloc's external representation. In the International Monetary Fund (IMF), for example, Eurozone members own significant quota shares and voting power and have also several representatives on the executive board of the body. While EU member states often have to face the argument of overrepresentation, the fact remains that their voting power falls short of what would be justified on the basis of their quota contributions. Yet, a single European voice on any reform initiative is complicated by the fact that the Eurozone does not have a unified representation on the executive board of the Washington-based institution.¹

China's opening and the internationalisation of the renminbi

Despite persisting signs of resistance in certain areas, China appears to be furthering its process of opening up and continues to achieve considerable economic growth. For external observers, it remains however difficult to ascertain where the balance between efficiency and equality considerations lies regarding the pace and direction of reforms. The internationalization of the renminbi is one of the main engines allowing China to continue its economic liberalisation and policy of opening up. Firstly, it can facilitate the opening of China's financial market, including through a market based interest rate in the domestic market and a floating exchange rate in international market. Secondly, it can also give an additional boost to foreign direct investment arriving in the country. Thirdly, a more internationalised renminbi may

¹ In financial institutions created more recently such as the Asian Infrastructure and Investment Bank (AIIB), Europeans have been more successful in paving the way for their unified representation. All European states thus far acceded to the Beijing-based institution form part of two constituencies, one of which comprises only Eurozone countries. This arrangement allows members of the single-currency bloc to be represented by one single director on the 12-strong board of directors of the body.

also improve regional and international cooperation on free trade, while also accelerating physical infrastructure development and strengthening China's standing in international affairs.

Making rules for international monetary and financial co-operation is not China's primary concern at this stage. Instead, in an attempt to move beyond a predominant focus on domestic governance, the country first seeks to better integrate and have a greater voice in the international system through the reform orthodox international financial institutions (IMF, World Bank) and the creation of new ones with the long-term goal of shaping the rules of the game. Beijing has recently played a major role in driving the BRICS format (Brazil, Russia, India, China and South Africa) towards increased institutionalisation. The five-country bloc recently launched two new institutions. The Shanghai-based New Development Bank (NDB) focuses on the provision of funding for physical infrastructure projects which also serve sustainable development considerations. Importantly, the bank so far has only approved lending in local currencies, including the renminbi, thus contributing to efforts of challenging the primacy of hard currencies (e.g. US dollar, Euro, Yen) in international development finance. These five countries have also established the US\$ 100 million worth Contingent Reserve Arrangement (CRA) to provide an alternative to the IMF when it comes to short-term liquidity issues.² As a unilateral initiative, China also launched the Asian Infrastructure and Investment Bank (AIIB) in 2015. The bank, which has been joined by 57 members with the candidacy of further 13 members approved by its board of governors on 23 March 2017, also concentrates on the financing of physical infrastructure development across Asia. The AIIB represents China's first attempt of creating a truly multilateral institution and is part of the country's strategy of gradually moving from the predominantly observer position in global governance to exert substantial influence on multilateral issues.³ In short, China is still in the process of gaining greater foothold in the multilateral system, which is hoped to allow the country in the long term to better reflect its interests in the decisions taken therein.

EU-China co-operation for a strengthened monetary and financial system

Against the background of the financial and economic crisis, pushing for reform of the international monetary system is one of the key issues for cooperation between China and the EU. Perceived widely, this would include, but not limited to, cooperation on currencies, financial regulation and financial infrastructure construction, to

² China is the largest contributor to the arrangement, making available 41% of the total capital.

³ The AIIB has signed a memorandum of understanding with several established multilateral development banks, including the World Bank, the Asian Development Bank and the European Investment Bank (EIB). In the framework of its co-operation with this latter, AIIB officials closely observe project appraisal processes by EIB staff, which demonstrates the learning opportunities the Beijing-based institution represents for China.

name a few. In the past years, the EU and its member states have supported the internationalization of the Chinese currency via renminbi clearing, currency swap plans and off-shore market construction. Not only does this increase cooperation opportunities between China and the EU, but it can also strengthen local companies' role in international business. The creation and growth of international currencies like the Euro and Renminbi is conducive to establishing a new stable multi-currency reserve system.

The reform of the IMF is another area for EU-China cooperation. In the long run, further quota shares could be transferred from developed to developing countries. By way of compensating for quota transfers and the resulting loss of voting power, the unified representation of the Union or the Euro zone in the body could be facilitated. In this respect, China should co-operate closely with the EU to push the reform of basic laws of representative rights in the body.

In addition, Both China and the EU have emphasised the necessity of financial stability in the wake of the financial crisis. In this regard, there are two principal ways in which the two could co-operate. On the one hand, China could support the EU's efforts to enhance the regulation of the international financial market. For example, the implementation of the Basel Accords provides a series of measures to improve stability in the financial markets of both developed economies like the United States and those of the EU, but also emerging economies like China. On the other hand, as a developing country, China should learn more from the European experience of financial market development and regulation. Finance and banking is a traditional sector that values more stability than innovation. China must be very cautious about the fast growth of internet financing and shadow banking, especially in an environment lacking regulations.

Financial infrastructure is the base for a healthy financial market as it facilitates market exchange and controls the wave of price fluctuations. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is one of the small number of intermediary financial institutions not controlled by the United States. The China Interbank Payment System (CIPS) is a new worldwide renminbi clearing system operated by the People's Bank of China (the Central Bank of China). These two institutions may co-operate more closely to support a secure, standardized and reliable financial transaction of the renminbi. China and the EU also have the potential to strengthen their collaboration on financial rating services to support both investors and issuers outside the United States to keep a relatively stable and reasonable price waving and control systematic risks.

As mentioned above, China is also organising new platforms to support inclusive development and strengthen regional and international cooperation, including through the AIIB and the Belt and Road Initiative – a development framework first introduced by the Chinese government in 2013 with the aim of increasing economic

cooperation and connectivity in Eurasia. These initiatives are open to all countries, including EU member states, to support long-term basic infrastructure construction and industrial development in the Asian and African regions. Most of the projects or constructions may be located in developing areas, but the EU and its member states will be an important partner for co-operation for China. Firstly, this is because infrastructure investment needs in Asia are so vast that no single country could account for it. Furthermore, effective cooperation between China and the EU could also reduce the risk of politics getting in the way of investment in the region, ensuring also a long-term stable benefit-share mechanism.

Secondly, China lacks experience in international institutions and projects both from a governance or market point of view. The participation of EU countries in these schemes could help strengthen the internal management and bring experience in terms of market operations. The challenge lies in ensuring a win-win co-operation for all sides, including China, the EU and the project beneficiary. This may necessitate that co-operation transcend barriers of politics, religions and culture with a view to finding an innovative way of collaboration.

In sum, China and the EU have a significant potential to jointly better the international monetary and financial system. Both sides have their advantages in different industrial and service sectors and they complement each other. The cooperation will also undoubtedly improve the growth prospects of the world economy and set the stage towards a next wave of growth.

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CONCLUSION

BALAZS UJVARI

At a time when the United States is giving signs of losing faith in multilateral co-operation and Chinese President Xi Jinping defends openness and globalisation (as was the case at the World Economic Forum in Davos in January 2017), the prospects for overcoming China's and the EU's conceptual differences on global governance appears to stand a greater chance than ever. With a view to generating some pointers as to how this could be done most effectively, this Egmont Paper has drawn on the contribution of four Chinese experts on EU-China relations. The conclusion that has emerged is threefold.

First, it seems now clear that hopes that China would be gradually socialised into the European way of multilateral policy-making through extant international institutions (e.g. IMF, World Bank) are doomed to failure. In addition to seeking to instil novel dynamics into the way orthodox institutions function, the foremost strand of Beijing's strategy now concerns an assertion of international leadership through the creation of new institutions which are more tailored to China's own approach to international governance. This does not necessarily mean that, in an effort to accelerate the delivery of development aid for example, new institutions such as the AIIB or the NDB will place lesser emphasis on governance, social or environmental standards than their orthodox counterparts. Rather, it appears that efficiency gains will stem from innovative solutions such as the non-resident board of directors and a greater use of telecommunication tools, among others. As a result, a successful co-operation in the future between the EU and China will be not only contingent upon the extent to which the latter accepts the 'European way', but the question will also arise as to whether Europeans are prepared to embrace the governance dynamics permeating the new set of institutions centred upon China. With 16 EU member states having joined the AIIB,¹ it can be claimed that Europeans have observed these latest dynamics with an open mind. As the Trump-led US administration is likely to veto any reform initiatives resulting in further quota transfers towards emerging powers (especially China) in established international organisations, one may see the launch of further multilateral structures by Beijing and its BRICS partners. This will make it imperative for the EU to assess these dynamics from a strategic angle to determine how the 28-country is ought to respond to a gradually expanding multilateral system mainly reflective of China's own considerations.

¹ The membership request of Belgium and Hungary was approved by the AIIB's board of directors on 23 March 2017.

Second, a mutual learning and acceptance of each other's approach to multilateral affairs will not only have to occur in formal international institutions but also in the context of multilateral treaties, especially in the field of climate change. To ensure that the UNFCCC process remains viable post-COP21, it may be necessary for the EU to permanently settle for a bottom-up method where emission reduction targets are determined voluntarily. As this approach contrasts with the EU's general preference for a single set of universally applicable objectives in multilateral negotiations, China will need to compensate by formulating robust commitments and achieving a higher degree of transparency at the domestic level to render its climate action more traceable for international observers. The dynamic, where the EU gives greater room for voluntary action (thus also showing greater respect for sovereignty) and none- or partially binding arrangements in exchange for robust policy action and transparency gains from China, may also have the potential to mark the way forward in other areas of international co-operation too. To ensure that China abides by its non-binding commitments, the EU could use a plethora of multilateral (e.g. G20, WTO) fora and bilateral policy dialogues (EU-China summit) to provide further – financial – incentives to the country (e.g. climate financing) in return for Beijing's support for the Union's stance in global regulatory processes (e.g. green goods, information technology, green finance).

Third, policy-making is increasingly shifting, in several areas, from multilateral arenas to bi- and plurilateral platforms. This is notably the case in the field of trade where, in a post-TTIP era, the prospect of an EU-China FTA is likely to represent the largest rewards for the world economy. Despite China signalling an interest in embracing EU-style environmental, procurement and labour standards in its trade accords, doing so would still largely be inconsistent with domestic economic interests (think of working hour considerations or the energy intensity of Chinese industry) in the short term. This also raises the general issue that plagues EU-China co-operation across global governance: how to reconcile China's insistence on unhindered economic development with the EU's insistence on legal standards without the latter adversely affecting the former. In the specific case of commercial relations, one way to proceed may lie in enhancing the two sides' understanding of how each other's approaches to trade regulations would impact their respective systems not only from an economic but also from a social perspective. Hence the importance of providing for educational and training opportunities for Chinese and European trade officials about each other's commercial systems, while also creating exchange opportunities for aspiring civil servants of the two sides at an early stage of their education.

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