EU-China tensions on display at joint summit

John Chan
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The 12th European Union-China summit on November 30 in the Chinese city of Nanjing failed to produce any agreement on key issues, including, particularly from Europe's standpoint, any revaluation of the Chinese currency. The gathering of top EU and Chinese policymakers underscored the increasingly fractious nature of relations between the major powers amid continuing global economic turmoil.

The EU delegation included European Commission President Jose Manuel Barroso, Swedish Prime Minister and European Council head Fredrik Reinfeldt, Luxembourg Prime Minister Jean-Claude Juncker, who currently chairs eurozone finance ministers' meetings, European Central Bank chief Jean-Claude Trichet and EU economic and monetary affairs commissioner Joaquin Almunia.

Their main message to China was to allow the yuan (or renminbi) to float in the market, ending its current tie to the US dollar and resulting in a revaluation. Trichet declared at a news briefing: "We were not defending the overall interests of the European economy only. We were defending what we trust is the superior interests of both the Chinese and European economy—and the global economy." He claimed that "rebalancing" China's export-led economic growth would improve its "own stability and prosperity".

The joint EU-China statement, however, made no reference to the currency issue at all. European Commission President Barroso abruptly cancelled a planned news conference on Monday. The *Telegraph* reported that Barroso had complained to Chinese Premier Wen Jiabao at a dinner on Sunday about "the damage the weak renminbi was causing parts of Europe's economy". Barroso told reporters: "They are telling us what they told President Obama—exactly the same." Obama who visited last month had also been pressing for a revaluation of the yuan to reduce the huge US trade deficit with China.

At the summit, Premier Wen was unusually blunt in his public comments, declaring: "Some countries, on the one hand, want the renminbi to appreciate but, on the other hand, engage in brazen trade protectionism against China. This is unfair. In fact, it amounts to restricting China's development." While he was referring to the US, which has imposed a series of tariffs restricting Chinese exports, Wen was obviously warning the EU not to go down the same road.

Both the EU and China are confronting mounting economic and political pressures as a result of the global financial crisis and economic downturn. EU trade has been hit by the weakening US dollar, which has undermined European exports. At the same time, because the yuan is tied to the dollar, the euro has continued to appreciate against the Chinese currency, further disadvantaging European exporters. Significantly, China overtook Germany as the world's largest exporter in the first half of 2009.

As a result, the EU is not simply following the US in calling for a revaluation of the yuan, but also wants an end to its peg against the dollar. Falling European exports have contributed to continuing economic falls and high average unemployment, which is set to exceed 10 percent next year. The EU economy contracted 4.1 percent year-on-year in the third quarter. The latest Standard & Poors report for the EU forecasts that recovery in 2010 will be "long and narrow" due to consumer indebtedness, high corporate default rates and worsening government debt.

China is in no position to make concessions to the EU or the US. The global downturn has ravaged its exports, which have been the main driving force behind its high levels of economic growth. China has only continued to grow as a result of a massive stimulus package, which is simply unsustainable in the long term. Many export firms have been forced to lay off workers or have closed down completely, leading to rising unemployment and deep fears in Beijing about social unrest. As Wen made clear, the Chinese government is concerned that it will be the target of rising protectionism.

The global economic crisis is also fuelling political tensions and strategic rivalry between the major powers. Last December, Beijing abruptly cancelled the EU-China summit in protest at French President Nicolas Sarkozy's meeting with Tibet's exiled Dalai Lama. France held the rotating EU presidency at the time.

The rupture over Sarkozy's meeting pointed to deeper underlying political shifts. Amid sharp tactical differences with the previous Bush administration over the Iraq invasion, Germany and France favoured closer ties with China as a counterbalance to US unilateralism. After the election of Sarkozy as French president and Angela Merkel as German chancellor, relations began to improve with Washington. That trend continued after the new US President Obama called for a more cooperative approach to Europe. Once the global financial crisis hit, European powers also became increasingly uneasy about China's growing economic power, especially in Africa.

Following Sarkozy's meeting with the Dalai Lama, Wen deliberately avoided Paris during his trip to Europe in January. High-level Franco-Chinese contacts were only restored after Paris stated that Tibet was "an inseparable part of China," paving the way for Sarkozy meet Chinese President Hu Jintao at the London G20 summit in April.

EU-China summits resumed in Prague in May. The underlying frictions continued as the European powers became concerned about being sidelined by closer relations between the US and China—a so-called G2. Speaking to reporters, an annoyed Premier Wen declared: "Some say that China and the US will jointly rule the world. This is wrong, and not reasonable at all."

During the latest EU-China summit, the German broadcaster Deutsche Welle published an article entitled "Europe in danger of losing ground to the US in relations with China". After declaring that the EU-China summit was about more than trade and climate change, it noted that the "EU delegation will also attempt to gauge to what impact Obama's visit to China has had on Europe's position as a partner to the Chinese".

European concerns about China were highlighted in a major document produced by the European Council on Foreign Relations in April, entitled "Power Audit of EU-China Relations". The report called for a more unified European approach to Beijing, saying China had been exploiting divisions among the EU's 27 member states with "diplomatic contempt".

However, the document only underscored the continuing tensions with China as well as the differing interests among the major European powers. Germany led the "assertive industrialists", which tended to be protectionist, but only had two followers: Czech Republic and Poland. On the other hand, Britain, as a centre of finance capital, advocated "free trade" with China due to its dependence on cheap manufactured goods. France headed the largest grouping of "accommodating mercantilists" who generally avoided letting political issues interfere with their burgeoning trade ties with China.

Significantly, the report backed Germany's aggressive approach to pressure China for maximum concessions and argued that dealing with China was "one of the strongest arguments" for ratifying the Lisbon Treaty and establishing strong pan-European institutions. China was no longer a developing nation, but must be regarded as a "diplomatic competitor", particularly in Africa, "No other issue highlights the clash between the EU's and China's approach to world affairs as harshly as Africa," it stated.

At the same time, the EU still needs China as a counterweight to the US and has substantial economic ties that it must maintain. The EU accounts for one-fifth of Chinese exports and is China's largest trading partner. China is the EU's second largest trading partner after the US. Many major European corporations use China as a cheap labour platform.

The report blamed both the US and China for the global economic crisis, declaring that "the American debtor and its Chinese lender have locked each other into a symbiotic embrace". Its conclusion, not surprisingly, was that the EU "must urge both China and the US to correct their economic imbalances, without making others pay for the adjustment".

That is precisely the point of the EU demand for an end to the yuan-dollar peg—the US and China should "rebalance" in such a way as to maximise the benefits for the European powers. Significantly, Chinese Premier Wen emphatically rejected such an approach—another sign of the deepening and intractable frictions among the major powers.