

# **A Power Audit of EU-China Relations**

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**POLICY REPORT**



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# Executive summary

Europe's approach to China is stuck in the past. China is now a global power: decisions taken in Beijing are central to virtually all the EU's pressing global concerns, whether climate change, nuclear proliferation, or rebuilding economic stability. China's tightly controlled economic and industrial policies strongly affect the EU's economic wellbeing. China's policies in Africa are transforming parts of a neighbouring continent whose development is important to Europe. Yet the EU continues to treat China as the emerging power it used to be, rather than the global force it has become.

## Europe's unconditional engagement

The EU's China strategy is based on an anachronistic belief that China, under the influence of European engagement, will liberalise its economy, improve the rule of law and democratise its politics. The underlying idea is that engagement with China is positive in itself and should not be conditional on any specific Chinese behaviour. This strategy has produced a web of bilateral agreements, joint communiqués, memoranda of understanding, summits, ministerial visits and sector-specific dialogues, all designed to draw China towards EU-friendly policies. As one senior EU diplomat puts it: "We need China to want what we want".<sup>1</sup> Yet, as this report shows, China's foreign and domestic policy has evolved in a way that has paid little heed to European values, and today Beijing regularly contravenes or even undermines them. The EU's heroic ambition to act as a catalyst for change in China completely ignores the country's economic and political strength and disregards its determination to resist foreign influence. Furthermore, the EU frequently changes its objectives and

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<sup>1</sup> ECFR interview with senior European official, 11 June 2008.

seldom follows through on them. The already modest leverage that EU Member States have over China, collectively and individually, is weakened further by the disunity in their individual approaches.

The result is an EU policy towards China that can be described as **“unconditional engagement”**: a policy that gives China access to all the economic and other benefits of cooperation with Europe while asking for little in return. Most EU Member States are aware that this strategy, enshrined in a trade and cooperation agreement concluded back in 1985, is showing its age. They acknowledge its existence, largely ignore it in practice, and pursue their own, often conflicting national approaches towards China. Some challenge China on trade, others on politics, some on both, and some on neither.

The results speak for themselves. The EU allows China to throw many more obstacles in the way of European companies that want to enter the Chinese market than Chinese companies face in the EU – one reason why the EU’s trade deficit with China has swollen to a staggering €169 billion, even as the EU has replaced the US as China’s largest trading partner. Efforts to get Beijing to live up to its responsibility as a key stakeholder in the global economy by agreeing to more international coordination have been largely unsuccessful. The G20 summit in London in early April 2009 demonstrated Beijing’s ability to avoid shouldering any real responsibility; its relatively modest contribution of \$40 billion to the IMF was effectively payment of a “tax” to avoid being perceived as a global deal-breaker.

On global issues, China has proved willing to undermine western efforts on pressing problems such as the repressive regime in Burma or the African tragedies in Zimbabwe and Sudan. China does occasionally modify its position in ways that suit the west – such as its belated support for a UN peacekeeping force in Darfur, the end of weapon sales to Zimbabwe, or its naval patrolling off the Somali coast. But more often than not, these changes are a consequence of direct Chinese interest rather than a desire to please the west. The global economic crisis is putting pressure on China to take measures to support international financial stability. But it is also offering the cash-rich country an opportunity to improve its relative position even further, while remaining a limited contributor to international rescue plans.

## Europe divided – the power audit

China has learned to exploit the divisions among EU Member States. It treats its relationship with the EU as a game of chess, with 27 opponents crowding the other side of the board and squabbling about which piece to move. As irritating as Beijing finds this at times, there is no question about who is in a position to play the better game. As a neo-authoritarian Chinese academic, Pan Wei, puts it, “the EU is weak, politically divided and militarily non-influential. Economically, it’s a giant, but we no longer fear it because we know that the EU needs China more than China needs the EU.”<sup>2</sup> China knows its strength and no longer bothers to hide it. Its new readiness to treat the EU with something akin to diplomatic contempt became apparent last December with the short-term cancellation of the EU-China summit in Lyon, a harsh reaction to French president Nicolas Sarkozy’s plans to meet the Dalai Lama.

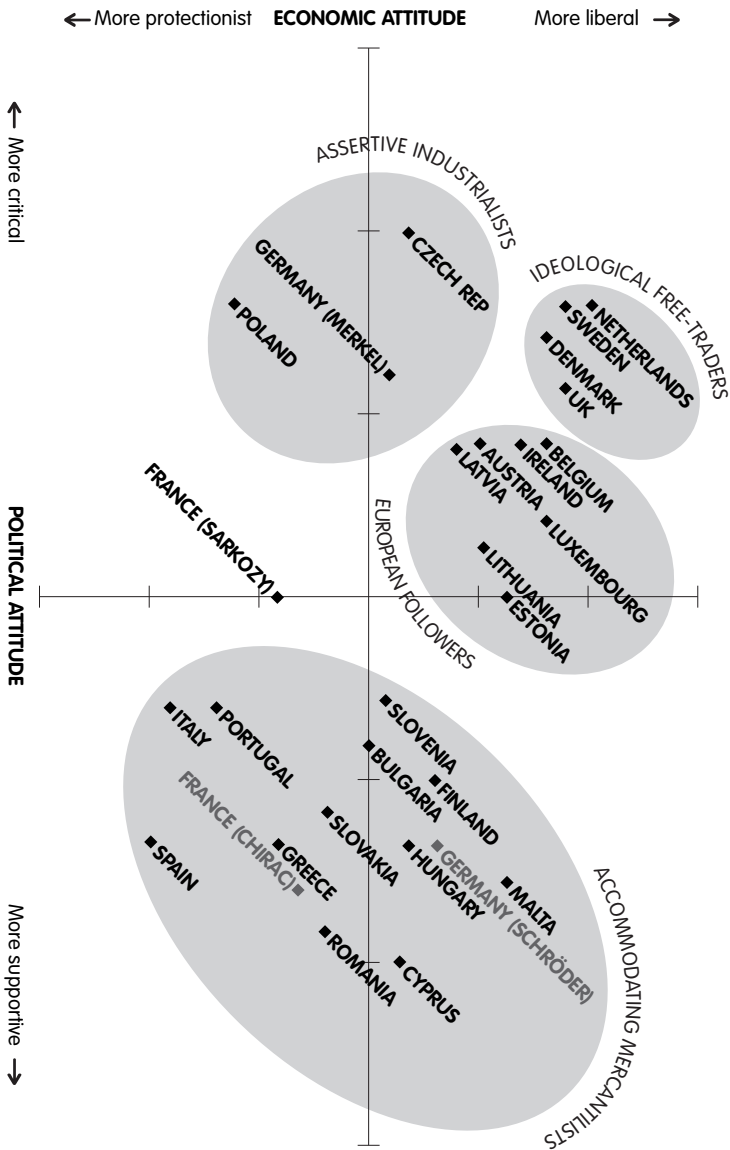
A “power audit” we have conducted shows that the 27 EU Member States are split over two main issues: how to manage China’s impact on the European economy and how to engage China politically. We assigned scores to Member States’ individual policies and actions towards China,<sup>3</sup> and the chart overleaf translates this evaluation on to a horizontal axis for politics and a vertical axis for economics.

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<sup>2</sup> ECFR interview, Beijing, 6 June 2008.

<sup>3</sup> The main policies/actions scored were: position on Taiwan, position on Tibet/willingness to meet the Dalai Lama, prominence of human rights issues, willingness to raise global issues with China (Iran, Sudan etc), voting on anti-dumping issues, position on trade deficit, attitude towards Chinese investment in Europe, and more broadly the nature of political statements on China. Member States were scored to the right or left for actions that were respectively more supportive or critical of China, and to the top or bottom for actions that were more free-trade or protectionist.

## EU Member State attitudes towards China



This analysis allowed us to categorise the Member States into the four groups shown on the chart: **Assertive Industrialists**, **Ideological Free-Traders**, **Accommodating Mercantilists** and **European Followers**.

These four groups are of course approximations. A change of government in a Member State can have enough impact on policy towards China to move a country from one group to another practically overnight – as we saw in Germany when Angela Merkel replaced Gerhard Schröder as chancellor in 2005. And as the graph shows, France under President Sarkozy does not fit easily into any category, partly because France’s strategy towards China is still in flux.

But establishing these groupings is useful nonetheless. It helps to understand the conflicts that weaken the EU in its dealings with China, and thus map the path towards a new strategy that could benefit all four groups.

#### *Assertive Industrialists*

The small group of Assertive Industrialists is made up of the Czech Republic, Germany and Poland. These are the only EU Member States willing to stand up to China vigorously on both political and economic issues. The balanced stance of this group could put it at the heart of a stronger EU approach towards Beijing (although Germany, the Member State with the strongest trade relationship with China, has doubts about the usefulness of an integrated European approach). The Assertive Industrialists do not agree that market forces should shape the nature of the EU-China relationship. They stand ready to pressure China with sector-specific demands, to support protective “anti-dumping” measures against unfairly subsidised Chinese goods, or to threaten other trade actions.

### *Ideological Free-Traders*

The Ideological Free-Traders – Denmark, the Netherlands, Sweden and the UK – are mostly ready to pressure China on politics and mostly opposed to restricting its trade. Their aversion to any form of trade management makes it very difficult for the EU to develop an intelligent and coherent response to China's carefully crafted, highly centralised, often aggressive trade policy. For these countries, free-trade ideology is an expression of economic interest: their economies and labour markets – oriented towards high technology and services, particularly finance – benefit, or expect to benefit, from Chinese growth rather than being threatened by cheap Chinese imports.

### *Accommodating Mercantilists*

The Accommodating Mercantilists are the largest group, comprising Bulgaria, Cyprus, Finland, Greece, Hungary, Italy, Malta, Portugal, Romania, Slovakia, Slovenia and Spain. The assumption these countries share is that good political relations with China will lead to commercial benefit. These Member States feel that economic considerations must dominate the relationship with China; they see anti-dumping measures as a useful tool and oppose awarding China market economy status.<sup>4</sup> They compensate for their readiness to resort to protectionist measures by shunning confrontation with China on political questions. As with the Ideological Free-Traders on trade, the Accommodating Mercantilists' refusal to bring pressure to bear on Beijing on political issues weakens a key component of the EU's China policy: these countries have often kept the EU from developing a more assertive stance on issues like Tibet or human rights. At the extremes, some effectively act as proxies for China in the EU. Under President Chirac, France fell squarely into this group; under President Sarkozy, the country's propensity for sudden swings between political support for China and criticism of China over human rights, Taiwan or Tibet make it an unpredictable partner, both for China as well as for other Member States.

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<sup>4</sup> Under article 15 of the protocol for China's accession to the World Trade Organisation, signed in 2001, WTO members can use price comparisons with third countries to assess anti-dumping duties on imports from China. Granting China market economy status would remove the right to use such comparisons, which will expire by 2016 in any case. Individual Chinese firms or sectors can also be granted market status.

### *European Followers*

The fourth group, the European Followers, is made up of those Member States who prefer to defer to the EU when managing their relationship with China. As such, Austria, Belgium, Estonia, Ireland, Latvia, Lithuania and Luxembourg are the most “European-spirited” of the four groups, but they are followers rather than leaders. Many of the European Followers do not consider their relationship with China to be central to their foreign policy. They rely on EU support to protect them from Chinese pressure on issues like Taiwan or Tibet. While their readiness to support EU policy is positive, their reluctance to participate more actively in the debate feeds the perception that China is not a key EU priority.

With such divisions among Member States, it is hardly surprising that China perceives the EU as disunited. France, Germany and the UK carry particular responsibility for this situation. Time and again, each of these three has lobbied to become China’s European partner of choice – even though Beijing only grants preferred status for a limited duration, offering its favours to the highest or most pliant bidder. Even during the recent clashes with China over meetings with the Dalai Lama, British, French and German leaders refused each other support, in effect seeking to capitalise on each other’s misfortune.

Any attempt to strengthen the European position must start with an acknowledgment that no Member State is big enough to sway China on its own. Whenever China has shifted its position as a result of European pressure, as it has on nuclear proliferation or to a lesser extent on Darfur, it has reacted to a coordinated effort, strongly backed by the EU as a whole as well as the most influential Member States. Collectively as well as individually, EU Member States will fail to get more from China unless they find ways to overcome their divisions and leverage their combined weight into a strengthened bargaining position.



## China's skilled pragmatism

Europeans tend to treat China as a malleable polity to be shaped by European engagement. But the reality is that China is a skilful and pragmatic power that knows how to manage the EU. Its foreign policy is shaped primarily by domestic priorities – such as the need to sustain economic growth and to bolster political legitimacy in the absence of an electoral process. However, Beijing's global trade, its finance and technology flows, and its drive for energy and raw materials have made it a crucial actor from Africa to Latin America. In recent years, China's foreign policy has been complicated by the need to manage the consequences of its own success, which have come in the shape of new demands to help secure global stability.

So China has become too rich and too powerful to continue operating under the radar, and the recent implosion of western financial capitalism, with its ensuing loss of western prestige, looks set to strengthen the assertive tendencies in Chinese foreign policy even further. Yet despite Beijing's new central role in shaping the global agenda, China's policy towards the EU remains essentially economic in nature. China wants wide access to EU markets and investment, it seeks technology transfers, and it wants the EU and other partners to take the lion's share of the costs of the fight against climate change. Importantly, though, it also wants the EU to refrain from rocking the boat on Taiwan and Tibet.

*“China is a skilful and pragmatic power that knows how to manage the EU”*

To secure these goals, China has developed three basic tactics in its approach to the EU. First, it takes advantage of the mismatch between its own centrally controlled systems and the EU's open market and government to exploit opportunities in Europe while protecting its own economy with industrial policies, restricted access and opaque procedures. Second, China channels EU pressure on specific issues by accepting formal dialogues and then turning them into inconclusive talking shops. Third, China exploits the divisions between Member States. The cancellation of its annual summit with the EU last December, ostensibly to punish President Sarkozy for meeting the Dalai Lama, was a characteristic attempt to sow unrest within the EU.

## Global political issues

China is now a factor in every global political issue that matters to Europeans. Yet despite soothing European claims that China would be encouraged to become a “responsible stakeholder”, more often than not, attempts to bring Chinese behaviour into line with European and western priorities have failed.

Western fears that China and Russia would form a new authoritarian axis of powerful countries hostile to democracy were allayed by China’s lukewarm reaction to Russia’s recognition of Abkhazia and South Ossetia following the Russia-Georgia war last August. China clearly has more important priorities than its relationship with Moscow, such as opposing regional secession as a matter of principle.

Nevertheless, it is clear that China’s rise and Moscow’s new assertiveness pose a major challenge to the normative shift that took place in the 1990s towards human rights, democracy and international intervention. EU countries have been feeling the consequences of China’s new diplomacy in institutions like the UN, where it has become much harder for the EU to muster coalitions on issues such as human rights.

The EU, acting through the E3 troika of Britain, France and Germany, has managed to get China to back its efforts to halt **Iran’s** uranium enrichment programme – but at the cost of having China shield Iran from tougher measures. The backing of China, a veto-wielding state, for the European position in the UN security council has been essential, and EU efforts to bring China on board were a diplomatic success. But because of a lack of any real leverage over China on the issue, other than pointing to the threat of a US or Israeli attack on Iranian nuclear sites, the EU has been unable to persuade China to back tougher sanctions. With Iran, as with several other countries under international sanctions, China has actually reinforced its economic influence.

No issue illustrates the clash between Chinese and European foreign policy better than **Africa**. While the EU remains the primary foreign presence across most of the continent, its influence is decreasing relative to China’s. Chinese trade with Africa is expanding at about 33% a year against 6% for the EU. China sees the continent primarily as a key supplier of energy and mineral resources, and as an increasingly important market. But its aims in Africa are also political, as it seeks to secure support in the UN from African countries on Taiwan, Tibet and human rights. China opposes EU efforts to halt

human rights abuses in Africa on the principle that European governments should not be able to dictate what happens in African states. EU pressure on China to support UN security council resolutions critical of the Sudanese government over Darfur in 2005 and 2006 had little effect; only after local threats to its investments and public pressure in the run-up to the 2008 Beijing Olympics did China start to lean on Khartoum to accept foreign peacekeepers. And EU efforts to get China to help isolate the Mugabe regime in Zimbabwe had no impact whatsoever, except, arguably, on the issue of arms sales.

The EU has put much effort into its dialogue with China on **climate change**, and has results to show. Climate change has been established as a key topic in the relationship, and the EU has helped transform China's domestic policy in this area. China now recognises the threat of climate change and has made reducing the carbon and energy intensity of its economy a priority. The challenge now is for both the EU and China to combine the transition to low-carbon economies with measures designed to protect growth in the face of the global economic crisis. There have been setbacks: China has rejected EU requests to commit to an ambitious global stabilisation target or to binding domestic commitments as part of the negotiations for a post-Kyoto settlement. China's primary goal is to ensure that the EU's engagement on climate change supports rather than hinders its economic development. It wants Member States to provide the investment and technologies it needs for its continued development, and it wants EU funding to help those Chinese regions that will be hardest hit by climate change.

On the related issue of **energy**, China's goal has been to forge partnerships with European energy giants that can deliver access to energy, technologies and two-way investment. China remains reluctant to cooperate more broadly, particularly when it comes to the question of its access to energy resources abroad. The EU's leverage here has been limited and has shown results only when European governments or companies have proved willing to invest, such as the numerous joint ventures across China. The EU's priority is to get China to improve its energy efficiency and to become more open about its measures to safeguard energy security.

## Economic imbalances

Nowhere is the failure of the EU's policy of unconditional engagement with China more obvious than in the trade relationship. In 2007, total EU-China trade reached €300 billion, making the EU China's largest trading partner. But by 2008, the EU's trade surplus of the 1980s with China had turned into a deficit of €169 billion; close to the US's figure of \$266 billion (€199 billion). The global economic crisis has failed so far to reverse this trend. This is not the consequence solely of the strength of Chinese businesses; European firms in China continue to face a myriad of non-tariff barriers and arbitrary decisions at a local level.

European and American negotiators have been guilty of wishful thinking in their dealings with Beijing. They hoped that China's accession to the WTO in 2001 would act as a catalyst for market reform and a strengthening of rule of law. But China seems to have seen membership as the conclusion of its reform process rather than the beginning. Government intervention in the economy has increased rather than decreased, particularly with the implementation of sector-specific five-year plans. In China, the old EU ploy of using legalistic trade agreements as a lever for economic and political change has failed. European trade officials are learning the hard way that Chinese industrial policies are simply too powerful to be much affected by anything they can say or do.

*“Nowhere is the failure of the EU's policy of unconditional engagement with China more obvious than in the trade relationship”*

The EU has suffered no major economic imbalance from the huge deficit in its trade with China, as the EU has run a far smaller *global* trade deficit than, for example, the US. But the 2008 global crisis is fast changing this trend. As it affects some Member States more than others, the deficit with China fuels internal divisions within the EU, making it difficult for trade negotiators to agree common positions in their talks with the Chinese. Even Germany's deficit with China is steadily growing, as Chinese exports move up the value chain. And the EU's deficit with China is compensated neither by EU access to China's property and service sector, nor by Chinese investment flows into European public bonds or private capital markets.

The worldwide recession may boost China's economic weight even further. China's trade surplus will not disappear any time soon: Chinese exports to the EU have not fallen as much as imports from the EU, and other direct Asian exporters are suffering more. China's enormous financial reserves have turned it into a key lender to the world's financial system, and Beijing increasingly sees the need to diversify its holdings away from the US. The economic crisis has highlighted the low level of Chinese investment in the European bond market and European debt instruments. As some European leaders are coming to realise, this could create a major opportunity for China and the EU to carry their investment into each other's economies and financial systems to a new level. But even if mutual investments were not to grow, the politically unsustainable rise of the trade deficit would demand further market opening on China's side.

## The move to reciprocal engagement

Unconditional engagement with China has delivered few results for the EU, whether in the pursuit of its immediate interests or within the broader purpose of seeking Chinese convergence with European goals and values. Even the biggest Member States are finding that their attempts to secure their interests through national policies founder in the face of a stronger and better organised Chinese negotiator. The UK, despite its militant advocacy of open European markets for Chinese goods, has failed to persuade China to open up much of its financial service sector or to increase its commitment to global institutions like the IMF. France has seen its trade deficit with China explode despite its commercial diplomacy, and now fears being frozen out by China as a result of its recent stance on human rights and Tibet. Italy and Spain's support for anti-dumping actions has not improved China's trade practices or provided anything more than short-term respite for these countries' textile and manufacturing industries. Germany's strong trade relationship with China has been less detrimental to its economic interests, but the Chinese have ignored Chancellor Merkel's insistence on more respect for human rights.

Yet the fact that the EU – often in tandem with the US – has achieved small but real changes in Chinese policy shows that China can shift its position when faced with a united EU approach on targeted issues. The EU should therefore drop its attempt to remake China through unconditional engagement and turn to a strategy that offers a realistic chance of achieving its most pressing goals.

12    Unconditional engagement should make way for “**reciprocal engagement**”,

a new interest-based approach with two principles and two criteria. The principles: European offers to China should be focused on a reduced number of policy areas, and the EU should use incentives and leverage to ensure that China will reciprocate. The criteria: relevance to the EU, and a realistic expectation that a collective European effort will shift Chinese policy.

*Reduction and reciprocity, relevance and realism*

For the four “R”s of reciprocal engagement to work, the Ideological Free-Traders must accept that their fundamentalist refusal to use market access as a political tool makes it nearly impossible to counter Chinese policies designed to exploit Europe. The Accommodating Mercantilists should acknowledge that their support for industrial national champions will bear little fruit if the result is to weaken the EU in the face of formidable Japanese and American competition, while their refusal to stand up to China on politics exposes the EU to a future of increasing global irrelevance. The Assertive Industrialists must accept the need for a coherent EU strategy. And the European Followers should understand that it undermines the EU’s China policy as a whole when so many Member States act as if the relationship with China is not important enough for them to bother with it.

“Reciprocal engagement” is not code for an aggressive strategy to contain China. The EU has no choice but to engage China as a global partner and to accept its historic rise. Rather, the EU must make it in China’s best interests to deliver what Europeans are asking for. Reciprocal engagement means firming up the EU approach and driving a harder bargain in negotiations with China, with the aim of coming to mutually beneficial deals that result in greater openness on both sides. For the new strategy to be effective, the EU should streamline its channels of communication with China, improve the ways Member States coordinate their China policies and make European institutions work more effectively. It should also increase its expertise on China by funding training for European officials and managers in Chinese language, politics and economics. It should press Beijing to grant EU officials increased access to the Chinese government machinery, and explain that it might reduce access to Chinese officials in Europe if this is not forthcoming. Access to Chinese institutions across the country should be improved by opening sub-delegation offices in major cities.

### *Rebalancing the economic relationship*

The global economic crisis has made the central task of rebalancing the economic relationship between China and the EU even more urgent. The priority should be to remove barriers to European investment in China while encouraging Chinese investment in the EU. For this, both sides should accept the need to amend, where needed, their legislation and regulatory practice regarding the ownership of firms, investment, intellectual property rights (IPR) and technology transfer. We recommend that the EU:

- offer a deal to grant China market economy status under WTO rules in exchange for the removal of specific non-tariff trade and investment barriers (such as requirements for local content in manufacturing), improvement of IPR protection, and better legal protection for European firms and managers.
- commit to facilitating Chinese investment in essential sectors in the EU, such as transport infrastructure, energy distribution and telecoms, in exchange for China opening up its infrastructure projects to foreign firms and removing ownership restrictions on Chinese firms.
- continue to pursue a mutual opening of public procurement and ensure that such an opening becomes effective once an agreement has been reached.

Technology transfers are another area where suspicion and insufficient legislation have hampered what should be mutually beneficial investments. In particular, the EU has struggled to come up with an answer to China's often successful attempts to force European companies to transfer technologies and knowhow. The EU should:

- expand its support for European R&D programmes, such as Galileo or Hermes, into a broader technology development strategy. As part of this new policy, the EU should secure partial ownership of the rights to key technologies and patents it helps develop, so as to improve control of technology transfers to China and to fend off the pressure Chinese government partners exert on European companies. Such a technology protection mechanism would allow the EU to be more relaxed about Chinese investment in leading European companies (although the defence sector will remain an important exception).

In exchange, China should be asked to open up those economic sectors where it currently restricts foreign investment.

- establish an IPR/patent support fund that would help small and medium-sized enterprises finance IPR registration and protection in China.

### *Climate and energy*

Fighting climate change is another EU priority where improving cooperation with China is paramount. In the face of the global economic crisis, the EU's objective must be to keep China from locking itself into short-term economic policies that require high-carbon infrastructure and industrial protectionism. This change will call for a series of deals on technology, economic incentives and energy security. We suggest that:

- the EU offer China a technology transfer package of key energy-efficient and renewable technologies, including EU funding and knowhow transfer. In return, China should commit to a global stabilisation goal and to specific domestic targets on emissions in post-2012 negotiations. China should also commit to accelerated development of clean coal technologies and continue to explore carbon capture and storage technology. The EU and China should prioritise the development of "low-carbon zones" in China as a precursor to a country-wide EU-China low-carbon trade and investment framework.
- the EU and China make identical statements rejecting the use of energy sanctions, such as the deliberate interruption of energy supplies. Blacklisting the use of energy as a political weapon in international relations would reinforce the shared interest of China and Europe as large energy consumers.
- the EU and China open up their energy distribution systems to each other's firms. China should clear ownership limitations on Chinese energy firms and joint ventures, and should increase information-sharing and transparency, including through the International Energy Agency.



### *Iran and proliferation*

The EU wants China to back its attempts to persuade Iran to refrain from developing nuclear weapons. To convince China to be more active on Iran, we recommend that the EU:

- aim for a deal on lifting the European embargo on arms sales to China, which has been in place since the Tiananmen Square massacre of 1989. In exchange, China should endorse and ensure the passing of stronger sanctions against Iran and other potential nuclear proliferators. It should also commit to specific improvements in the implementation of its export controls.
- offer support for Chinese membership of counter-proliferation regimes (MTCR, Australia Group, Wassenaar Arrangement) in exchange for Chinese backing for a strengthening of the Nuclear Non-Proliferation Treaty at the 2010 review convention, and for reinforcement of the International Atomic Energy Agency through strengthening the additional protocol.
- offer cooperation, including military ground support, for Chinese surface maritime operations off Somalia and areas where Chinese economic and human interests are directly threatened. In exchange, China should cooperate in reducing conventional arms exports and tackling proliferation on the high seas, and should support the Proliferation Security Initiative.

### *Africa and global governance*

The EU dialogue with China on Africa, global governance and development has been sluggish. To encourage China to bring its economic and political practices across Africa and elsewhere more into line with international norms, the EU should use a combination of enticements and firmness. This should include:

- EU support for Chinese investments, including in international financial institutions, in exchange for China joining international lender coordination mechanisms, including the Paris club. The EU should act within international financial organisations to prevent debtor countries from accepting Chinese loans when China flouts international financial aid norms.

- EU security cooperation with African governments to protect Chinese activities and investments against security threats. This commitment should be traded for greater Chinese support for peacekeeping operations in Africa, both through troop contributions and Chinese support for UN-authorized operations in Sudan, Chad and elsewhere.
- EU offers to use developmental aid budgets to back Chinese projects and investments where they contribute to EU development goals. In exchange, China should be asked to commit to specific development measures in the country or region concerned.

Where positive offers do not work, the EU should support local NGOs, unions and media groups that challenge questionable Chinese behaviour, and should be prepared to publicly criticise China itself. The EU should also continue to urge China to increase its contributions to global institutions.

### *Human rights*

The proposals listed above deliberately omit many important issues traditionally raised in EU-China summits, such as China's human rights situation. While the EU has little leverage regarding the human and civic rights of Chinese citizens, we do not believe that the EU should remain silent on the issue. But the EU desperately needs to bolster the credibility of its approach. There is a growing consensus that an strategy based only on discreet official channels and informal dialogues behind closed doors does not deliver significant results. We suggest therefore that under reciprocal engagement, the EU should unite around four priority areas regarding human rights in China: **restrict the use of the death penalty, end imprisonment without judicial review, protect religious freedom, and work towards reconciliation in Tibet.** It should also: revitalise an EU human rights dialogue with China, based on these four priorities; strengthen rather than weaken its public position on human rights in China; ensure that EU leaders do not deny each other support in order to curry favour with Beijing when China applies pressure; and issue a statement that EU leaders and parliamentary authorities will not tolerate any restriction on their right to meet political and religious figures, including the Dalai Lama.

### *A better organised EU*

The rise of China should be a strong incentive for ratification of the Lisbon Treaty and towards a more unified and better organised Europe. But even if the Lisbon Treaty does not come into force soon, the EU must agree on a more forceful China strategy.

First, **the European Council should launch a major review of EU policy towards China**, with the aim of establishing a small list of joint policy priorities that could be drawn from the suggestions mentioned above. This should be followed by regular European Council discussions on China policy. Second, **Member States should “Europeanise” their national cooperation programmes and key dialogues with China**: coordination between national governments has been no substitute for a single, focused dialogue or programme with China. Third, the EU should **establish a permanent “open troika” system** for engaging China on priority topics. The troika – which comprises the current and next presidencies and the Commission – should also be opened to those Member States that would demonstrably contribute on the issue; producing a study of a relevant topic or funding for a project could serve as entry requirements. This open troika format should extend to representation at EU-China summits.

There are broader strategic reasons for the EU to rethink its relationship with China. The inauguration of Barack Obama as US president has signalled the start of a new chapter in US-China relations – one marked by American knowledge that it needs Chinese money to dig itself out of its deep economic hole, and by Chinese awareness that its treasure invested in the US could be imperilled if the US does not recover its economic footing. To avoid being sidelined by the dialogue between the world’s old and new powers, the EU will have to offer more than a cacophonous chorus of competing voices. Reciprocal engagement, backed by better policy tools, can go a long way to help meet that challenge.