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The European Union and China: Economic Priorities of the EU in China and Their Institutional Support

Summary: *This paper analyzes the ways and mechanisms of how the European Union attempts to support its economic interests in relations with China. It also examines if the EU can be considered effective in assisting European companies that export to China and invest in China. Moreover, it focuses on the fact, if the tools designed by the EU can help entrepreneurs from small EU member states, such as for example Slovakia, in their commercial activities in China. The author derives from scholarly works which discuss EU-China relations, and moreover from official documents published by the EU and China, trade and investment statistics, as well as from her empirical research on the problems that Slovak exporters and investors encounter in China.*

The European Union and China have paid much attention to their bilateral relations, particularly in the recent five years. Since 2003 they have even called each other 'strategic partners'.[1] This development has provoked many debates about what 'strategic partnership' actually means.

[1] *A Maturing Partnership – Shared Interests and Challenges in EU-China Relations* [COM(2003) 533 final], China's EU Policy Paper. Zhongguo dui oumen zhenzhi wenjian (October 2003), *Communication from the Commission to the Council and the European Parliament. EU – China: Closer Partners, Growing Responsibilities* [COM(2006) 631 final].

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Some scholars believe that this has been a mere rhetoric without any deeper significance.[2] They underline various factors such as differences in political systems and values, moreover the continued existence of an arms embargo, lack of a common enemy, and a cautious stance towards the United States, etc. Other researchers evaluate the EU-China relationship more positively, speaking about the EU–China relationship as a significant feature of the international system and a challenge to American unilateralism[3] or about the emerging axis between China and the European Union.[4]

Nevertheless, experts recognize that the contacts between China and the EU are growing in intensity. This has mainly been the reflection of growing economic ties as well as problems in this sphere. Since 2005 the European Union has been the biggest trade partner of China and the second most important market for imports from China. Although the US has still been a major trade partner of the EU, the importance of China, for Europe, has been rising.[5]

Economic Interests as the Chief Concern of the EU in China

Economic issues have been the chief concern of the European Union in China. The EU considers China to be the single most important challenge for EU trade policy. The EU has been aware of the fact that openness of its market has been the crucial factor in the further development of China, as trade with EU countries comprises almost one fifth of Chinese foreign trade volume. The EU believes that the only sustainable approach for Europe is to welcome China's growth and seek to benefit from it through open trade.[6]

Although several more topics can be found on the agenda of EU priorities towards China, for instance issues of human rights, the environment,

[2] R. Niblett *China, the EU, and the Transatlantic Alliance. U.S.-China Economic and Security Review Commission. Hearing on 'China's Growing Influence: Objectives and Strategies'.* (July 22, 2005), A. Berkofsky, "The EU-China Strategic Partnership: Rhetoric versus Reality", M. Zaborowski (ed) *Facing China's Rise: Guidelines for an EU Strategy.* Chaillot paper No. 94. (Paris: Institute for Security Studies, December 2006), pp. 104 – 105; R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, p. 22.

[3] D. Scott, "China and the EU: A Strategic Axis for the Twenty-First Century?", *International Relations* Vol. 21, No. 1/2007, pp. 23 – 45.

[4] D. Shambaugh, "China and Europe", *Current History*, September 2004, pp. 243 – 248.

[5] D. Freeman, "China's Rise and the Global Economy: Challenges for Europe", M. Zaborowski *Facing China's Rise: Guidelines for an EU Strategy.* Chaillot paper No. 94. (Paris: Institute for Security Studies, December 2006).

[6] [COM(2006) 631 final].

sustainable development, migration or security in East Asia, economic relations not only comprise the largest part of the latest EU strategy towards China.[7,8] The EU considers other priorities as important, too; however, by now it could only achieve very limited progress in fulfilling them. For example, negotiations with China about the improvement in human rights have brought almost no results in recent years.[9] Moreover, in global affairs China often pursues its own different interests that can not really be influenced by the EU, e.g. China's negative standpoint towards the Iraq 2003 war and the war in Kosovo,[10] refusal to agree with limits on greenhouse gas production,[11] and collaboration with countries in Central Asia such as Kazakhstan, Kyrgyzstan and Uzbekistan[12] where authoritarian regimes are in power, etc.

Although several more topics can be found on the agenda of EU priorities towards China, for instance issues of human rights, the environment, sustainable development, migration or security in East Asia, economic relations not only comprise the largest part of the latest EU strategy towards China but also a special strategic document has been devoted to this topic.

On the other hand, when speaking about economic relations with China, the EU can attribute achievements in this field. Export of EU countries to China has grown in the period 2000 – 2005 by 100%, which is a much bigger increase than to any other country in the world. Moreover, profitable exports of EU services to China have increased six times in the period of 1994 – 2004. In addition, EU-25 foreign direct investment outflows to China reached almost

7 Commission Working Document. Accompanying COM(2006) 631 final: *Closer Partners, Growing Responsibilities. A policy paper on EU-China trade and investment: Competition and Partnership* [COM(2006) 632 final].

8 [COM(2006) 631 final].

9 P. Baker, "Human Rights, Europe and the People's Republic of China", *China Quarterly* Vol. 169 (2002), pp. 45 – 63; M. A. Santoro *Profits and Principles: Global Capitalism and Human Rights in China*. (Ithaca: Cornell University Press, 2000).

10 D. Scott, "China and the EU: A Strategic Axis for the Twenty-First Century?", *International Relations* Vol. 21, No. 1/2007, pp. 23 – 45.

11 O. Shai, "China Seems Poised to Pass U.S. As Top Greenhouse-Gas Emitter", *Wall Street Journal* April 24, 2007.

12 D. Shambaugh, "China's New Diplomacy in Asia", *Foreign Service Journal*, May 2005, pp. 30 – 38.

€100 billion in 2001 to 2005 and China became one of the top destinations for European FDI outflows.[13]

However, the economic relationship with China is characterized by many problems, as well. Not only has EU export to China doubled from €20 billion in 1999 to €40 billion in 2003 but the EU trade deficit has boosted from €33 billion to €64 billion.[14] This trend has continued also in the following period so that the deficit reached almost €80 billion in 2004, €106 billion in 2005, and finally €128 billion in 2006.[15] If this tendency continued within a decade the deficit could increase tremendously, i.e. more than five times.

Probably the most important consequence of large imports from China has been the rising unemployment rate in some sectors in Europe. The supply of cheap goods from China, mainly textiles and shoes, has caused many producers to close down their factories in Europe, especially in Italy and Germany,[16] but also in Slovakia.[17] The volume of import grows also in other sectors, for example in the toy industry, food, etc. Recently, imported toys and foodstuffs from China have brought another serious problem of trading with dangerous products which do not meet European safety standards.[18]

Technologies and Services as Perspective but Problematic EU Products

European companies have been very interested in the Chinese market. In 2005, the European Union market share in China achieved 16% which was the same as the EU share in Japan and ASEAN countries but lower than in the USA (20%), India (21%) or Brazil (31%). European firms have been successful in China especially in the fields which are characteristic by innovations, specialization, quality, related services as well as strong brand recognition.[19]

Two categories of European products can be considered particularly welcome in China. Firstly, these are high-tech products and technologies.

13 "EU-25 Foreign Direct Investment in Brazil, Russia, India and China", *Statistics in Focus* 111/2007.

14 S. Crossick, F. Cameron, A. Berkofsky *EU-China Relations - Towards a Strategic Partnership.* (EPC Working Paper, July 2006), p. 26.

15 European Commission – Foreign Trade: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf, May 2007.

16 "In the Steps of Adidas," *Economist* February 8, 2007.

17 "Ozeta Neo zatvorí závod v Trenčíne a prevádzku v Skalici", *TASR News Agency of the Slovak Republic* February 13, 2007.

18 R. Pfister, M. Fröhlingsdorf, "Poison Toys from The Middle Kingdom", *Spiegel*, August 6, 2007.

19 [COM(2006) 631 final].

In 2006, Chinese customers signed more than 10,500 contracts on imports of technology, especially in electronics, telecommunications and transports, mainly with suppliers from Europe. The value of contracts with European partners comprised two fifths of the total value of imports of technology to China, i.e. $9 billion. In 2006 the value of contracted imports of technology annually increased to 15 per cent and in 2005 even to 38 per cent.[20]

Europe which in terms of security does not feel endangered by China seems to be a more feasible partner in terms of trade with technologies.

China has been interested in buying more technology from the USA too, and proposes this as a means to compensate for a large trade surplus with the USA. However, the United States hesitates due to concerns for intellectual property rights (IPR) violation or misuse of technology in the military sphere.[21] Europe which in terms of security does not feel endangered by China seems to be a more feasible partner in terms of trade with technologies.

However, not only imports of ICT to China have risen but also their exports. In 2004 China overcame the United States and became the biggest exporter of technology. Nevertheless, in many cases these products have been manufactured or assembled in companies of American, European or Japanese investors.[22]

The second category of European products of prospective in China are services with high value added, such as banking, insurance and other financial services. In this field, companies from developed countries are in a better position as Chinese suppliers can compete with foreigners with far greater difficulties than in manufacturing sectors as textile on consumer industry. By entering the World Trade Organization, China obliged to facilitate trade and services with foreign companies. Already today the EU and the USA trade services in China with a surplus which is further expected to grow after the complete release of restrictions by the Chinese government.[23]

[20] "China Signs More Technology Import Contracts in 2005", *People's Daily*, January 19, 2006, "China Technology Imports Break Records in 2006", *People's Daily*, January 10, 2006.
[21] J. Svoboda, V. Michalík, P. Spáčil, M. Štěrba, K. Ďurove (Svoboda et al.) *Čínská lidová republika. Souhnná teritoriální informace.* (Beijing: Embassy of the Czech Republic, 2006), p. 92.
[22] OECD: www.oecd.org/document/8/0,3343,en_2649_37441_35833096_1_1_1_37441,00.html, July 2007.
[23] "US-China Business Council: The Prospects for US China Services Trade and Investment", Executive Summary: www.uschina.org/public/documents/2007/02/us-china-

However, technology is not to be sold in China that easily. Sometimes, even the most progressive know-how encounters problems in the Chinese market. Several large European high-tech projects in China failed, although they had even had strong political support. One example of such a project is the construction of the magnetic levitation train link, Maglev, which was developed by the German consortium ThyssenKrupp – Siemens. In 2004 German companies finished a short 30 km long track connecting the new Shanghai airport with the city centre while having paid one tenth of the $1 billion budget.[24] Nevertheless, the negotiations about far more important tracks, 200 km (Shanghai to Hangzhou) and the 1,300 km long (Beijing to Shanghai) were never successfully completed. Chinese customers required a price reduction of one half, arguing that they had received competitive bids from the Japanese, the train had had failures in Germany and there could possibly be cheaper solutions using a different technology.[25] Moreover, China had demanded access to sensitive technology in exchange for the right to build a $4.3 billion train link between Shanghai and Hangzhou which was refused by German officials and businessmen.[26]

In the end, a bigger project worth €20 billion was cancelled on the part of the Chinese. China reported that they had been developing their own technology that the German media called similar to their German prototype. The Czech scholar Rudolf Fürst expected that German companies would finally realize only part of the construction and the rest would be done by the Chinese.[27] However, in April 2007, the first Chinese high-speed train connections were opened with big celebrations between Beijing and Shanghai as well as Shanghai and Suzhou.[28]

Not only in this case, was the transfer of technology to China an important topic of the debate. Necessary shifts of know-how to China have often been discussed in the media. For example, Financial Times reported that many foreign businesses in China willingly transfer their technology to Chinese partners. They are also subject to 'local content' rules, which dictate what share of a

services-trade-exsummary.pdf, www.uschina.org/info/forecast/2007/foreign-investment.html, August 2007.
[24] B. Benoit, G. Dyer, R. Milne, "Germany Rejects Call on Funding for China Rail Link", *Financial Times*, June 2, 2006.
[25] R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, pp. 7 – 24.
[26] B. Benoit, G. Dyer, R. Milne, "Germany Rejects Call on Funding for China Rail Link", *Financial Times*, June 2, 2006.
[27] R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, pp. 7 – 24.
[28] "America's Fear of China", *The Economist*, May 17, 2007.

product sold in China should be made in China. According to the newspaper, German lobbyists have complained about 'forced technology transfers', i.e. aggressive attempts by Chinese companies, with or without political support, to acquire foreign technology.[29] Moreover, when debating the issue of high-speed trains for China, *International Herald Tribune* cited the opinion of Li Hui, head of Chinese research for a Hong Kong-based investment bank: "Whoever comes in, they will have to transfer technology into China."[30]

These complaints have been supported by the experience of German companies which already operate in China. In a 2001 survey, three quarters of interviewed German businessmen revealed that they had transferred technology to China and moreover, every tenth company planned to do so either in a form of hardware transfer, staff training, consultations, prototypes or patents.[31]

European Companies in China: Optimism but Uncertain Profit

Nevertheless, managers of European companies, in particular those from Germany, feel satisfied with their performance in China. Hannah Boehme, chair of the EU Chamber's Small and Medium Enterprises (SMEs) Working Group, gives the example of the *German Centre* which was established in 1999 in order to provide space and assistance to SMEs in China. Very soon after, the Centre filled-up and since then only a few companies returned to Germany. Because of this, Boehme believes that many firms do not leave China, although maybe they change the way of their performance.[32]

German economic counsellor, Peter Kreutzberger, confirms that German investors report satisfaction with doing business in China saying that 94% businessmen would invest again.[33] Similar results were reported by

[29] B. Benoit, G. Dyer, R. Milne, "Germany Rejects Call on Funding for China Rail Link", *Financial Times*, June 2, 2006.

[30] D. Lague, "Siemens' China Deal Could Be Just the First", *International Herald Tribune*, November 22, 2005.

[31] XiangDong Chen, G. Reger *Technology-based Investment of German Firms in China – Motives and Nature.* (Paper accepted at the IAMOT Conference New Directions in Technology Management: Changing Collaboration between Government, Industry and University, Washington, D.C., April 3 – 7, 2004), pp. 3 – 5.

[32] M. Godfrey, "Voice of the SME. Hannah Boehme, Chair of the EU Chamber's SME Working Group, Talks about the Worries of Smaller European Firms in China", *EuroBiz. Journal of the European Union Chamber of Commerce in China*, March 2007.

[33] P. Kreutzberger *An OECD Member Country Perspective, Experience of German Investment Promotion in China.* (OECD-China Conference on Foreign Direct Investment Xiamen, 11-12 September 2000): www.oecd.org/dataoecd/11/25/1902830.pdf, March 2007.

researchers XiangDong Chen and Guido Reger[34] whose respondents rarely spoke about plans to leave the Chinese market. The answers related to the companies' further plans of their investment in China pointed in the direction of differentiation and market enlargement. Introducing more advanced products through the Chinese subsidiary and enlarging the investment scale on the same product were of main importance.

However, it is also important to know if foreign companies really make profit in China. German scholar Markus Taube[35] is rather careful in this aspect. He speaks about "the need to commit substantial capital and management resources while having to wait for perhaps a considerable time until the ventures become profitable."

The Economist reported in 1998 that more than half of multinational companies in China did not make any profit.

Another researcher Callum Henderson believes that only few Western companies active in China achieve profit. To explain this, the author cites the excessive number of workers who are not properly skilled in the latest technology, and moreover high levies which are in China often bigger than the salaries. Henderson mentions examples of Western companies that had operated in China for years but had remained in red numbers for a long time which encouraged managers to reduce activities or even to leave.[36]

Similarly, the Economist reported in 1998 that more than half of multinational companies in China did not make any profit.[37] Svoboda et al. believe that the long-term return rate of foreign direct investment in China is only about 3%, despite the fact that China's entry into the WTO and improvement of investment conditions caused a growth in profits in 2004.[38]

[34] XiangDong Chen, G. Reger *Technology-based Investment of German Firms in China – Motives and Nature.* (Paper accepted at the IAMOT Conference New Directions in Technology Management: Changing Collaboration between Government, Industry and University, Washington, D.C., April 3 – 7, 2004).

[35] M. Taube, "Economic Relations between the PRC and the States of Europe", *China Quarterly* No. 169/2002, pp. 78 – 107.

[36] C. Henderson *China on the Brink: The Myths & Realities of the World's Largest Market.* (Blacklick: McGraw-Hill Professional Book Group, 1999), p. 233.

[37] "Red Alert," *The Economist*, October 24, 1998.

[38] J. Svoboda, V. Michalík, P. Spáčil, M. Štěrba, K. Ďurove (Svoboda et al.) *Čínská lidová republika 2005. Souhnná teritoriální informace.* (Beijing: Embassy of the Czech Republic, 2005), p. 95.

On the other hand, Tim Ambler refers to the *Economist Intelligence Unit* survey according to which 47% of joint-ventures in China became profitable within the first two years of operation, better than anywhere else. However, this survey also revealed that more than half of joint-ventures did not achieve any revenue within their first two years. The author stresses that investment in China brings profit only in mid-term or long-term horizons. For instance Volkswagen which established its factory in Shanghai in 1985 could only export profit for the first time in 1993.[39]

Yanni Yan took a survey of Chinese and foreign managers of 67 joint-ventures in China. Managers were asked to evaluate the accomplishment of the aims of their enterprise and to grade them according to the scale: 1 = the goals were not accomplished till 5 = goals were fully accomplished. Most foreign informants answered that their enterprise achieved goals at the satisfactory level. As the most visible result they understood the establishment of strong business presence (3.69). Nevertheless, foreign managers were less optimistic when speaking about gaining access to the Chinese market (3.21), opportunities for fast profit (3.45) and chances for long-term profit (3.15). Chinese managers viewed the operation more positively but their primary goals according to which they assessed company performance were the creation of jobs, acquisition of tax relief, the enhancement of imports and attracting foreign investment.[40]

A second set of criteria according to which the managers interviewed by Yan did their evaluation was the following: achieved rates of profit, growth and market share, moreover development of technology as well as human capital. As the level of satisfaction with achieved profits reached 3.34 one can see that the managers viewed the goals as fulfilled. Thirty-nine companies out of the survey participants also provided data about their sale profits in the last three years (companies who did not attain profit were excluded from this part of the survey). Their average profit rate reached 6%. The important finding from this survey was that joint-ventures were expected to function at least for three years and then the average profit rate was positive. The longer the company was present in China, the better the managers understood the local market. Moreover, successful foreign partners in the joint-venture managed to achieve a higher level of control in the enterprise.[41]

[39] T. Ambler *Doing Business in China.* (Florence: Routledge, 2000), pp. 112, 120.
[40] Y. Yan *International Joint Ventures in China: Ownership, Control and Performance*. (New York: Palgrave Publishers, 2000).
[41] Y. Yan *International Joint Ventures in China: Ownership, Control and Performance*. (New York: Palgrave Publishers, 2000).

The most optimistic results on profitability of European investment in China were published by Eurostat which revealed that the rate of return on EU direct investment positions in China during 2001 – 2003 reached 8% and in 2004 even 11%. However, this data speaks about the rate of return on FDI in general, not considering the time necessary for making profit.[42]

Problems of EU-China Economic Relations

Three problems remain the key barriers in EU-China economic relations, in particular Chinese protectionism and discriminatory policies; moreover imperfections of the Chinese business environment as well as a weak and disunited policy of Europe towards China.

Chinese Protectionism and Discriminatory Policies

Brussels considers protectionism of the Chinese market, as well as remaining barriers for foreign investors in China, a crucial problem of its economic relations with Beijing.[43] Cheap prices of Chinese wares in Europe have not only been caused by low labour costs in China. The European Union, together with the USA and Japan, criticize the Chinese government for helping Chinese companies by frequent interventions to national economy and price creation, moreover by tolerating violations of IPR, non-standard accounting practices as well as a non-functioning system of bankruptcy.[44] Besides, low labour prices in China have also been caused by the fact that the Chinese government permits extremely low labour standards in Chinese factories[45] which contradicts the *International Covenant on Economic, Social and Cultural Rights* that China adopted in 1990s.

[42] "EU-25 Foreign Direct Investment in Brasil, Russia, India and China", *Statistics in Focus* 111/2007.
[43] D. Freeman, "China's Rise and the Global Economy: Challenges for Europe," M. Zaborowski (ed.) *Facing China's Rise: Guidelines for an EU Strategy.* Chaillot paper no. 94. (Paris: Institute for Security Studies, December 2006), p. 21.
[44] R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, p. 20.
[45] M. A. Santoro *Profits and Principles: Global Capitalism and Human Rights in China*. (Ithaca: Cornell University Press, 2000), A. Chan, "Recent Trends in Chinese Labour Issues: Signs of Change", *China Perspectives,* January – February 2005, No. 57.

Failures of Business Environment in China

Most foreign investors in China choose joint-venture as the form of doing business in China.[46] However, foreign managers experience many difficulties when running joint-ventures in China. Little transparent legislation and a fuzzy system of taxation in China, moreover a high risk of selecting a wrong partner, big difficulties when selling goods in China, frequent interventions of central and local Chinese authorities into business, large differences in methods of company management as well as a high chance of wrong estimate of own capabilities make doing business in China through joint-ventures demanding and risky.[47]

Considering these problems, moreover, low or uncertain profit rates as well as troubles with IPR and transfer of technology, big firms, and multinational companies in particular, are in a comparative advantage when operating joint-ventures in China. Nevertheless, even some multinationals had to close down their enterprises in China, as for instance Peugeot Citroën in 1998. The company found out that the workers, who had previously been employed at a bus and truck producer lacked necessary skills. Consequently, the management had to spend more on trainings for workers in Europe as well as to send managers from France to China. Moreover, local authorities in Guangzhou did not permit to seek good-quality suppliers from other Chinese provinces, too. Peugeot also could not manage to establish a joint-venture for producing car components in China soon enough which is considered a key success factor of Volkswagen in Shanghai. Workers in Peugeot had to assemble cars from the components imported from France which increased costs especially after the appreciation of the French franc. In 1991 one Peugeot official expressed the opinion on their China experience: "If we had to make the decision to come to China over again, knowing what we know, we would come."[48]

The Weak and Disunited Voice of Europe

The bureaucracy in Brussels believes that European firms need special assistance in China but is seeking a precise way of how to effectively provide this support. Also in the last strategic document on EU relations with China,

[46] J. Svoboda, V. Michalík, P. Spáčil, M. Štěrba, K. Ďurove (Svoboda et al.) *Čínská lidová republika 2005. Souhnná teritoriální informace.* (Beijing: Embassy of the Czech Republic, 2005), p. 81.

[47] G. Pleschová *Export do Číny a podnikanie v Číne. Skúsenosti slovenských firiem.* (Bratislava: Vydavateľstvo Univerzity Komenského, 2007).

[48] Y. Luo *How to Enter China. Choices and Lessons.* (Michigan: The University Michigan Press, 2000), pp. 166 – 176.

the European Union admits that a consensus is missing among the EU member states. The EU portrays itself as a strong, pragmatic and respect evoking partner. Moreover, it optimistically states that some remaining differences with China have been effectively managed and relations with China are becoming more mature and realistic. However, this is more a vision than reality. Some formulations in the documents seem as if the EU was only seeking words when defining its own status, for instance, "The EU offers the largest market in the world. It is home to a global reserve currency. It enjoys world leadership in key technologies and skills. The EU plays a central role in finding sustainable solutions to today's challenges, on the environment, on energy, and on globalisation. It has proved capable of exerting a progressive influence well beyond its borders and is the world's largest provider of development aid."[49]

On the contrary, the position of China has been defined much more precisely. "China has re-emerged as a major power in the last decade. It has become the world's fourth economy and third exporter, but also an increasingly important political power. China's economic growth has thrown weight behind a significantly more active and sophisticated Chinese foreign policy. China's desire to grow and seek a place in the world commensurate with its political and economic power is a central tenet of its policy. Given China's size and phenomenal growth, these changes have a profound impact on global politics and trade."[50]

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Although Brussels rather than the EU member states is the driving force of EU relations with China,[51] EU administration lacks necessary power. Member states often have conflicting interests in their relations with China which hampers the EU from realizing unified policy. For instance economic relations of important European players such as France, Germany or the United Kingdom with China are based on large projects that first need

[49] [COM(2006) 631 final].

[50] [COM(2006) 631 final].

[51] R. Fürst, "Jak interpretovat vzestup Číny? Interview s Davidem Shambaughem", *Mezinárodní politika* No. 3/2006, pp. 20 – 22.

to secure permit of the Chinese government. This way trade becomes politicized.[52] Member countries often compete when trying to get preferences for their companies that sell goods to China or attempt to acquire special incentives when establishing ventures in China, as for instance car producers (Volkswagen, Peugeot Citroën, Renault, Fiat), rail equipment manufacturers (Alstom, Bombardier, Siemens), etc. Obviously, China tries to make use of that competition.

Quotas for the import of textiles from China can be mentioned as a recent example of conflicting interests of EU member states. Quotas were introduced by the EU in June 2005 but already in August 2005 warehouses in several European countries admitted large supplies of textiles from China that exceeded quotas. The European Commission proposed to include part of these supplies into settled quotas and another part into limits for the following year. While Denmark did not persist on the existence of quotas at all, Spain having large textile industry with 226,000 employers insisted on maintaining quotas. Although the Chinese government did not officially present its opinion on negotiations among EU member states, the state controlled Chinese media called for elimination of these limits.[53] Chinese representatives could possibly have influenced negotiations by separate backstage negotiations with individual member states.

After all, EU and China followed an agreement under which the imports were supposed to be capped at agreed levels each year until 2008. The EU producers got an opportunity to adapt to a new level of competition, especially to shift their production to high-quality textiles. However, increased imports from China had diverse impact on markets in different EU countries. According to a report from the *Kiel Institute*, consumer prices for clothes across the EU-15, adjusted for general price fluctuations, have fallen by about 16% since the start of the dismantling of textile quotas in 1995. Prices in the UK and Ireland have fallen by about 50% while in Italy and Spain they have remained largely unchanged.[54]

Supposedly, the same differences in interests could be observed in December 2005 during the European trip of Chinese Prime Minister Wen Jiabao. In 2005, EU member states debated if the arms embargo on China

[52] M. Taube, "Economic Relations between the PRC and the States of Europe", C*hina Quarterly* No. 169/2002, pp. 78 – 107.
[53] R. McGregor, T. Buck, G. Parker, L. Crawford, "EU and China Renew Talks in Bid to End Dispute", *Financial Times*, September 26, 2005.
[54] Textile Liberation and the EU – Memo 19 July 2007: http://trade.ec.europa.eu/doclib/docs/2007/july/tradoc_135284.pdf, September 2007.

should be abolished or not. US scholar, David Shambaugh, assumes that the real goal of Wen Jiabao's visit was to discuss the issue of arms embargo with individual states although this aim was not presented in public. Namely, the prime minister visited just those member countries that have important arms industries, such as France, Portugal, Czech Republic and Slovakia and seemed to be more motivated to vote for the abolishment of the embargo.[55]

However, Europe suffers also from other weaknesses in its relations with China than competing interests of EU member countries. An example of such a problem is a lack of experts on trade and economic relations with China. Different than that in the United States, graduate studies in Europe still focus mainly on ancient Chinese culture, history and language and little on contemporary problems, the United Kingdom being only a small exception.[56]

The EU and its Institutional Support of European Companies in China

Despite high risks of doing business in China, many companies do not have another option than going to China. *The Economist* alerts that many European companies, even smaller firms, have no other choice but to operate globally, transforming from producers to sellers and leaving only some 10% of workers at the original place.[57] Finally, also Peugeot Citroën returned to China and is now running a joint-venture with two factories in the Hubei province. Nine thousand workers employed in these factories produce nine hundred cars per day and the capacities are to be doubled in 2008.[58]

Considering the challenges of doing business in China, it seems appropriate to asses the assistance the EU can provide for companies active in the Chinese market. Is the EU being effective in supporting its firms in China?

After China was accepted as a WTO member, antidumping measures remain one of few instruments at Europe's disposal in negotiations about the barriers of the Chinese market and business environment. Today, China is the country which faces the most antidumping measures of the EU. In order to prevent consequences of these measures China wishes to acquire *Market*

[55] R. Fürst, "Jak interpretovat vzestup Číny? Interview s Davidem Shambaughem", *Mezinárodní politika* No. 3/2006, pp. 20 – 22.
[56] Ibidem.
[57] "In the Steps of Adidas", *Economist,* February 8, 2007.
[58] Peugeot Citroën: www.psa-peugeot-citroen.com/en.

Economy Status (MES) sooner than in 2015 as it was decided by its entry into the WTO.[59]

However, Brussels first calls for decreasing protectionism in the Chinese economy. In 2007, the European Commission plans to reassess the level of openness in the Chinese market and to create a set of concrete standards which shall measure the progress of China in this aspect.[60]

Until now, the European Union has not used particular constraints in order to force China to accept EU requirements. For instance, a call for a higher respect of human rights in China has not been linked to accepting China's wish to gain market economy status. Moreover, European discontent with property rights violations or cases of dumping in China have not been politicized, but have been solved through bilateral negotiations of particular resorts of the European Commission and the Chinese government as well as through the *EU Chamber of Commerce in China*.[61]

Rather than using pressure in negotiations, the European Union tries to improve capacities both on the part of the EU and China.. For example, the EU aims at giving more support to experts and has initialized the establishment of a limited number of prestigious professorships in Chinese studies. Besides, professionals from academia, business and the cultural sphere are expected to provide inputs to policy leaders through new independent *EU-China Forum*. Furthermore, in 2006 the EU has encouraged EU-China Manager Exchange and a Training Programme that shall enable two hundred European managers to learn Chinese. The European Commission also plans to strengthen its activities in Shanghai and Guangzhou.[62]

In addition, €15 million from the EU and €5 million was set aside for the EU-China Trade Programme oriented on building-up Chinese capacities in trade policy in the period of 2004 to 2009. This program includes training of Chinese officials, researchers, students and workers both in industry and services and should continue also after 2009. The program has been focused on important sectors of customs, import and export regulatory systems, moreover agriculture, technical barriers, healthcare, legislation by the

[59] D. Freeman, "China's Rise and the Global Economy: Challenges for Europe", M. Zaborowski (ed) *Facing China's Rise: Guidelines for an EU Strategy.* Chaillot paper No. 94. (Paris: Institute for Security Studies, December 2006), p. 21; R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus," *Mezinárodní vztahy* Vol. 42, No. 1/2007, p. 20.

[60] [COM(2006) 632 final].

[61] R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, pp. 7 – 24.

[62] [COM(2006) 631 final].

implementation and respecting property rights as well as improvement of transparency.[63]

The European Union also attempts to improve transparency of public bids in China by encouraging China to become a member of the *Government Procurement Agreement* (GPA). During the negotiations about China's entry into the WTO, it was decided that China should directly become the observer in the GPA Committee and 'as soon as possible' its member. At the EU-China conference on government procurement Zhan Jingtao, Director-General of The Department of the Treasury of the Ministry of Finance, reaffirmed that accession negotiations will start at the end of 2007 at the latest.[64] A study on China's accession to the GPA identified some issues to be addressed by China but did not mention any specific problems which would threaten or even stop China's access to the GPA.[65] China is expected to accede to the agreement in 2008.[66]

In order to give more support to small and medium enterprises, Brussels also plans to open *The European Centre* in Beijing which shall assist European companies that are exporting or doing business in China. The European Union wishes to motivate SMEs to better respect international standards of labour conditions. Trainings and consultancy shall improve the situation in respecting property rights. Finally, a new *Partnership and Cooperation Agreement with China* (PCA) shall be concluded in order to replace a more than twenty year- old agreement from 1985. In case the ongoing negotiations about controversial issues failed, the Commission demonstrates its resolution to use the WTO dispute settlement system to resolve trade issues with China.[67]

These activities seem to be appropriate as one could hardly expect the Chinese government to change the trade and investment environment in the country alone and quickly just as a result of coercion on the part of the EU. On the other hand, the active approach of Chinese authorities has been needed. Chinese representatives may continue to be minimally active in addressing all aforementioned problems unless the European Union demonstrates more

[63] European Commission – Foreign Trade: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf, http://ec.europa.eu/trade/issues/bilateral/countries/china/index_en.htm, May 2007.

[64] EU-China Trade Project: www.euchinawto.org/index.php?option=com_content&task=view&id=100&Itemid=62, September 2007.

[65] C. Fuguo, J. Colling, P. Trepte, "China's Accession to the Government Procurement Agreement and Opportunities for Domestic Reform", A Study in the Light of EU Experience (June 2007, EU-China Project).

[66] [COM(2006) 632 final].

[67] [COM(2006) 631 and 632 final].

pressure. Because of that the EU should be more pragmatic and intertwine its requirements with Chinese demands as for instance with Market Economy Status.

However, effective EU policy is conditioned by the existence of a common EU foreign policy towards China which is not a reality today. Even in economic issues the European Commission does not show that much resolution in its aims. Although the Commission declares that it shall use the WTO dispute settlement system it has only initiated one case, particularly in 2006 against the existence of tariffs on imports of automobile components to China. The case is still being dealt with.[68] Despite the fact that the Textile *Specific Safeguard Clause* allows WTO Member countries to unilaterally impose temporary safeguard quotas on Chinese textile and garment exports the EU and China negotiated an agreement rather than applying this clause. On the other hand, the USA did not hesitate to impose quotas.[69]

Considering the increased engagement of China in questions of global politics and economy it could be expected that the EU will communicate with China more intensively also in other fields such as the situation on the Korean peninsula, security threats in China-Taiwan relations, tensions in China-Japan and China-Korea relations, issues of migrants from China or increasing Chinese demand on raw materials.[70] Censorship of foreign media in China and growing military expenses of China comprise other new sets of emerging problems.[71] This wide range of issues prevents the European Union from focusing on fundamental problems and from achieving more progress.

To sum-up, the mechanisms of EU support of European companies doing business in China are adequate in terms of assisting by the improvement of Chinese capacities, moreover training European entrepreneurs, build-up of integrated know-how on China as well as negotiating with Chinese authorities about improvement of conditions at the Chinese market, such as transparency of tenders. On the other hand, when taking into account EU policy towards China, tools applied in order to influence Chinese leaders to

[68] European Commission – Trade Issues: http://trade.ec.europa.eu/wtodispute/show.cfm?id=290&code=1, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf, July 2007.

[69] Textile Liberation and the EU – Memo 19 July 2007: http://trade.ec.europa.eu/doclib/docs/2007/july/tradoc_135284.pdf, September 2007.

[70] A. Tanca, "Towards a Comprehensive China Strategy," M. Zaborowski (ed.) *Facing China's Rise: Guidelines for an EU Strategy.* Chaillot paper no. 94. (Paris: Institute for Security Studies, December 2006), pp. 115 – 118.

[71] R. Fürst, "Strategické partnerství EU-ČLR: Příležitost, skutečnost a eufemismus", *Mezinárodní vztahy* Vol. 42, No. 1/2007, pp. 7 – 24.

react positively on EU requirements as well as the level of focus on particular problems; one can hardly speak about a unified EU policy, effective devices of EU pressure on China or about strong concentration on key issues.

The Impact of EU- China Policies on Slovak Companies

Bearing in mind the heterogeneous EU policy towards China, Slovak companies can hardly expect that the European Union shall achieve substantial improvements in trade and business environment in China within the next five years. In bilateral negotiations about China's entry into the WTO, the European Union has achieved smaller concessions than the USA. Moreover, these concessions only refer to issues less important for Slovak companies, such as banking and financial services.[72]

Bearing in mind the heterogeneous EU policy towards China, Slovak companies can hardly expect that the European Union shall achieve substantial improvements in trade and business environment in China within the next five years.

However, several tools and procedures can be used by the companies themselves in order to make better use of EU support. Firstly, Slovak companies could be more active by informing European institutions such as the *EU Chamber of Commerce* or the *EU-China Forum* about their problems and experiences in China. EU bodies then will dispose with more examples that can be used at negotiations with Chinese partners to demonstrate failures of the Chinese market. Moreover, businessmen could demand more engagement from the Slovak institutions in the work of EU authorities. In fact, it has been more probable that China will react on EU appeals than on the demands of smaller EU member states. The Slovak authorities, in particular those residing in China, could also be more active in informing the EU bodies about input received from the firms.

Besides, the Slovak entrepreneurs can participate in European programs such as managerial trainings at which some executives have the opportunity to learn basics of Chinese language and to find new important contacts. In addition, they can be interested in the support the *European Centre* in Beijing

[72] *Strategie prosazování obchodne-ekonomických zájmů České republiky v Číne*. (Prague: Ministry of Trade and Economy of the Czech Republic, 2005), p. 14.

will provide. As this centre has only being established, the managers can assist in forming the supply of its services.

In addition, companies from new member states can attempt to make use of the good image that the European Union enjoys in China. Daniel Petrášek from *Czech Trade Promotion Agency* says: "We used to be of second category but the level of people I have been negotiating with has changed. Now I deal with deputy directors or with director generals, not with third class officials."[73] Nevertheless, a more thorough analysis would be needed if the image of the EU really helps firms from the new EU member countries in China.

To conclude, in order to minimize risks of doing business in China, it is advisable that Slovak companies cooperate more closely with established partners. For instance, they can engage in team investment with partners from Taiwan or Germany that usually have experience, contacts and better understanding of the Chinese business environment. Another option is to participate in projects of multinational companies that are already active in China; moreover supply goods through a stronger company or via a larger trading company.[74] If pre-financing is needed, Slovak companies can join with enterprises from neighbouring countries in order to use their means of public financial and insurance services, because the Slovak Eximbank disposes only with limited sources.

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[73] Personal interview with Daniel Petrášek, director of the Czechtrade office in Shanghai, October 16, 2003, Shanghai.

[74] *Strategie prosazování...* pp. 11, 16 – 17, 28 – 29.

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