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EU-CHINA RELATIONSHIPS AS THE OUTCOME OF DISCREPANCY BETWEEN THEM

Abstract: Relationships between UE and China concern many fields. Except for economics discrepancy, important differences are connected with human rights, climate protection and policy of China as a prospective world power. Many arguments prove that future relations may be dominated by this country.

Key words: international trade, economic policy.

1. Fields of discrepancy

Relations between EU and Asia have been in many fields dominated by the policy of the biggest exporter of the world – China. EU policy diverges between a purely economic approach, attempting to profit from the rise of Chinese economy, and intense concerns about policy of this country. A few years ago there was a lot of optimism about this relationship. There were some expectations that Europe and China may create the new world order. In 2007-08, the EU was China's biggest trading partner, and China was the EU's second-largest trading partner.¹ Opposite to United States, Europe was not perceived as a rival of China. This country was interested in the EU constitution, and formation of new offices, like a foreign minister or a president. The perspectives have changed recently. First signal of deterioration in mutual relations appeared in 2006, when China failed to get the EU to lift an arms embargo imposed after the Tiananmen Square killings of 1989.² The list of further discrepancies is really long: trade imbalance, anti-dumping duties, market access barriers, embargo on advanced and military technologies, trade barriers, currency dispute (yuan kept cheap despite American and EU protests), differences in question of human rights abuses (Dalai Lama and situation in Tibet), relations with Taiwan, engagement in Africa, relations with Iran – in context of nuclear programme (China is against sanctions), climate protection solutions and cyber-attacks on Western corporations

¹ EU/CHINA: Mended relations highlight interdependence, *Oxford Analytica Daily Brief Service*, 4.02.2009, p. 1.

² Dragon nightmares, *The Economist*, 18.04.2009, Vol. 391, No. 8627, p. 59.

like Google, Yahoo, Adobe, Symantec. At the beginning of 2010 several cyber-attacks were made. The target of these attacks were also public computer networks, foreign affairs ministries, mass media, embassies, and, what was the point, the servers which were identified as a source of attacks were located in China.³

2. Restrictions on markets access

The EU trade deficit with China amounted to about 160 billion euro (208 billion USD) in 2007 and 168 billion euro (250 billion USD) in 2008.⁴ This makes economic topics a frequent irritant in mutual relations, pushing EU to set anti-dumping duties against many products made in China. Since the EU does not accord China “market-economy status”, imposing anti-dumping duties is relatively simple for the EU.⁵ The example is the extension of anti-dumping duties on shoes from China and Vietnam. A new area of dumping is connected with the export of services. In this field (for example in infrastructure projects) Chinese building companies are trying to get orders in Europe. China Overseas Engineering Group will build for 1.3 billion PLN two sections (50 km) of Polish highway A-2. This offer was so cheap that Polish Building Office lodged protest to Jose Manuel Barroso. The main argument was that all costs (materials, equipment, labour wages) should be by 600 million PLN higher.⁶ China Overseas Engineering Group is a state company. European companies accuse Chinese competitor of taking subsidy from Chinese government, which caused dramatically lower costs of winning offer. They accuse also of breaking rules of domestic labour regulation (prolonged working hours). A strange solution is paying Chinese workers via Chinese banks without any control of domestic tax offices. European companies are afraid of competing against Chinese state companies that have so much state support (which is forbidden in the EU). China answers that the governments’ support for automotive and financial service industries from the EU and United States amounts to much the same.⁷

China has also created many barriers to European firms, in such areas as financial services and car parts.⁸ The EU has claimed that despite China accession to WTO in 2001 this country discriminates foreign goods on its market. Problems concern also relations between USA and China. In September 2009, Washington slapped punitive tariffs on imports of Chinese-made tires which had been sliding. China quickly

³ <http://nt.interia.pl/internet/wiadomosci/news/chiny-preza-wirtualne-miesnie,1468955,62> (accessed 13.04.2010).

⁴ EU/CHINA: Relations might get summit lift, *Oxford Analytica Daily Brief Service*, 24.11.2009, p. 1.

⁵ EU/CHINA: Mended relations..., p. 1.

⁶ http://wyborcza.biz/biznes/1,101562,7422692,Chinczycy_zanizyli_ceny_za_wykonanie_odcinkow_A2_Lodz.html (accessed 10.01.2010).

⁷ EU/CHINA: Relations might..., p. 1.

⁸ EU/CHINA: Mended relations..., p. 1.

responded by saying it was starting antidumping procedures against U.S. exporters into China of chicken and auto products.⁹ China moved to impose antidumping duties of as much as 36% on certain nylon imports from the U.S., European Union, Russia and Taiwan.¹⁰

China expects that the U.S. and EU will permit export of high-tech products, like supercomputers or satellites. The embargo is a consequence of imposing sanctions on China just after Tiananmen in 1989. Chinese officials maintain that these countries are slowing down China's development, by restricting China's attempt to purchase such products, particularly technology goods.¹¹ They argue that an abolition of sanctions would bring billions of dollars of new export. The answer was clear. After horrible earthquake in Sichuan province in 2008, China wanted to buy engines to Black Hawk helicopters. These machines were sold by USA in 1980s. Helicopters were to help rescue people from this region but USA rejected this request. The argument was too low carrying capacity of this model. Finally China bought helicopters in Russia. Probably in revenge for this step, some U.S. investments were blocked. In March 2009 Chinese government stopped the acquisition of the biggest juice producer Huiyuan Juice Group Ltd. by Coca-Cola. The latter firm offered 2.5 billion USD for this transaction. The official argument was an antitrust regulation but it could be seen that the proposal had provoked a burst of nationalism.

3. Currency dispute and other areas of policy of China

Trade imbalance causes strong pressure from the EU over the yuan (renminbi) appreciation, which would make Chinese exports more expensive. The exchange-rate policy causes that European companies cannot sell goods on Chinese market. Other arguments prove that strong euro is undermining economic recovery of Europe. The problem is also high level of unemployment, perceived as a consequence of offshoring of manufacturing and services to low-cost countries. According to Paul Krugman's calculations, China's weak-yuan policy cost 1.4 million American jobs (out of the more than 27 million jobs lost in the U.S. in last recession), many in manufacturing, as American producers find it hard to compete with cheap Chinese goods (notwithstanding the fact that the Chinese weak-yuan policy accounted for at least 5% of all American job losses in the last recession).¹² Europe shares Washington's concern that the roughly 21% rise in the yuan value against the U.S. dollar since 2005 is insufficient. The euro area has seen even less movement; in the two years since the previous round of Sino-EU talks, the yuan has risen about

⁹ Beijing plans tariffs on an industrial acid, *Wall Street Journal*, 31.10.2009, p. A.8.

¹⁰ *Ibidem*.

¹¹ J. Areddy, China defends yuan policy in face of EU criticism, *Wall Street Journal*, 30.11.2009, p. A.11.

¹² Yuan appreciation in order?, *Businessline*, 29.01.2010, <http://www.thehindubusinessline.com/2010/01/29/stories/2010012951700900.htm> (accessed 15.04.2010).

7% against the euro (at the end of 2009 the yuan fell against the euro, pushing the European currency up about 2.6% against the yuan since 2005)¹³. In the same time Chinese Premier Wen Jiabao rejected as “unfair” complaints from senior European Union officials about Beijing’s currency policies while they maintain their own trade barriers.¹⁴ The Chinese government keeps the yuan low to keep export prices advantageous. This allows suppliers from other East Asian countries to maintain their deliveries to Chinese export sectors. Many companies in East Asia provide the inputs for export-oriented manufacturing sectors. Yuan appreciation would hit indirectly these countries. If China appreciated yuan, the other economies in the region would need to either revise their exchange rate policies or rework their manufacturing competitiveness conditions and industrial supply chain management.¹⁵ Eventually China may allow on gradual and controlled appreciation of the yuan in order to stem domestic inflation. Furthermore, stronger yuan would be necessary to turn the Chinese economy inward and relieve the nation’s excessive dependence on external demand.¹⁶ Chinese government wants to change the role of this country from the low-cost to technologically advanced one. Officials are irritated by such investments like these made by Apple. Apple captures approximately 30-35% of the value of each iPod it sells. Its U.S. and Japanese vendors, which supply high-tech components, who receive most of the rest. China, which assembles the iPod, earns less than 5%.¹⁷ The iPod created 40,000 jobs. Only 12,000-14,000 jobs are in the United States, roughly half in engineering or management. Yet U.S. workers earn 2.5 times more than non-U.S. workers.¹⁸ On the one hand China still has the majority of low-cost sourcing initiatives, on the other, costs of labour are systematically increasing. There are also a lot of other countries, particularly Vietnam, where labour rates are about half of what they are in coastal China.¹⁹ The example may be the factory Tae Kwang Vina (Vietnam) which produces about 7.5 million pairs of shoes yearly (mainly for Nike). The average salary in this factory amounts to about 1 million dong, which equals about 150 PLN.

Chinese government is also revising the tax structure, reducing value-added tax rebates on a commodity-by-commodity basis. The strategy is designed to try to push very low value-added business out of China and focus on the higher value-added business.²⁰ China expects to receive advanced technology in exchange for the access to its own market. In five years, China wants 60% of car parts in new Chinese vehicles

¹³ J. Areddy, *op. cit.*, p. A.11.

¹⁴ *Ibidem.*

¹⁵ Yuan appreciation....

¹⁶ *Ibidem.*

¹⁷ A. Brown, A shift in engineering offshore, *Mechanical Engineering* 2009, Vol. 131, No. 3, p. 26.

¹⁸ *Ibidem.*

¹⁹ W. Atkinson, 10 tips to better China sourcing, *Purchasing*, 12.06.2008, Vol. 137, No. 6, p. 16.

²⁰ *Ibidem.*

to be made locally.²¹ This is alarming news for Germany, the leading European exporter to China thanks to car parts, machine tools and other widgets. Other examples from automotive industry are as follows: Beijing Automotive Industry Holding bought company Saab, Zhejiang Geely Holding Group bought Volvo. But Chinese government stopped the transaction between Tengzhong and General Motors. Chinese company wanted to buy Hummer from GM. The justification was too high petrol consumption of this model. China is looking for advanced technology. The country has emerged as an incubator for green technology. China is now the largest producer of photovoltaic solar panels, the world's second-largest market for wind turbines, gaining rapidly on the U.S., raising fears that China's growing dominance in certain green technologies will harm budding clean-tech industries in the U.S.²² Another example is the aeronautical industry. Airbus has completed first flight of an A320 assembled at its Tianjin facility in China.²³ Assembly of the aircraft began after sections were shipped to China from Airbus facilities in Europe. The assembly line is almost an exact copy of the most modern final assembly line in Hamburg.²⁴ Heavy electrical equipment manufacturers and power system companies also tapped Chinese and Indian in top engineering management to lead their ventures overseas. The facilities started with limited agendas, like supporting a local factory or doing research to justify contracts. Over time, their performance and the relationship of their managers with executives at home enabled them to expand their operations.²⁵ General Electric, Motorola and other companies set their research and development centres in China.²⁶ Because of the fact that many manufacturers start manufacturing activity in China, there are some regions with features of clusters. Gathering of many companies from the same branches causes that they must compete not only through price but also through quality or advanced technology of their products. Companies like Caterpillar, Daimler, General Electric, General Motors, Honeywell, Siemens, Matsushita Electric, and IBM have built massive engineering facilities offshore.²⁷ Many companies also outsource engineering to offshore vendors.

The Chinese government's investment of 142.3 billion USD in 2008 in information and communication technologies significantly enhances the infrastructure for IT service.²⁸ The target is to build the economy based on advanced technology instead

²¹ Europe: Dragon nightmares, *The Economist*, 18.04.2009, Vol. 391, No. 8627, p. 59.

²² A. Aston, Ch. Li, P. Engardio, Can China clean up its act?, *Business Week*, 25.05.2009, No. 4132, p. 40.

²³ R. Wall, Airbus flies first China-assembled A320, *Aviation Daily*, 19.05.2009, Vol. 376, No. 35, p. 5.

²⁴ *Ibidem*.

²⁵ A. Brown, *op. cit.*, p.25.

²⁶ I. Cheng, Sourcing goods from China: The mass migration, *The China Business Review*, Washington, Sept./Oct. 2004, Vol. 31, No. 5, p. 18.

²⁷ A. Brown, *op. cit.*, p. 24.

²⁸ W. Jones, Outsourcing in China: Opportunities, challenges and lessons learned, *Strategic Outsourcing: An International Journal* 2009, Vol. 2, No. 2, p. 188.

of low-cost labour resources. This concerns information technology, computing, and consumer electronics, where U.S., European and Japanese firms have hired hundreds of thousands of programmers and engineers in China, India and other countries of this region.²⁹ Computer and cell phone manufacturers increasingly outsource product design and engineering to original design manufacturers in China and Taiwan. Employment and exports of Indian software services firms grew 30-40% annually over the past decade, even 18 of the 20 top U.S. semiconductor companies have built design centres in India since 2004.³⁰

To be prepared for next investments and further development, Asian countries have created new policy of education. China is expecting to produce half of the world's chemical engineering graduates in the next 5 years, and India is producing more than 400,000 graduates in science and engineering each year, creating good conditions for high-tech and R&D investments.³¹

Chinese long-term policy contains also relations with Africa and South America. Trade between China and Africa rose to \$107 billion in 2008, tenfold in ten years. In the same period in Africa, Chinese funds of infrastructure and development start to rival with multilateral agencies such as the World Bank and International Monetary Fund.³² In some African countries there are now more Chinese immigrants than there were Europeans during colonial times. Increasing Chinese activity in Africa in recent years threatens the EU's agenda of promoting sustainable development in Africa while at the same time securing European access to raw materials.³³ In Africa, China's much larger investments in oil and mining have brought accusations that it has created neo-colonial enclaves.³⁴ Chinese involvement in construction projects is helping to improve state of infrastructure, which is strengthening African growth. Meanwhile competition for African resources has given African states greatly increased bargaining power with foreign partners.³⁵

In South America, like in Africa, Chinese investments have so far been overwhelmingly concentrated in mining and oil, in contrast to India, whose companies have begun to make significant investments in software, pharmaceuticals, business software and natural resources.³⁶ These facts show the real target of China policy towards other regions of the world.

²⁹ A. Brown, *op. cit.*, p. 24.

³⁰ *Ibidem.*

³¹ N. Sabbaghian, Low-cost country sourcing: The past, the present and the future, *Supply Chain Europe*, May/June 2009, Vol. 18, No. 3, p. 43.

³² W. Wallis, Chinese investment has put Africans in the driving seat, *Financial Times*, 27.01.2010, p. 6.

³³ EU/CHINA: Mended relations..., p. 1.

³⁴ The dragon in the backyard: Latin American geopolitics, *The Economist*, 15.08.2010, Vol. 392, No. 8644, p. 19.

³⁵ W. Wallis, *op. cit.*, p. 6.

³⁶ The dragon in the backyard; Latin American geopolitics, *The Economist*, 15.08.2010, Vol. 392, No. 8644, p. 19.

4. Climate-change summit negotiations as predictions for future relationship

In 2008, ahead of most forecasts, China overtook the U.S. to become the world's largest source of greenhouse gases.³⁷ After December's climate-change summit in Copenhagen the strongest words were reserved for China, accused of a refusal to accept anything touching its sovereignty and of secretly inciting small, poor allies to obstruct a deal.³⁸ China's main argument was that as a developing country it is not able to cap its output of global greenhouse gases.³⁹ Wen Jiabao made clear that China intends to support the reduction of greenhouse gas emissions, but will not accept the quantitative caps on emissions pushed by the EU.⁴⁰ Beijing says it will boost the country's share of electricity created from renewable sources to 23% by 2020, from 16% today, on par with similar targets in Europe.⁴¹ The U.S. has no such national goal. This shows potential fields of cooperation in the future. The EU has been a major supporter of "clean coal" technology in China.⁴² Chinese officials are reportedly fascinated by European welfare and public-health systems, as well as by EU product regulation.⁴³ Meeting of Wen Jiabao with European Commission President Jose Manuel Barroso resulted in nine new cooperation agreements, most importantly on intellectual property rights.⁴⁴ European demand for Chinese products gives the EU some advantage in its talks with China.

Nevertheless, all that was described proves that China will be realizing its policy towards achieving its own goals. Sometimes it will be according to the expectations of the EU and U.S.A., more often against them.

A Chinese academic called the EU a weak power, unprepared to challenge American hegemony: "China was not about to work with it on a new world order".⁴⁵ There are opinions that the future belongs to the G2; a new body formed by China and U.S. The thought that EU will not be the equal partner for China is especially gloomy.

³⁷ A. Aston, Ch. Li, P. Engardio, *op. cit.*, p. 40.

³⁸ Europe and an inscrutable China, *The Economist*, 23.01.2010, Vol. 394, No. 8666, p. 52.

³⁹ J. Areddy, *op. cit.*, p. A.11.

⁴⁰ EU/CHINA: Mended relations..., p. 1.

⁴¹ A. Aston, Ch. Li, P. Engardio, *op. cit.*, p. 40.

⁴² EU/CHINA: Relations might..., p. 1.

⁴³ Dragon nightmares, p. 59.

⁴⁴ EU/CHINA: Mended relations..., p. 1.

⁴⁵ Dragon nightmares, p. 59.

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RELACJE MIĘDZY UE A CHINAMI JAKO EFEKT ROZBIEŻNOŚCI MIĘDZY NIMI

Streszczenie: Relacje między Unią Europejską a Chinami są pochodną działań w wielu obszarach. Z jednej strony mówi się o roli i pozycji Chin jako największego eksportera na świecie. Podkreśla się, że w niedalekiej przyszłości będzie to największy rynek. Z drugiej strony trwa dyskurs na temat kursu juana, regulacji w zakresie ochrony środowiska czy praw człowieka. W kwestiach ekonomicznych można zauważyć, że obie strony zgłaszają wzajemne pretensje np. do stosowania barier do ochrony własnego rynku. Pomimo wprowadzania antydumpingowych cel, bilans handlowy pozostaje wciąż korzystny dla Chin. Jednakże kraj ten zaczyna zmieniać swoją politykę inwestycyjną. Dotyczy to nie tylko przyciągania nowych zaawansowanych technologii, ale także pozyskiwania surowców oraz polityki w stosunku do krajów, które takimi surowcami dysponują. Co prawda istnieją obszary, w których rząd Chin dostrzega swoje słabości na tle UE. Jednak patrząc realnie, szanse na to, by wykorzystać je do budowy relacji w większym stopniu uwzględniających interesy UE, są niewielkie. Zbyt wiele sygnałów pokazuje, że Chiny traktują Europę jako gasnącą siłę.