

## **EUROPE-CHINA STRATEGIC ALLIANCE UNDERSTANDING THE PULSE FOR CONVERGENCE**

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### **ABSTRACT**

International networking is an essential tool for success in the business climate of the multipolar world. Relations between the European Union (EU) and the People's Republic of China were established in 1975. In the recent years, the EU is China's largest trading partner and China is the EU's second largest trade partner after the United States. Since 2009, the EU exports to China have increased by 38 percent and China's exports to the EU have increased by 31 percent. In this paper, an analysis has been attempted to study the potential for enhancing a comprehensive strategic alliance between the economies of Europe and China.

The paper is divided into four Sections wherein, in Section 1, an economic perspective and a brief summarization of the main features of the growth model that have prevailed in the two economies are outlined. Section 2 gives a detailed analysis of the current domestic and external imbalances and identifies some of the costs, distortions and risks that are involved. Section 3 takes a forward-looking perspective and based on the analysis identified in Section 2 tries to trace out the long-term factors that will support the economic policies of a strategic alliance between Europe and China. The concluding Section will highlight the various supportive reforms and policy-making decisions that are needed to strengthen the measures for convergence between the two economies.

**KEYWORDS:** Domestic, External, Growth, Policy-Making Decisions, Reforms

### **INTRODUCTION**

#### **1. ECONOMIC PERSPECTIVE AND GROWTH MODEL**

Rapid technological and scientific progress has exposed international economies to an extremely competitive, free-market, integrated economic environment, affecting their patterns of development. Understanding the forces that have led to the economic growth in the European Union (EU) and China is important for deriving an analysis that will in turn, help to formulate a strategic alliance.

Europe, by convention is the planet's sixth largest continent and includes 47 countries and assorted dependencies, islands and territories. The EU, an intergovernmental body composed of 28 European states, comprises the largest single economic area in the world. 18 EU countries share the euro as a common currency. Five European countries rank in the top ten of the world's largest national economies in Gross Domestic Product: Germany, the United Kingdom, Russia, France and Italy. The EU operates through a system of supranational independent institutions and intergovernmental negotiated decisions by the member states. The geographical identity of China is located in Southeast Asia along the coastline of the Pacific Ocean. China is the third largest country in the world in terms of area but it is the largest based on population. The country is a developing nation with a capitalist economy that is controlled politically by communist leadership.

A demographic feature of the two economies reveals that based on the total number of births, deaths, net migration rates and the population of 2013, the current population of the economy of Europe comprises more than 731 million people in 48 different countries while, the People's Republic of China is estimated to be about 1.354 billion, around 19.3 percent of the world's population.

Europe is gifted with many natural resources and the agricultural sector is in general highly developed. Europe has also a thriving manufacturing sector where, most of the continent's industries are concentrated in the 'Blue Banana', a concept was developed in 1989 by RECLUS, a group of French geographers managed by Roger Brunet. The curvature of this corridor covers Southern England, the Benelux, Western Germany, Eastern France, Switzerland and Northern Italy. The bulk of the EU's external trade is done with China, Mercosur and the United States, Japan, Russia and non-member European states. A cursory look at China reveals that this economy is the world's largest producer and consumer of agricultural products. Animal husbandry constitutes to be the second most important component of agricultural production. China is also the largest manufacturing economy, the fastest growing consumer market in the world and is the largest exporter and second largest importer of goods in the world.

Since the end of the 1970s, China's policy-makers have had a system of incentives to maximize the domestic economic growth by pursuing a well-identified model of economic development. This model has proved successful in increasing Gross Domestic Product (GDP) per capita and attaining major gains in world trade shares. In 2012, China was the 18<sup>th</sup> fastest growing economy in the world where GDP in current prices was US \$8.227 trillion and its GDP in terms of purchasing power parity was US \$12.405 trillion. Over the past decades, the Chinese authorities have been pursuing a growth model labelled as 'managed capitalism' that is seen as the outcome of a system of policy incentives initiated in the late 1970s. Given the country's political and economic conditions, the new Chinese leadership has strived to shape the economy along a 'producer-biased' model led by investment and exports, where the direct support of the government to firms and a systematically undervalued exchange rate were integral parts of policy-making. In contrast, by the millennium change, the EU dominated the economy of Europe comprising of the five largest European economies namely Germany, the United Kingdom, France, Italy, and Spain. The Union has evolved over time from a primarily economic union to an increasingly political one and has many functions, the most important being the establishment and maintenance of a common single market, consisting of a customs union, a single currency that is adopted by 18 of the 28 member states, a Common Agricultural Policy and a Common Fisheries Policy. Europe in 2010 had a nominal GDP of \$19.920 trillion. Europe's largest national economy can be claimed to be Germany, which ranks fourth globally in nominal GDP, and fifth in purchasing power parity (PPP).

**Table 1.1: Direction of Trade between EU-China**

Direction of Trade	Goods (2011)	Services (2010)	Foreign Direct Investment (FDI 2010)
EU-CHINA	€136,2 billion	€22,3 billion	€7,1 billion
CHINA-EU	€292,1 billion	€16,3 billion	€0,7 billion

Source: En.Wikipedia.Org/Wiki

In the recent years, the EU is China's largest trading partner and China is the EU's second largest trade partner after the United States. Since 2009, the EU exports to China have increased by 38 percent and China's exports to the EU have increased by 31 percent. Table 1.1 indicates the direction of trade in goods and services between EU-China. With reference to the domestic and foreign policy issues, freedom of expression and information remain restricted in the Chinese media. In the recent decade, developing closer relations between Europe and China have been thought of as the

need for a multipolar system has arisen. China's growing economy became the focus for many European visitors and in turn Chinese businessmen began to make frequent trips to Europe. Enhancement of Sino-European relations can be strengthened by spinning a web of win-win economic ties resulting from the identification of the two limitations as well as strengths.

## 2. DOMESTIC AND EXTERNAL IMBALANCES: COSTS, DISTORTIONS AND RISKS

Economic imbalances are an inherent by-product of economic growth that can be analysed along several dimensions. Transformation in the demographics of a country results in redrawing the parameters of the country's future that pose a serious risk to future economic growth, social harmony and political stability. Two sets of institutional changes are crucial to understanding the demographic changes occurring in the economies of China and Europe. First, economic and social reforms have shifted the locus of economic decision making from the state to the family and the individual. Second, a fundamental shift in migration policy has allowed people to move freely across administrative boundaries. Given the dynamic rise of Europe and China economically as well as politically, it is essential to consider the complexity of the relationship between demographics and foreign policy.

### 2a. Institutional Background of Demographic Change and its Implications on Lab Our Market

The sizeable demographic factor in China has significant material advantages in pursuing its foreign policy interests. In sharp contrast to the socialist planned economy era, when much of the cost of childbearing was assumed by the state, China's emerging market economy has increasingly placed the financial burden of raising children on the shoulders of the Chinese family. Such changes have profound impacts on behaviors that relate to demographic changes, ranging from health care and mortality, to marriage, fertility, and living arrangements. These changes include a substantial decline in the supply of young lab our and an aging society. In the near future, China will undergo a notable demographic transformation, with its old-age dependency ratio doubling to 24 percent by 2030 and the working population largely replaced by the smaller population born after the one child policy. Under the government's family-planning program that promoted later marriages, fewer births, and longer birth intervals, the female mean age at first marriage rose from 19.7 percent to 22.8 percent during the 1970s. Coale and Chen (1987) are of the opinion that the total fertility rate (TFR) declined from 5.7 births per woman in 1970 to 2.8 births per woman in 1979. The dependency ratio, that is, the ratio of people of non-working age to those of working age has been falling from a high of around 80 dependents per 100 workers in the mid-1970s to below 40 in the recent years.. This according to Ma and Wang (2010) has implied that the number of people who are not able to save, but only to consume, the oldest and the youngest members of the population has been decreasing in relative terms until recently.

**Table 2.1: Demographic Indicators of China (1950-2000)**

Indicator/Year	1950	1982	1990	2000
Population size (millions)	551.96	1,016.54	1,143.33	1,265.83
Percent urban	11.18	21.13	26.41	36.22
Birthrate (per thousand)	37.0	22.28	21.06	14.03
Death rate	18.0	6.6	6.67	6.45
Rate of natural increase	19.00	15.68	14.39	7.58
Life expectancy (Male)	42.2	66.43	66.91	71.01
Life expectancy (Female)	45.6	69.35	69.99	74.77
Infant mortality rate (Male)	145.85	36.47	32.19	20.78
Infant mortality rate (Female)	130.18	34.54	36.83	29.15

**Source:** The Demographic Factor in China's Transition, Wang FENG and Andrew Mason, Pg. 138

Another economic distortion that can be pointed out is the dissolution of collective farming in rural China and the termination of guaranteed lifetime employment in urban China. There has been labor reallocation across the major sectors. Since 1990, approximately 100 million people have left the agricultural sector and 130 million have moved from the countryside to the cities. The redundant agricultural labor force has been largely absorbed by the services sector. This has increased the economic risks among adult Chinese and posed serious concerns for parents planning for their children's economic livelihood. A third core imbalance has been excess reliance on the manufacturing sector for output growth to the detriment of the services sector. The underdevelopment of the services sector is at the root of weak employment growth and indirectly is also responsible for the low wage share and subdued consumption growth in China. In total the services sector has created around 150 million jobs since 1991, almost twice as many as manufacturing. This clearly indicates that services are more labor-intensive than manufacturing. It can be stated that employment creation has been weak in the last decade as a result of China's capital intensive growth model. Despite GDP growing at above 10 percent on annual average, employment increased by less than 1 percent per annum in the 2001-2010 period. The share of employment in the services sector out of total employment was only slightly above 30 percent in China at the end of 2010. This makes China a clear underperformer by international comparison.

During its economic transition of the last two and a half decades, China has seen the huge increase in domestic labor migration following the government's reversal of its earlier migration control policy. Migration exposed many to the urban consumer culture and the urban low fertility environment. Migration opportunities have also resulted in a new household division of labor and new living arrangements at both the origin and the destination. This will include rising unit labor costs, together with frictional and structural unemployment, particularly arising due to skill mismatches between growing college graduates and corporations that require more specialized skills. Emergence of a labor market that rewards human capital has clearly intensified the desire and competition to provide increased and improved schooling for children. Similarly, according to Davis (2000), an emerging consumer culture is also encouraging Chinese households to divert expenditures from rearing children to investment in and expenditures on housing, automobile, consumer durables, clothing and recreational activities.

Analysing the case of Europe, it can be noted that most of the economy is in Stage four of the Demographic Transition Model. In fact, most countries in Europe are either growing at a very slow rate, that is, less than 1 percent or they are actually declining in population and their life expectancy rate is rising as well. The Sustainable Development Strategy (EU SDS) identifies social inclusion, demography and migration as one of the EU's key economic and social challenges. The strategy sets out the objective of creating a socially inclusive society by taking into account solidarity between and within generations and to secure and increase the quality of life of citizens as a precondition for lasting individual well-being. According to the evaluation of changes in the demographic changes theme (EU-27, from 2000), the following is the analysis:

- Increase in the proportion of 55 to 64 year olds in employment
- Life expectancy increased by 9 percent for women at age 65 and 12 percent for men of the same age
- After stabilising between 2008 and 2011, the average number of births decreased slightly in 2011
- Since 2007 the ratio of income levels from pensions of elderly people relative to income level from earnings has been rising steadily

- More than one third increase in public debt in the EU between 2000 and 2012

Table 2.2: Demographic Indicators in Europe (2005)

	Pop. January 2005 (In Thousands)	Births Per 1,000 Population	Deaths Per 1,000 Population	Nat. Pop. Decrease/Increase	Net Migration	Total Pop. Change	Pop. January 2006 (In Thousands)
<b>EU-25</b>	<b>459,488</b>	<b>10.5</b>	<b>9.7</b>	<b>0.7</b>	<b>3.7</b>	<b>4.4</b>	<b>461,507</b>
Germany	82,501	8.4	10.1	-1.7	1.2	-0.5	82,456
France	60,561	12.6	8.8	3.7	1.7	5.4	60,892
UK	60,035	11.9	9.9	2.0	3.3	5.3	60,354
Italy	58,462	9.9	10.4	-0.5	5.8	5.3	58,772
Spain	43,038	10.9	8.8	2.1	15.0	17.1	43,781
Poland	38,174	9.4	9.7	-0.3	-0.3	-0.7	38,148
Netherlands	16,306	11.6	8.4	3.1	-1.2	2.0	16,338
Greece	11,076	9.4	9.2	0.2	3.1	3.3	11,112
Portugal	10,529	10.5	9.7	0.8	3.9	4.7	10,579
Belgium	10,446	11.4	10.0	1.4	3.2	4.6	10,494
Czech Rep.	10,221	10.0	10.5	-0.5	3.5	2.9	10,251
Hungary	10,098	9.6	13.5	-3.9	1.8	-2.1	10,076
Sweden	9,011	10.4	9.9	0.5	2.7	3.2	9,040
Austria	8,207	9.4	9.0	0.4	7.4	7.8	8,270
Denmark	5,411	11.8	10.3	1.6	1.4	3.0	5,428
Slovakia	5,385	10.0	9.8	0.2	0.8	0.9	5,390
Finland	5,237	11.0	9.2	1.8	1.7	3.5	5,255
Ireland	4,109	15.3	6.5	8.8	11.4	20.2	4,193
Lithuania	3,425	8.9	12.9	-4.0	-3.0	-7.0	3,401
Latvia	2,306	9.3	14.2	-4.9	-0.5	-5.4	2,294
Slovenia	1,998	8.8	9.2	-0.5	3.6	3.1	2,004
Estonia	1,347	10.6	13.1	-2.5	-0.3	-2.8	1,343
Cyprus*	749	10.9	6.7	4.1	27.2	31.3	773
Luxembourg	455	11.5	7.6	3.9	3.4	7.3	458
Malta	403	9.9	7.2	2.7	5.0	7.8	406
<b>Other EEA</b>							
Iceland	294	14.2	6.2	7.9	2.0	10.0	297
Liechtenstein	35	10.8	6.4	4.5	3.8	8.3	35
Norway	4,606	12.4	8.8	3.7	4.7	8.4	4,645
<b>EEA</b>	<b>464,423</b>	<b>10.5</b>	<b>9.7</b>	<b>0.7</b>	<b>3.7</b>	<b>4.4</b>	<b>466,484</b>
Switzerland	7,415	9.6	8.3	1.3	4.7	6.0	7,460
<b>Accession &amp; candidate countries***</b>	<b>105,472</b>	<b>16.0</b>	<b>8.3</b>	<b>7.6</b>	<b>-4.1</b>	<b>7.5</b>	<b>106,276</b>
Croatia	4,444	9.4	11.1	-1.7	2.6	0.9	4,448
Bulgaria	7,761	9.0	14.6	-5.6	-1.8	-7.4	7,704
Romania	21,659	10.2	12.3	-2.1	-0.5	-2.5	21,604
Turkey**	71,609	18.9	6.2	12.6	-5.9	12.6	72,520

Notes:\*Greek part of Cyprus only. \*\*Data for Turkey on net migration are from 2003. \*\*\*Excluding Macedonia

Source: EUROSTAT, Chronos Database Migrationinformation.Org/Sites/Default/Files/.../Pop-Table1-Jun06.Cfm

Furthermore, most Europeans have a very high education level that includes four years of university or beyond and they hold professional positions. As result of this low or non-existent growth, European countries have experienced a sharp and increasing shortage of workers for lower paid and less professional positions. The impact of this shortage was first felt in the United Kingdom, France, Germany and Scandinavia, but is now common in southern Europe, most notably Italy and Spain. Realising this trend, the governments in these countries began to establish immigration policies in the

1970s that encouraged the migration of mostly unskilled workers into Europe to fill positions in construction, sanitation, restaurants and selected other service industries. Africans and Asians have been the dominant immigrant groups to satisfy these needs and are usually labeled as ‘Guest Workers,’ where, they are given work visas and as long as they pay their taxes and avoid problems with the law, they can continue working in Europe indefinitely. This class of labour earns very good wages compared to their home countries and they contribute much needed labour to the local European economy. The large waves of foreign immigrants that settle in European cities have brought tremendous social changes. Many Europeans see their once ethnically homogenous cities become largely heterogeneous with significant neighborhoods of mostly immigrant groups. The EU unemployment rate was 10.3 percent in April 2012 and the unemployment rate for those aged 15-24 years was 22.4 percent.

## 2b. Implications for Trade Policy

Transition that is fuelled by sectoral reallocation, technological progress and low unit labour costs has serious implications for trade policy. Relations between the EU and China have developed fast since diplomatic ties were established in 1975. In particular, the creation of the EU-China Comprehensive Strategic Partnership in 2003 has deepened and broadened cooperation in a wide range of areas and the EU and China have become highly interdependent as a result. The EU and China have both put forward strategic development plans – China’s two centenary goals and the 12th Five Year Plan, the EU 2020 Strategy that present potential for synergies to enhance cooperation for win-win results. The year 2013 marked the 10th anniversary of the establishment of the China-EU comprehensive strategic partnership. The two sides are committed to promoting the EU-China Comprehensive strategic Partnership in the next decade. In that perspective, both sides jointly adopted the EU-China 2020 Strategic Agenda for Cooperation. The EU and China enjoy one of the world’s biggest and most dynamic trading relationships. Their trade and investment exchanges have become a major engine driving their respective economic development and innovation.

Considering, the export-led growth model adopted by China, on one hand, it has resulted in boosting GDP per capita and gaining export market shares while, on the other hand, it has produced domestic and external imbalances that are associated with economic inefficiencies, financial stability risks, social unrest and tensions with major trading partners. There have been some disputes, such as the dispute over textile imports into the EU. China and the EU are increasingly seeking cooperation, for example China joined the Galileo project investing €230 million and has been buying Airbus planes in return for a construction plant to be built in China; in 2006 China placed an order for 150 planes during a visit by the French President. Also, despite the arms embargo, a leaked US diplomatic cable suggested that in 2003 the EU sold China €400 million of defence exports and later, other military grade submarine and radar technology. Similarly, there is a dispute over textile imports into the EU with domestic European manufactures losing out to cheaper Chinese imported goods. Under the terms of the agreement, China agreed in exchange for the release of 80 million items held in European ports, only half of these are deducted from its export quotas for 2006.

**Table 2.3 (A): EU-China Trade in Goods (2011-2013)**

Year	Trade in Goods 2011-2013 (€ Billions)		
	EU Imports	EU Exports	Balance
2011	294.8	136.4	-158.4
2012	291.6	144.0	-147.6
2013	280.1	148.3	-131.8

**Source:** Fact Sheet: Facts And Figures on EU-China Trade, March 2014

**Table 2.3(B): EU-China Trade in Services (2010-2012)**

Year	Trade in Services 2011-2013 (€ Billions)		
	EU Imports	EU Exports	Balance
2010	17.1	23.3	6.2
2011	18.1	25.4	7.3
2012	19.9	29.2	9.4

**Source:** Fact sheet: Facts and figures on EU-China trade, March 2014

As seen from Tables 2.3 (A) and (B), EU-China trade has increased dramatically in recent years. China is the EU's biggest source of imports by far, and has also become one of the EU's fastest growing export markets. The EU has also become China's biggest source of imports. China and Europe now trade well over €1 billion a day. EU imports from China are dominated by industrial and consumer goods: machinery and equipment, footwear and clothing, furniture and lamps, and toys. EU exports to China are concentrated on machinery and equipment, motor vehicles, aircraft, and chemicals. Bilateral trade in services, however, only amounts to 1/10 of total trade in goods, and the EU's exports of services only amount to 20 percent of EU's exports of goods. As a result, the EU records a significant trade deficit with China. This is in part a reflection of global and Asian value chains, but in part also due to remaining market access barriers in China. Investment flows show vast untapped potential, especially when taking into account the size of our respective economies. China accounts for just 2-3 percent of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base. Chinese export restrictions on raw materials such as rare earths are identified as a major trade obstacle. China imposes a set of export restrictions, including export quotas, export duties and additional requirements that limit the access to rare earths for companies outside China. These measures significantly distort the market and favor Chinese industry. The EU considers that the Chinese restrictions are in violation of general WTO rules.

### 3. ECONOMIC POLICIES FOR STRATEGIC ALLIANCE

Multi-polarity and economic globalization have deepened; cultural diversity and IT application have been enhanced; the overall strength of emerging markets and developing countries has been growing; countries have become more interdependent with their interests more intertwined; and peace, development and win-win cooperation have become the trend of our time. In the twenty-first century, in order to navigate into the international world, a geopolitical strategy is required to maintain a position. The principles of a geopolitical strategy is to manage the geopolitics of physical trade flows, the creation of buffer zones and areas of influence that will constitute levers to reach a critical threshold of power.

#### 3a. The Geopolitics of Trade Flows

As an indispensable node of worldwide energy, commercial, financial and demographic networks, the EU could take over, develop and direct the trade flows necessary for its energy security and its economic expansion. The active consolidation of its position as a major crossroads for world trade is slowing down the gradual loss of its central position in the world in favour of Asia. In the setting of a policy of diversification and security for energy and commercial trade routes, the opening of a Eurasian and an Arctic route would offer an alternative to the Cape and Suez Canal routes. The transit routes coming from Russia need to be reinforced at the same time. The links with Siberia, Central Asia and the Far East would be improved by these two new corridors. The system would consist of a network of continental and maritime lines crossing the heart of the Eurasian continent and two sea routes around the Eurasian continent by the South (the Cape and Suez) and by the North (the Northwest Passage and the North) Through the Arctic Ocean. Geopolitics Exist in Terms of Financial and information Flows Where in, the Financial and information networks tend to become a

Subsystem of the range of geopolitical forces by means of a power strategy between states, Economic and Financial Circles and information organs. A geopolitics of financial and information flows could be linked to a European geopolitical strategy.

The current legal framework under which contemporary EU-China relations are structured is the Trade and Economic Cooperation Agreement (TECA) which dates back to 1985. Since then, the EU-China relationship as trading partners has expanded organically through separate, smaller framework agreements on cooperation and dialogue in specific policy areas. Since 2007, negotiations have been underway to upgrade this to a new Partnership and Cooperation Agreement and there are already 24 sectoral dialogues and agreements from environmental protection to education economic cooperation continued, with the EU's "New Asia Strategy", the first Asia-Europe Meeting in 1996, the 1998 EU-China summit and frequent policy documents desiring closer partnerships with China. Although the 1997 Asian Financial Crisis dampened investors enthusiasm, China weathered the crisis well and continued to be a major focus of EU trade. Chinese leaders were anxious to return the European interest and made high level visits throughout the 1990s, visits that were accompanied by major EU sales to China. France was leading the EU's desire for closer ties in order to establish a multipolar world and was the first, along with Russia, to establish strategic partnerships with China. However EU-China have experienced a cool down after China canceled the EU-China yearly summit in November 2008.

Given the differences in history, cultural tradition, political system and stage of economic development as well as the increasing competition between China and the EU in some sectors in recent years, the two sides have disagreements and frictions on issues of value such as human rights as well as economic and trade issues. China believes that these issues should be properly handled through dialogue in the spirit of equality and mutual respect and encourages the EU to move in the same direction. However, while there are many challenges, China's market and rapid development also continues to offer huge opportunities, with significant potential for further expanding trade and investment and strengthening of the relations. The launch of the negotiations on a bilateral investment agreement is an important forward-looking initiative that aims to promote bilateral investment by providing transparency, legal certainty, and market access to investors from both sides. Topics arising in the bilateral trade and investment relationship are discussed in a range of dialogues, including the annual Joint Committee and the EU-China High Level Economic and Trade Dialogue (HED). The last Joint Committee was held on 24 October 2013 in Brussels.

The European Union's concerns include:

- Industrial policies and non-tariff measures in China which may discriminate against foreign companies
- A strong degree of government intervention in the economy, resulting in a dominant position of state-owned enterprises
- Unequal access to subsidies and cheap financing
- Inadequate protection and enforcement of intellectual property rights in China

### **3b. Developing Long-Term Vision of Cooperation**

Over the past decade since the release of China's first policy paper on the EU by the Chinese government in October 2003, the China-EU Comprehensive Strategic Partnership has made important headway. Guided by the annual China-EU Summit and focusing on the three pillars of political, economic and people-to-people exchanges, China and the

EU have promoted all-dimensional, multi-tiered and wide-ranging cooperation to deepen the Comprehensive Strategic Partnership. China is the EU's second largest trading partner. The EU has been China's top trading partner for 10 years. The annual trade volume has exceeded 550 billion US dollars and there have been over 5 million visits between the two sides each year. China and the EU have worked together to tackle the international financial crisis and advance global governance reform, stepped up communication and coordination on major international and regional issues, and contributed significantly to world peace, development and cooperation.

During the European sovereign debt crisis, several European countries required EU and International Monetary Fund bailouts. China assisted Europe by buying billions of euros worth of junk Eurozone bonds, in particular from Greece, Ireland, Italy, Portugal and Spain. Some analysts suggested China was buying political influence in the EU but China maintains they are building strong trade ties and supporting the European economy so that trade issues can move ahead more smoothly. Multilateral cooperation may make its own contribution to setting the right incentives for China in the context of the upgrading of the G20 as the principal world forum for policy impulse. In order to reach this goal, all G20 members and the European members primarily should respect their global responsibilities and fully honour the pledges made, most recently, in Los Cabos and Mexico City in 2012. In the case of China, this includes commitments to further strengthening social safety nets, continuing to promote the liberalization of interest rates and moving more rapidly towards greater exchange rate flexibility and capital account liberalization. In the absence of the latter preconditions, China will continue to be a global economic power without a strong global currency.

The first *China's EU Policy Paper*, which has been implemented effectively, has played an important role in guiding the development of China-EU relations. With the significant growth of its overall strength, China is playing an important role in major international and regional affairs. But China remains a developing country that suffers from severe lack of balance, coordination and sustainability in its development. On the domestic front, China is committed to comprehensively deepening reform to make the country a moderately prosperous society in all respects. Internationally, China pursues a greater opening-up and peaceful development. It works to build an open world economy and a new type of international relations featuring equality, mutual trust, inclusiveness, mutual learning and win-win cooperation, with a view to contributing more to world peace and common development. Due to the impact of the international financial crisis, the EU is facing the most serious challenge since the end of the Cold War and has to urgently address a series of deep-seated structural and systemic issues. But its strategic direction of integration remains unchanged. With the efforts of steady enlargement and accelerated structural reform, the EU has worked hard to advance economic, fiscal, financial and political integration. A 28-member EU, the biggest economy in the world with strong overall strength, continues to be a global player of great strategic importance and a key part in the evolving international landscape.

China and the EU, the world's most representative emerging economy and group of developed countries respectively, are two major forces for world peace as they share important strategic consensus on building a multi-polar world. The combined economic aggregate of China and the EU accounts for one third of the world economy, making them two major markets for common development. Being an important representative of the oriental culture and the cradle of western culture and with a combined population accounting for a quarter of the world's total, China and the EU stand as two major civilizations advancing human progress. With no fundamental conflict of interests, China and the EU have far more agreement than differences. Both sides are at a crucial stage of reform and development and China-EU relations face new historic opportunities. Deepening the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win

Cooperation will provide impetus to the development of China and the EU and contribute to peace and prosperity of the world.

The Chinese government places high importance on the status and role of the EU, and is committed to working with the EU and its member states to fully implement the *China-EU 2020 Strategic Agenda for Cooperation* in the course of comprehensive deepening of reform in China and economic recovery in Europe, build partnerships for peace, growth, reform and civilization and further increase the global impact of China-EU relations.

### **3 C. Economic Cooperation and Trade**

China views the EU as one of its most important trade and investment partners and hopes that both sides will contribute to the long-term, steady and in-depth development of their economic and trade relationship. China consistently supports a stable financial market in both EU member states and the Euro Zone and measures of EU institutions and the European Central Bank to achieve financial stability and tackle the European debt issue. China stands ready to provide necessary support in various ways to the stability of the European financial market.

- Strengthen the China-EU Economic and Financial Dialogue and the Working Group between the People's Bank of China (PBoC) and the European Central Bank (ECB), expand exchanges on macroeconomic policy, conduct dialogue on government procurement, maintain close communication on international economic and financial hotspot issues and expand practical cooperation in economic and financial fields.
- China welcomes financial institutions from EU member states to start business in China under relevant Chinese laws and regulations. China encourages Chinese securities institutions to enter the EU securities market when conditions are ripe and actively supports Chinese enterprises to get finance from the EU securities market. China hopes EU member states will actively open their markets to the Chinese financial sector and support Chinese financial institutions in setting up branches and doing business in the EU.
- Continue to enhance cooperation between Chinese and EU insurance sectors, conduct exchanges on insurance business and relevant rules and laws through China-EU Insurance Talks and jointly promote healthy and stable development of Chinese and EU insurance markets.
- China attaches great importance to the role that the European Investment Bank (EIB) plays in promoting European integration, economic recovery and efforts to address climate change and is willing to further strengthen two-way win-win cooperation with the EIB in tackling climate change, pursuing ecological progress, promoting mutual investment and cooperation in the field of finance.

### **3d. Cooperation on Industry, Agriculture, Transportation, Science and Technology and Information Technology**

- Enhance the China-EU Industrial Dialogue and Consultation Mechanism, increase mutual understanding, resolve differences, expand common ground for mutually beneficial industrial development, and promote sustainable industrial development and industrial prosperity in both China and the EU. Continue exchanges and cooperation in the automobile industry, industrial energy efficiency, raw materials, ship building and small and medium sized enterprises, further develop cooperation in the fields of electronic industry, consumer goods, aviation, aerospace and peaceful use of nuclear energy, deepen understanding of each other's policy and exchange related information and development experience.

- Give play to the guiding role of the China-EU Dialogue on Agriculture and Rural Development, achieve fast growth of trade in agricultural products, promote China-EU cooperation in pursuing balanced urban and rural development, protecting and benefiting from agricultural cultural heritage, building the model of environment-friendly agriculture, promoting diversified rural economy and farmers' vocational education, coping with the impact of climate change on agriculture, research on agricultural science and technology, geographical indication and quality and safety of agricultural products.
- Continue to enhance cooperation on scientific research innovation within the framework of the China-EU Steering Committee and the China-EU Innovation Cooperation Dialogue. Draw on each other's advantages and achieve mutual benefit in innovation strategy, human resources, technology, research facility, financing and exploitation of research findings.
- Continue to deepen scientific and technological cooperation in the field of energy, promote research cooperation on reducing energy consumption and emissions of small and medium sized enterprises and clean technology, advance cooperation on the peaceful use of nuclear energy, enhance coordination on the International Thermonuclear Experimental Reactor Project and other large international science projects, and continue to make use of carbon capture and sequestration technology to achieve near-zero emission in demonstration coal-based power stations.
- Encourage the establishment of China-EU technological cooperation network or joint research base and create a China-EU industry alliance on strategic emerging industries such as renewable energy, digital information, advanced manufacturing, nanotechnology, health and medicine based on the industrial cluster of the China-EU High-tech Park.
- Strengthen China-EU Dialogue on Information Technology, Telecommunication and Information, conduct exchanges and dialogue on related strategies, policies and regulations and actively promote cooperation and exchanges on trade in IT products and industrial technology. Encourage broader exchanges on intellectual property rights and technical standards and continue to raise the level of China-EU cooperation on intellectual property rights. Strengthen China-EU cooperation and exchanges on information security, especially cyber security.

### **3e. Cooperation in the Fields of Education, Culture, Press, Publication and Youth Exchange**

- Fully harness the leading role of the China-EU High-Level People-to-People Dialogue and actively promote cooperation in the fields of education, culture, press, publication and youth exchange between China and the EU as well as EU member states.
- Expand exchanges between students and scholars and promote friendship and mutual understanding between Chinese and European young students, and strive to expand the interflow of students between the two sides to 300,000 person times per year by 2020; enhance cooperation in the teaching of Chinese and European languages and training of teachers and continue the China-EU Dialogue on Education Policy; support the establishment of centers for Chinese studies and centers for European national and regional studies by European and Chinese higher learning institutions and make an effort to build the China-EU Platform for Higher Education Cooperation and Exchange; encourage European and Chinese universities to carry out high-quality cooperation in running

schools, jointly advance high-level scientific research programs and help high-level talents to emerge.

- Follow through on the outcomes of China-EU Year of Intercultural Dialogue and ensure the long-term effect of cultural cooperation supported by sound institutions. China supports the efforts to strengthen China-EU dialogue on cultural policies as well as experience sharing in cultural industries, heritage preservation and contemporary art.
- Promote exchanges and cooperation in the field of press and publication, and encourage the media from both sides to enhance mutual understanding so that they can present a comprehensive and objective picture of each other's politics, economy and culture, produce documentaries and publish books and news articles that reflect each other's economic development, history, culture and customs, cooperate in making films and TV programs, and jointly hold film and TV exhibitions and festivals and book fairs. Continue to strengthen interactions and exchanges between government departments, support the institutional building and deepening of regular China-EU media exchanges, and carry out cooperation through various channels and in various forms, with a view to creating a favorable public opinion environment for the sound and stable growth of China-EU relations.
- Make use of new media tools to expand the China-EU platform of information exchange and enable the public to better understand each other's policies, ideas, development goals, strategic orientation and cultural achievements. Strengthen youth exchange and consolidate the outcomes of China-EU Year of Youth and the China-EU High-Level People-to-People Dialogue, improve the China-EU Youth Policy Dialogue and the platform for exchanges between youth organizations, encourage youth organizations at all levels from different places of China and the EU to carry out exchange and cooperation, and build a wide-ranging, multi-tiered pattern for China-EU youth exchanges.
- Strengthen and expand China-EU consular cooperation, and facilitate the personnel interflow between the two sides. China hopes that the EU could take credible steps to protect the safety and lawful rights and interests of Chinese citizens in Europe, and make it easier for Chinese nationals to travel to Europe by, among other things, streamlining visa, immigration and residence procedures. Push for the establishment of China-EU tourism cooperation mechanism, further explore each other's tourism market, maintain exchanges of tourism policies and statistics, and work for the early signing of the *Memorandum of Understanding on Bilateral Tourism Cooperation*. The relevant EU member states are urged to speed up the adoption of the Chinese language as an official language of the World Tourism Organization. Strengthen cooperation on exit and entry administration, exchange between border inspection and immigration departments at airports with direct flight link, joint case investigation and fight against illegal immigration.

#### **4. CONVERGENCE BETWEEN EU-CHINA: BUILDING BLOCKS OF A STRATEGIC PARTNERSHIP**

Strategic partnerships are vital to the implementation of the holistic approach, which seeks a 'positive way' of permanent dialogue and active cooperation in all dimensions of foreign policy, in order to prevent conflict and promote security and social, economic and political development. EU and Chinese interests converge on many issues of global governance, in particular as regards the key role of multilateral organizations and systems. Through a further reinforcement of their cooperation, the EU and China will be better able to promote these shared visions and interests, wherein, the

partnership holds particularly great potential in the areas of trade and science and technology.

#### **4a. Reforms and Policy-Making Decisions in Trade and Investment**

The EU-China Investment Agreement will provide for progressive liberalisation of investment and will strive to create the conditions for continued high and sound growth in EU-China trade. By enhancing the EU-China Industrial Dialogue and Consultation Mechanism, policy exchanges to facilitate industrial products trade, particularly in the fields of automobile industry, industrial energy efficiency, raw materials, ship building and small and medium sized enterprises will be strengthened. By making use of the EU-China Cooperation Plan in Agriculture and Rural Development under the auspices of the annual bilateral Agricultural Dialogue, cooperation in the fields of sustainable agricultural production, organic agriculture, rural development and agricultural research can be enhanced.

With the view to enhance win-win research and innovation cooperation in the field of food, agriculture and biotechnology, the EU and China will collaborate closely using their respective research and innovation programmes to develop joint initiatives of common interest, including potential joint calls for proposals, twinning activities, joint labs, researchers' exchanges and seminars. Negotiations on a bilateral investment agreement is an important forward-looking initiative that aims to promote bilateral investment by providing transparency, legal certainty, and market access to investors from both the economies.

#### **4b. People-To-People Exchange**

People-to-people exchanges are an essential vector of peace, while contributing to economic development. Together the EU and China represent over a quarter of the world's population. Expanding contacts between peoples on both sides is crucial to enhance common understanding and foster cross-fertilisation between societies. In the last three decades, China's sustained economic growth has been supported by three major domestic factors:

- robust capital accumulation, which is a feature of China's investment and producer-biased growth model
- a strong increase in labour productivity due to the migration of workers from the rural to the industrial sector, which also sustained downward pressure on wages and, therefore, unit labour costs
- rapid total factor productivity (TFP) growth as a result of the progressive liberalization of the state-controlled economy after 1978

### **5. CONCLUSIONS**

The EU and China face the common task of achieving innovative, inclusive and sustainable development. Innovation has an important contribution to make to achieve sustainable development, and that effective protection of Intellectual Property Rights is crucial to support the effective development and deployment of innovative solutions and emerging industries. For the EU as well as China a strategic partnership based on these shared views would contribute significantly to the realization of their foreign policy strategy.

In a way, both the European Union and China can be seen as new global strategic actors in the politico-military dimension of world affair and the emergence of the EU and China as global strategic actors constitutes a new structural factor that has an enormous impact on the world order and on world events.

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