Stars and Dragons: The EU and China

Volume II: Evidence

Ordered to be printed 9 March 2010 and published 23 March 2010

Published by the Authority of the House of Lords

London: The Stationery Office Limited

£16.00

HL Paper 76–II
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NOTE:
The Report of the Committee is published in Volume I, HL Paper No 76-I
The Evidence of the Committee is published in Volume II, HL Paper No 76-II
Minutes of Evidence

TAKEN BEFORE THE SELECT COMMITTEE ON EUROPEAN UNION
(SUB-COMMITTEE C)

THURSDAY 12 FEBRUARY 2009

Present Anderson of Swansea, L
Hamilton of Epsom, L
Inge, L
Jones, L

Swinen, L
Symons of Vernham Dean, B
Teverson, L (Chairman)

Examination of Witnesses

Witnesses: Mr Stephen Lillie, Head of Far Eastern Group, and Ms Louise Nicol, China External Desk Officer in the East Asia Regional Team, Far Eastern Group, Foreign and Commonwealth Office, examined.

Q1 Chairman: Mr Lillie, I do apologise that we have kept you waiting outside for rather a long time. Please accept my apologies for that. I remind you that this session is being recorded. If there is anything in the transcript that you will see that you do not think reflects what you have said, please come back to us. You are, in fact, the first of our witnesses giving oral evidence in terms of our China EU study, so we are very grateful for your presence and we are looking forward to moving ourselves into understanding China EU. I do not know whether there is anything that you wanted to say as an introduction or whether you would like us to start with the questions.

Mr Lillie: No, thank you very much for inviting us, but we would be very happy to go straight into questions.

Q2 Chairman: Good. A very straightforward one, and very broad, as to how China and the European Union view each other and what you feel should be the primary objectives of European policy towards China?

Mr Lillie: Since 2003 we and China have referred to the EU China relationship as a comprehensive strategic partnership which, I think, reflects the importance that both sides attach to it. From the European perspective, the relationship starts from trade and economy but in recent years has broadened out considerably, and we see China as crucial to solving a wide range of global problems, whether it be related to proliferation, to climate change, to energy security and the current economic and financial crisis, and, therefore, our European engagement with China now very much extends to all those areas. From a Chinese perspective, I would say that China has a quite sophisticated understanding of the European Union. There are very large numbers of Chinese academics and researchers who work on Europe and whose analysis goes into the Chinese Government and leadership. They too start from trade. The European Union single market is China’s largest trade market, but I think also Europe and the European Union appeals to China’s vision of what they call a multi-polar world, having a number of significant poles of power and influence rather than a single superpower, and so they see it as very important that the European Union should develop politically on the world stage. Comprehensive strategic partnership does not, of course, mean that there are not differences and divergence of opinion between the two sides, and I am sure you will come on to that. In terms of what should be our priorities, the Commission, on behalf of the European Union, is currently negotiating with China a Partnership and Co-operation Agreement. That is extremely wide-ranging, reflecting the breadth of the relationship. So in many ways one might conclude that the Partnership and Co-operation Agreement is the top priority for the European Union. But I think, if we are looking at this year, we would see developing the co-operation between Europe and China to respond to the global financial situation as a very high priority. Getting China in the right place for the Copenhagen Climate Change Conference would also be a top priority. I would also at this stage say that the EU continues to attach considerable importance to its dialogue and interactions with China on human right issues.

Q3 Lord Anderson of Swansea: Obviously a constant theme of China is railing against the hegemon, the US, so you are confident that they see the EU in this context. The question really is this. Obviously trade is mainly EU, so they look to the EU in that context, but do they, overall, increasingly look to the European Union as such or do they prefer to go through the channels of individual countries with bilateral arrangements?
Mr Lillie: I would say that it is both to some extent.

Q4 Lord Anderson of Swansea: Is the balance shifting?  
Mr Lillie: There is certainly an increasing value placed on interaction with the European Union. But I would not say that trumps their relationships with individual members of the Security Council. Obviously they have a very distinct relationship with ourselves and with France on issues that are relevant to the Security Council, but I do think that they see the European Union as a block that they can deal with on many issues that go beyond trade and investment.

Q5 Chairman: One of the debates I have had recently is whether China would ever see the European Union as a first division relationship? America and China maybe; individual European states, do you think?  
Mr Lillie: I think it could be said to be a first division relationship, but, of course, it is not necessarily top of the league.

Q6 Baroness Symons of Vernham Dean: Might it not be first division in some respects like trade, because I am sure Europe is the largest single market, but I was very interested in what you said about wanting Europe to be more of a balance in the political stage, and clearly it is not there yet?  
Mr Lillie: Clearly it is a very important relationship. I would find it difficult to say that it is yet in a position where it is more important to China than the United States on any one specific issue, but it is in a similar area, and that is why, whether you describe it as “first division” or “premier league”, then it is up there near the top.

Chairman: I am probably using the wrong term. I am obviously not into football enough! Lord Hamilton.

Q7 Lord Hamilton of Epsom: I think you have really answered this second question. Tell me about the postponement of the December EU China Summit. Should we be getting that back on track?  
Mr Lillie: It was postponed at Chinese decision, I suppose, rather than request, reflecting their bilateral differences with France, and that in a sense goes back to this question of how the European and bilateral relationships rub up against each other. I think we are now moving back on track. The Premier of China has recently visited Europe—he was in Germany, Spain and Brussels, where he met not only the Commission but also the Czech Prime Minister, and was then in London. The Chinese described this as a confidence-building visit. Crucially, when he was in Brussels he did reach agreement in principle with the Commission and with the Presidency to reinstate the Summit perhaps for May. So I think things are moving back on to track at the European level; perhaps not so quickly at the French level.

Q8 Lord Hamilton of Epsom: What is the problem with France?  
Mr Lillie: President Sarkozy had attended a ceremony in Gdansk involving the Dalai Lama and the Chinese took offence.

Q9 Lord Anderson of Swansea: So he had to deal with the Czechs rather than the French. Classically China has dealt with its potential internal tensions, managing those tensions by economic growth. That economic growth may be diminishing fast. Does that mean that we are likely to see an increase in tension? We are told the 20 million people who have returned to the countryside may not be able to return to their jobs in the dynamic areas. Are those tensions/challenges likely to increase, and what effect, if any, will that have on their external policy?  
Mr Lillie: I think it is a very real worry for the Chinese leadership. They have clearly over the past 30 years predicated their leadership on delivering very high growth to produce the necessary levels of employment and, as growth falls to perhaps seven per cent this year, it is clear that they cannot generate all the jobs that they need, and that is why, as you say, people are returning to the countryside; so they do worry about the implications for social stability of that. I think our assessment would be that they are able to manage those in the short-term. Social unrest is nothing new in China. There are many incidents every year which are controlled. We would hope that in some ways the slow down does act as a catalyst for China to accelerate its efforts to rebalance its economy so that its economy is less dependent on export-oriented jobs in the future and they need to boost domestic consumption in order to build long-term jobs. So over a longer term there is perhaps a silver lining for China, but there is no doubt that in the short-term it poses real challenges. How will that affect China’s external action? I think we have to accept that they will be more inwardly focused. Having said that, we see them very much as part of the multilateral solution to the global crisis: they will be an important part of the London summit in April and we are working very closely with them to achieve multilateral solutions, including in the area of reform of international financial institutions.

Q10 Lord Anderson of Swansea: I can provide a platform for colleagues if I ask on Africa: does this mean that there will be fewer resources available for investments in Africa? Does it mean that in your judgment China is likely to be more of a team player in key areas?
Mr Lillie: We have had a process of engagement with China on African issues anyway over the last few years, and increasingly we do see China as taking a more constructively engaged role in Africa. Actually this is an area where the European Union has a maturing dialogue with China. A Commission Communication was published—Ms Nicol: In November last year.

Mr Lillie: —in November last year on the opportunities for European, Chinese and African trilateral co-operation in dealing with development and other challenges in Africa.

Q11 Lord Swinfen: What is the Government’s assessment of the current institutional architecture for relations between the EU and China, including the Summit meetings, and sectoral partnerships and dialogues? What are the main areas of convergence and disagreement between the EU and China in the negotiations on a Partner and Co-operation Agreement?

Mr Lillie: There is quite an extensive institutional architecture involving the annual Summits and then what is called the High-Level Mechanism Dialogue, which is led by the Trade Commissioner on our side and by the Chinese Vice Premier responsible for financial and economic affairs, and then there is a Joint Commission and something like 27 sectoral dialogues; so there is a huge architecture which reflects the breadth of the relationship. I think from our perspective the important thing is to use the Summits effectively. We were concerned when the Summit was postponed in December. We are pleased that it will be reinstated, and our concern is that it should actually address the real priorities, such as the economic situation and climate change. In terms of the Partnership and Co-operation Agreement, this is being pursued as two parallel negotiations, one relating to the trade aspect of the agreement, and overall I would say that that is moving somewhat more slowly, and then the other negotiation covers co-operation in a very wide range of areas, including environment, tourism, culture, transport and many different areas. That is moving slightly faster. We probably have agreement on half the articles under that. In terms of the points of divergence, as I have suggested, I think fundamentally there are still many difficult market access issues viewed from a European perspective. From a Chinese perspective, one of most difficult and sensitive negotiations is over language which they want to include on the subject of Taiwan, which for them is, obviously, politically very important but raises various difficulties for the European side.

Q12 Lord Anderson of Swansea: Most commentators would say that the dialogue with China on human rights is a ritual which has had very few outcomes but is probably worth continuing with. Nevertheless, I would like you to refute this and tell me that there are significant improvements in Chinese human rights. What is the view of the FCO? Are there differences between ourselves and our European partners in terms of the human rights dialogue? In your judgment has it been successful? Is it essentially a ritual?

Mr Lillie: I would not accept at all that it was a ritual. We have, first of all, a series of bilateral human rights dialogues, including the UK-China human rights dialogue which met last month, and then we have the European dialogue, which I think met at the end of November. We see all these dialogues as really important in a number of respects. First of all, they are very important symbols of European concern about the human rights situation in China and we use them to raise cases of concern of individuals. They are also important in actually building up what they say they are—a dialogue—to help China address issues of institutional, political and legal reform. In our recent bilateral dialogue in January we had discussions around different aspects of judicial reform, also around rights of the disabled, but we would also say that we are not satisfied with the overall progress which particularly the European dialogue is making, and I think there was widespread disappointment within the European Union at the lack of progress at the November dialogue. We are currently reviewing, within the EU, what we can do to get better engagement and to move things forward.

Q13 Lord Anderson of Swansea: With respect, you seem to be saying mainly it is symbolic and any political activities possibly were due to be released in any event, so what are the practical benefits?

Mr Lillie: It is not only symbolic. Symbolism is one part; that is reflecting the level of concern in Europe. The second element is the practical dialogue to help China address needs which it recognises it has, particularly in the area of improving the judiciary and the administration of justice and, in the case of individuals, I think there is evidence to show that those individuals whose cases are regularly raised by European governments or by the United States or by others are ultimately progressed.

Q14 Lord Anderson of Swansea: On legal exchanges, I recall there was a programme 10, 15 years ago for exchange of lawyers, and we were rather hoping that state Chinese practitioners in criminal law would come. Mostly they sent commercial lawyers to see how we do things. Does this programme still exist and is there a serious exchange on human rights? I accept legal judicial procedures are important also in terms of establishing human rights.
Mr Lillie: There are a number of judicial training schemes which continue and which are financed by the Ministry of Justice here and, yes, of course they focus on judges and they focus on prosecutors because we believe we need to raise the capacity and quality of that. However, just last week I met a delegation of Chinese defence lawyers who were here on a programme organised by the Human Rights Practice, and we would certainly like to see what the opportunities are to improve the capacity of defence lawyers in China, not least because last year a new lawyers’ law was passed there.

Q15 Baroness Symons of Vernham Dean: My Lord Chairman, it does occur to me on that it is quite difficult to conduct an inquiry when we are not able to zip over to certain parts of Europe to have discussions, but, maybe, when you do have such officials over here in the next little while there could be some informal exchanges between the Committee.

It would help us, I think, in thickening up some of the substance of our inquiry. Perhaps we could lodge that point with you. I am sure the Clerk would be very happy to try and arrange for some of us to see such people. What I am not clear about on this human rights issue is this. Is their basic pointer, “Yes, of course we will talk to you about human rights”, but when it really comes down to it telling us to mind our own business, which is really what I used to encounter with the Chinese over these things? It was not that we had disagreed, it was that we did not actually really talk about it because every time it was on the table we would raise it and they would say, “Thank you for that”, and go on to the next thing.

Q16 Baroness Symons of Vernham Dean: An excellent Foreign Office answer!

Mr Lillie: I think I am saying both of those things.

Lord Inge: A very typical Foreign Office answer!

Mr Lillie: There are a number of judicial training schemes which continue and which are financed by the Ministry of Justice here and, yes, of course they focus on judges and they focus on prosecutors because we believe we need to raise the capacity and quality of that. However, just last week I met a delegation of Chinese defence lawyers who were here on a programme organised by the Human Rights Practice, and we would certainly like to see what the opportunities are to improve the capacity of defence lawyers in China, not least because last year a new lawyers’ law was passed there.

Q17 Lord Hamilton of Epsom: I have not heard much about Falun Gong recently. Have things changed between the Chinese Government and Falun Gong?

My Lord: No, Falun Gong remains a proscribed organisation and has now been, I think, very largely suppressed. We and other European governments remain concerned about the reports that we have received of the treatment of its members who have been detained.

Q18 Lord Hamilton of Epsom: Is there a rational reason why they want to suppress Falun Gong? I thought they were a lot of people who stood in parks waving their arms about, which seems extraordinarily harmless to me, but have I got it wrong?

Mr Lillie: The Falun Gong was very prominent about 10 years ago. I cannot remember whether it is 10 or 11 years since it was proscribed. But it had turned into a very large organisation, completely outwith the control or leadership of the Chinese Communist Party, and the Chinese Communist Party does not, ultimately, allow mass organisations that are not part of its own franchise.

Q19 Lord Swinfen: China is no large area, and you have already mentioned Tibet briefly, but there are other minority and ethnic groups such as the Uighurs which may not be ethnic but are certainly a religious minority? What is the EU’s position on the situation of the minority groups in China?

Mr Lillie: We are concerned about the situation in the so-called autonomous regions, Tibet and Xinjiang, and we are concerned in particular about the limits on the exercise of religious freedom and on freedom of expression there. In the case of the Uighurs in Xinjiang, the particular complexity is around separatist terrorist activity, of which there is some in Xinjiang, but in China terrorism and separatism tend to be automatically conflated and, therefore, people who peacefully express what might be seen as separatist views in Xinjiang tend automatically to be categorised as terrorists and, therefore, treated harshly, and we are concerned about that. We were concerned about reports from Xinjiang last year which suggested that severe controls were being placed on the exercise of religious activities, including during Ramadan, and these are issues which we have raised both in our own human rights dialogue and at the European level.

Q20 Lord Anderson of Swansea: With the Uighurs, am I correct to say it is not just a separatist issue, but some of the Uighurs have been active in a number of
terrorist hotspots, including Chechnya, for example? Is this correct and does this cause the Chinese to discuss with the international community questions of terrorism because of their concern about the Uighurs and Xinjiang and the other Muslim minorities?

Mr Lillie: I think it is clear that one of the reasons that China was keen to collaborate with the United States and with the international community more generally after September 11 was because of their own concerns about what they see as Islamist terrorism within their own borders. From a Chinese perspective, they would feel that perhaps the international community does not take their terrorist problem as seriously as they feel that we should. There is discussion going on about this with China but it is obviously a very sensitive area for European governments because of the specific way that China handles these issues, which for us raises real human rights concerns.

Q21 Baroness Symons of Vernham Dean: Can we turn to issues around the foreign and security policy. We often come up against very different opinions about internationally sensitive issues on the Security Council, for example. The Chinese seem to take a view, very often, that territorial sovereignty is everything, and a lot of what you have just been describing in terms of their own internal difficulties would substantiate that, but what sort of cooperation is there at present between the EU and China on these sorts of policies, particularly things like crisis management, peace-keeping and, of course, the all-important question of non-proliferation, and on that last point perhaps you could say a word or two about the respective positions on Iran?

Mr Lillie: Let me start with Iran, because that is probably the most concrete area. China is part of the E3 + 3 formation on Iran, it shares the same ultimate objective as Europe, which is that it does not wish to see a nuclear armed Iran. It has worked cooperatively with us in the United Nations and has supported the UN processes. Where we differ is, firstly, I think there are differences in how we and the Chinese perceive the urgency of the problem, so, being blunt, how long we have until Iran acquires the ultimate capability, and, secondly, there is a difference over the issue of sanctions. Generally speaking, China does not favour sanctions in any situation. It has gone along with the UN sanctions so far, but it does not go as far as Europe does in additional sanctions. The Chinese will always emphasise more dialogue as the way to resolve the underlying problem. Otherwise, in terms of foreign policy cooperation, broadly speaking, there is much more of that still in terms of discussions at the bilateral level or within the United Nations, not least because China is the largest supplier of peace-keeping troops amongst the permanent members of the Security Council. The international community though, as a whole, has an expanded dialogue with China on international issues, because China’s external interests have become so much greater in recent years as a result of China’s overseas investments, particularly strikingly in Africa. Obviously it has a very big economic interest in Burma, for example; so on countries like Burma, Sudan, Zimbabwe, there is a very intensive dialogue between individual countries and China on these where we would like China to exercise its economic influence in helpful ways, and these issues are discussed at the European Union level too. For example during Summits or during each Presidency there is normally a visit by the political directors of the Troika or normally by Troika foreign ministers, so these all provide opportunities to engage China.

Baroness Symons of Vernham Dean: Could you send us a note on the numbers that China has got on peace-keeping and the operations where, say, in the last two or three years they have been actively engaged? I think that would be very helpful.

Q22 Lord Inge: Turning to the military, and we have touched on some of the military side with Baroness Symons. China has spent a lot of additional money on defence. How clever has the EU been in trying to clarify what its ambitions are for that increased expenditure; why have they done it? That is the first question I would ask you. Do you think we should be now trying to support the lifting of the arms embargo that was imposed on China in about 1989? The final question you probably cannot answer, but what do you think the attitude of the new administration in America might be to China?

Mr Lillie: On the first question, the question of China’s military transparency or, rather, the lack of transparency is a concern to many countries, including to the UK and the US. Given that defence is not an area of Community competence, it is not in fact an issue that I think is very much discussed at the EU level, but it is something that we have spent a lot of time on at our own level, and trying to understand that remains a real challenge for all of us. In terms of the arms embargo, it has been technically under review since 2003 and remains so. The Chinese would clearly like to see it lifted, but it remains in intensely sensitive subject, not only in Europe and with China, but with other interested parties, notably the United States and Japan. I think at the moment we remain of the view that it would be difficult to achieve lift of the

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1 This was the position during 2008. The latest UN official statistics (January 2009) in fact show China to have fallen slightly behind France, with 2146 and 2308 troops respectively. We will provide a more comprehensive note on Chinese peacekeeping separately, as requested by the Committee.
embargo. The US relationship—was that with respect to the embargo or more generally?

Q23 Lord Inge: More generally, Mr Lillie: Truthfully, it has been difficult to say exactly what the new administration have in mind for China, but the fact that Secretary of State Clinton is visiting there next week shows, as one would expect, that they will continue to place very great emphasis on that relationship. There has been considerable continuity in US policy through successive administrations from President Nixon, and I think we would not, therefore, expect a significant change under the new administration. I think many people in the US from both sides of the political divide believe that the Bush administration handled China effectively with its idea of engaging China as a responsible international stakeholder, and while inevitably there may be differences of emphasis and the particular day-to-day challenges will be different in the year ahead, therefore, I think there is good reason to expect continuity of US policy.

Q24 Lord Inge: Even if you have not got an EU position on why it has increased its defence expenditure, what is the Foreign Office view? You do not spend all this money on defence normally without some purpose behind it.

Mr Lillie: At one level, fundamentally this reflects China’s emergence as an economic and political power, and they believe in their right as a major political and economic power to have a military which is commensurate with that.

Q25 Lord Inge: A military that will actually have a real capability to project power.

Mr Lillie: It will have a capability to project power. As to whether they have a reason to project that power, their immediate interest, their core interest, remains around Taiwan and their ability to use the threat of military intervention to deter a Taiwanese declaration of independence. They also have a significant interest in power projection within the South China Sea, again in defence of their territorial claims.

Chairman: I think we will come on to that in just a minute and cover both those issues.

Q26 Lord Hamilton of Epsom: I am rather inclined to follow up on that, because they have not actually got any carrier ability, have they, at the moment?

Mr Lillie: No.

Q27 Lord Hamilton of Epsom: Which is one of the key elements of projecting power. So perhaps we are rather anticipating something that might happen in the future but is not there yet. On the arms embargo, people are not influenced by the fact that this embargo has not in any way worked. China, I think you will probably agree, has virtual monopoly now on the export of anti-personnel mines and seems to be able to sell arms to anybody that it wants to. Are people not influenced by the fact that the embargos do not work?

Mr Lillie: The arms embargo was a political act in response to what happened in Tiananmen Square in 1989, and it has a huge symbolic value in that respect. In terms of actually regulating the sale of defence related equipment to China from the European Union, the embargo has not been the vehicle for doing that, it has been the EU Code of Conduct which has recently changed its name to the Common Position Defining Common Rules Governing the Control of Exports and Military Technology and Equipment. So, to be frank, the issue with the embargo now is about the political symbolism that would be involved in lifting the embargo, and it is clear that that symbolism is felt very keenly, as we saw in 2005 with the US and Japanese reactions.

Q28 Chairman: Is there anywhere near a consensus within the Council of Ministers around whether what should happen on the arms embargo, forgetting, as you cannot, obviously, the United States’ position, but what is the United Kingdom’s position on it?

Mr Lillie: The United Kingdom’s position is that the time is not yet right to lift this but that it should rightly remain under review, and there is a broad consensus within the European Union on that.

Chairman: We move on to East Asia and the position in Taiwan, Lord Swinfen.

Q29 Lord Swinfen: Mr Lillie, what is the EU and our Government’s assessment of China’s role in East Asia with particular regard to India, Japan and Russia?

Mr Lillie: China has greatly increased its influence, largely as a result of its economic strength in the area, and the vivid illustration of that is the way that it replaced the United States as South Korea’s number 2. The name change occurred as the Common Position is now legally binding on Member States, whereas the Code of Conduct was not. All Member States have 12 months to write the Common Position into their respective national laws, which the UK has already done. The arms embargo covers a limited list of equipment, which is narrowly defined by most Member States. The Code of Conduct, and now the Common Position, are the real means of controlling arms sales to China. The embargo does not control any arms exports that China makes.
one trade and investment partner. As its economic influence has grown, so it carries a greater political weight. From our own perspective, it’s most valuable influence has been with respect to North Korea, where China has taken a leading role in the Six-Party Talks process and a constructive and helpful role in convening North Korea and the other interested parties, and so we welcome that. In terms of its relations with the countries that you refer to, history continues to weigh very heavily on the relationship with Japan, and also to some degree on the relationship with India, and historical tensions are always just below the surface, particularly with Japan. Despite that, over the past two and a bit years since Prime Minister Koizumi resigned in Japan, relations between Japan and China have steadily improved. Relations with India also, I think, reflecting the growth of both countries as economic powers, have thickened up, but still there is quite a degree of political caution there. Of course, China’s closest ally in South Asia is Pakistan, which obviously has implications for the relationship with India. The relationship with Russia is in quite good shape; it is a complex relationship and there are various difficulties within it but China and Russia have taken a leading role in the development of the Shanghai Co-operation Organisation and, again, if I come back to my opening comments about China’s view of a multi-polar world, it is in China’s interests for Russia to be playing a strong role in its own right.

Q30 Lord Swinfen: Have we looked at the EU/Russian relationship? There was a certain amount of migration from China into the empty spaces of Siberia. Is that still going on and is it affecting relations between the two countries?

Mr Lillie: I believe that it continues, and I cannot remember the exact date, but in the not too distant past the Russians did, I think, repatriate quite a large number of Chinese traders who were said to be illegally in the Russian Far East. My understanding is that there is still a great deal of coming and going, but that would be one of the areas of tension within the relationship.

Q31 Lord Anderson of Swansea: Taiwan. We have an unofficial trade representative in Taipei. Does the European Union similarly have an unofficial representative and, in your judgment, is there any role which the European Union can play in relations between Taiwan and the mainland?

Mr Lillie: The answer to the first question is, yes. The European Commission, along with a number of European countries, has a non-diplomatic trade office in Taiwan to maintain its interests there. In terms of the EU’s role, we believe that the EU has a role to play in supporting reconciliation and dialogue across the Taiwan Strait. During the UK Presidency of the European Union in 2005 we adopted what were called the EU—

Ms Nicol: East Asia Policy Guidelines.

Mr Lillie: They are known for shorthand as the EU-East Asia Policy Guidelines, I think it is guidelines on the EU’s foreign and security policy issues in East Asia, and that sets out a basic approach for the European Union in respect of Taiwan, which is, effectively, to support positive moves between the two sides which contribute to stability across the Taiwan Strait and to express concern at moves which would increase tension. Up until the presidential inauguration in Taiwan in May last year the situation was quite tense and the European Union expressed concern about a number of aspects of that at different points. Since May dialogue between the Chinese mainland and Taiwan has increased substantially, including the launching of direct flights and shipping links between the two sides and, again, the EU has publicly welcomed that.

Q32 Chairman: We have dealt with United States. Bilateral co-operation issues, the environment, climate change and energy are something we are all very aware of. Very briefly, what do you see as the main challenges and the main things that should be focused on in that area?

Mr Lillie: In the climate change area, there is a range of EU co-operation activities, including the Near Zero Emission Coal Project, which is a big, technically very important project which we are keen to see go forward as quickly as possible. There is a discussion ongoing with China about a project on establishing what we call Low-Carbon Zones in China, and, again, that will be an important part in helping to provide real solutions for establishing a low carbon economy. I think the key priority politically is to work with China to encourage China to take on ambitious commitments at Copenhagen later this year.

Q33 Chairman: Thank you very much indeed. Ms Nicol, was there anything you wanted to come back on yourself?

Ms Nicol: There was one point particularly going back to earlier comments on counter terrorism. There is actually an article on counter terrorism co-operation within the PCA that is being negotiated, so that is one area that the EU is trying to concentrate on.

Q34 Lord Anderson of Swansea: Can I ask for a note on the level of cultural co-operation between China and the European Union, or something on our own range of bilateral policies we have in the cultural exchange field?
Chinese Peacekeeping Figures 2007–09

Since Jan 2007, China has deployed peacekeepers to the following missions (they are no longer involved in missions*):

- MINURSO UN Mission for the Referendum in Western Sahara
- MINUSTAH UN Stabilisation Mission in Haiti
- MONUC UN Organisation Mission in the Democratic Republic of Congo
- UNAMID AU/UN Hybrid Operation in Darfur
- UNIFIL UN Interim Force in Lebanon
- UNOISIL UN Integrated Office in Sierra Leone
- UNMEE UN Mission in Ethiopia and Eritrea
- UNMIK UN Mission in Kosovo
- UNMIL UN Mission in Liberia
- UNMIS UN Mission in Sudan
- UNMIT UN Integrated Mission in East Timor
- UNOCI UN Operation in Cote d'Ivoire
- UNTSO UN Truce Supervision Organisation

The majority of Chinese peacekeeping troops during this period have served in: Liberia, averaging 560 per month; Sudan, currently standing at 444 troops; Lebanon with 324 troops; and Darfur with 324. The majority (120/month) of Chinese police peacekeepers have served as part of the mission in Haiti.

During this period, Chinese peacekeeping troop contributions have grown from 1,861 in Jan 2007 to 2,146 in Jan 2009.

2009

China currently has 2,146 peacekeepers deployed in 10 missions (covering Africa, Middle East and Haiti), with the heaviest concentration of peacekeeping troops in Liberia (563). As of January, there were 143 police peacekeepers in Haiti. Figures for February 2009 are not yet available. Since December 2008 China has not participated in the Kosovo peace-keeping mission.

2008

A maximum of 2164 (Sept 2008) covering a total of 13 missions, with the heaviest concentration of troops again in Liberia (581). 2008 saw the withdrawal of Chinese troops from Sierra Leone in March, following the closure of the mission; and the mission Ethiopia/Eritrea in May, prior to its closure in July.
2007
A maximum of 1,830 (June 2007) troops covering a total of 13 missions, with the heaviest concentration of troops in Liberia (589). July 2007 saw the creation of the UN/AU Hybrid Mission in Darfur, with China sending its first peacekeeping troops in December of that year. Their contribution to the peacekeeping mission in Darfur has grown from 3 in December 2007 to 324 today.

10 March 2009

BILATERAL CULTURAL COOPERATION AND STRUCTURED POLICY DIALOGUE WITH CHINA

In general, EU-China cultural relations are covered by the Council Conclusions on the promotion of cultural diversity and intercultural dialogue in the external relations of the Union and its Member States, adopted on 20 November 2008.

In the case of China, relations in the field of culture are defined by the following important developments:

— 2003 EU-China Joint Declaration on Culture, which strengthens cooperation between the EU and People’s Republic of China (PRC) in the fields of culture, audiovisual, education, training, youth and sport.
— The conclusions of the EU-China Summit Meeting of 9 September 2006 in Helsinki called for the recognition of the significance of cultural diversity for sustainable development and supported increased cultural interaction between the Member States of the EU and China.
— China ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions on 30 January 2007. Community of views voiced by the EC and China in international fora, including Unesco, as regards cultural diversity, in particular in the phase of implementation of this instrument as well as within the governing bodies of the 2005 Unesco Convention (Intergovernmental Committee, Conference of the Parties).
— Ongoing negotiations on an EU-China Partnership and Cooperation Agreement (PCA): agreement reached on a comprehensive article regarding cultural cooperation which will constitute the basis for the relations in the field of culture between the EU and China. The current draft stipulates that “the Parties agree to develop a dialogue on cultural policies, including creative and cultural industries”.
— Joint Declaration on Culture signed in Beijing on 22 October 2007, concerning the establishment of an administrative and sectoral policy dialogue in the field of culture between the European Commission (DG Education and Culture) and the Chinese Ministry of Culture.
— Plans to set up in 2009 a structured policy dialogue in the field of culture, aimed at fostering exchange of best practices, experiences and examples of policy measures, among other things in favour of creative and cultural industries. It could cover issues of common interest, such as cultural diversity and the implementation of the 2005 Unesco Convention on the Protection and Promotion of the Diversity of Cultural Expressions, the cooperation inside the governing bodies of the Convention, the development of cultural industries in China and Europe, policy orientations for the fostering of creativity in China and Europe as well as the question of intercultural dialogue. Chinese suggestions are currently awaited. Meetings with the Chinese side on this issue are planned for May 2009, in conjunction with the National Cultural Industry Expo in Shenzhen.
— The Community has supported a number of cultural cooperation initiatives developed in the context of the Special Action under the Community Culture Programme (2007–09), in line with the objectives of the European Commission’s 2007–13 Country Strategy Paper (CSP) for China. 1.6 million EUR have been spent on projects involving Chinese partners and/or taking place in China.

COOPERATION IN THE CONTEXT OF THE ASIA-EUROPE MEETING (ASEM)

— 7th ASEM Summit, Beijing, 25–26 October 2008: Chair’s Statement contains the commitment of all parties towards “the expeditious ratification and implementation of the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions by all ASEM countries”. ASEM 7 also endorsed a new initiative proposed by China: the idea of the ASEM Culture and Art Festival.
— 3rd ASEM Culture Ministerial Meeting, held in Kuala Lumpur, Malaysia, on 21–24 April 2008: views on cultural industries and creativity expressed by China is of particular interest as 2009 will be officially the “European Year of Creativity and Innovation”; avenues for cooperation and synergies between Europe and China in this area will be explored.
— ASEM Seminar on Cultural Diversity, organised by the European Commission and the Vietnamese Government in Hanoi, Vietnam, on 15–16 December 2008, under the title “Preserving and promoting the diversity of cultural expressions: sharing Asian and European experiences”. This seminar aimed at exchanging experiences and points of view on questions related to the diversity of cultural expressions. It was meant to be an open platform for discussions between officials, decision-makers as well as representatives of civil society active in the field of culture. Chinese representatives and officials, as well as civil society organisations participated in the Seminar.

**Examples of China-EU Cooperation within the Culture Programme from 2007 in detail**

The project “Quand la lune se lève part 2”, a performing arts initiative (like the majority of projects) featured a collaboration of French, Belgian and British partners with five Chinese operators, both performing art companies and theatre schools.

Another project entitled “The International Dunhuang Project: Cultural Routes of Eurasia” (IDP-CREA) united British, Hungarian, French and German libraries, museums and academies with the National Library of China, the Dunhuang Academy and the Xinjiang Institute of Archeology around the issue of cultural heritage.

The project “Hallerstein” combined performing arts and new media technologies in a Slovenian, Czech, Portuguese and Austrian collaboration with the Beijing Language and Culture University.

A further project with the name of “China moves—coop Europa” initiated by a German partner, brought together Chinese, Spanish, Dutch and Norwegian co-operators around a performing arts show. Another performing arts project, “OPENCO—Operatic Encounters—Common Voices”, saw the association of British, Finnish and Austrian partners with the Shanghai Theatre Academy.

Yet another project, “The Orientations Triology” (TOT), featured collaboration between British, French, Swedish, Chinese and Indian partners in the field of theatre. A multidisciplinary project entitled “Echanges croisés sur les techniques de conservation du patrimoine graphique: Chine—Inde—Europe” involved the cooperation of four European institutions, one Chinese and two Indian on the topic of book conservation and cultural heritage.

“Creating Spaces” was a Finnish/Estonian/Swedish cooperation with the Beijing Municipal Bureau of Culture. Bearing evocative subtitle “Art Bridge between EU and China”, the interdisciplinary project covered the domains of cultural heritage, visual and performing arts and architecture. Another interdisciplinary project in the visual arts and cultural heritage domain entitled “European/China contemporary art exhibition” featured British, French, Swedish and Chinese partners.

The last project to be subsidised was “Underground Museums and Conservation in situ. Sino-European dialogue through the Han Yang” brought together a number of Italian as well as Belgian, German and Chinese partners (Han Yang Ling Museum).

The total amount of money spent on the projects involving Chinese partners:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quand la lune se lève part 2</td>
<td>180,000 €</td>
</tr>
<tr>
<td>IDP-CREA</td>
<td>177,815 €</td>
</tr>
<tr>
<td>Echanges croisés</td>
<td>180,000 €</td>
</tr>
<tr>
<td>Hallerstein</td>
<td>179,590 €</td>
</tr>
<tr>
<td>TOT</td>
<td>180,000 €</td>
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<tr>
<td>China moves—coop Europa</td>
<td>180,000 €</td>
</tr>
<tr>
<td>OPENCO</td>
<td>178,119 €</td>
</tr>
<tr>
<td>Creating Spaces</td>
<td>76,848,5 €</td>
</tr>
<tr>
<td>European/China contemporary art exhibition</td>
<td>134,770 €</td>
</tr>
<tr>
<td>Underground Museums and Conservation</td>
<td></td>
</tr>
<tr>
<td>“In situ”. Sino-European dialogue through the Han Yang</td>
<td>180,000 €</td>
</tr>
</tbody>
</table>

**TOTAL**

€ 1,647,148,5
Memorandum by Overseas Operations British Council

Bilateral Cultural Exchange Agreements Between the UK and China

The formal means of agreeing cultural exchanges between the UK and China is through a Memorandum of Understanding signed by both governments. The principal implementing agencies are on the UK side the British Council in London and the British Embassy in Beijing (the British Council’s formal status in China is as the Cultural and Education Section of the British Embassy) and on the Chinese side the Ministry of Culture and the Chinese Embassy in London. The Department for Culture, Media and Sport, the Scottish Government and the Welsh Assembly Government are also agents on the UK side for parts of the programme.

These agreements are very high level and general. The latest (to run from 1 April 2009 to 31 March 2013) was signed in February 2009. It includes commitments to:

— Encourage exchange visits at ministerial, policy-maker and practitioner level.
— Mutually support major arts festivals, including the arts wraparound to the 2010 Shanghai International Expo and the 2012 London Olympics.
— Encourage exchanges of works and specialists in the visual arts.
— Encourage exchanges in drama, dance and music performances, and by music industry representatives to discuss copyright.
— Encourage exchanges by government bodies in the field of cultural heritage and museums, particularly in archaeology and protection techniques; encourage these bodies to explore the possibility of signing an agreement on the prevention of theft and illicit export of cultural property; and continue to support the international Dunhuang project between the British Library and the National Library of China.
— Encourage increased collaboration in design (graphic design, interior design, fashion design, product design, industrial design, environmental design and architecture).
— Encourage joint activities by writers, including joint participation in literary festivals and the translation of selected works; encourage exchanges in publishing and information science; and cooperation in international book fairs. China will be Guest of Honour Country at the 2012 London Book Fair.
— Encourage artistic and commercial cooperation in film, radio and television, including cooperation between the BBC and China Radio International in media training and between the BBC and China Central Television in the production of programmes in each others countries and media training; and the hosting of each others’ film festivals.
— Encourage exchange and cooperation between youth organisations and in sport.

In practice the British Council delivers a major cultural relations programme in China. Its high level plans for the next two years (part of the organisation’s overall corporate plan) are as follows:

China’s need to develop its knowledge economy coupled with the aspirations of an affluent and rapidly growing urban middle class create a vibrant market for UK education and cultural exports. This will remain so even though growth in China is likely to slow considerably in 2009. China’s active contribution to the global climate change agenda will be essential over the next few years. At the same time, UK interest in China has been growing for a number of years with last year’s Beijing Olympics.

Over the next two years we will:

— set agendas for English language teaching and learning in China and Hong Kong, and reinforce policy-makers’, teachers’ and learners’ perceptions of the UK as the source of the best ideas in this field;
— contribute significantly to the professional capacity of one million Chinese teacher trainers and teachers of English, and the English language capacity of more than 20 million Chinese learners of English;
— through International Climate Champions, build the capacity of teachers and other influencers to engage young people on climate change, and change the perception that individuals have no part to play in taking forward this agenda;
— deliver a substantial part of the UK’s presence at the Shanghai World Expo in 2010, an important opportunity to increase the profile and impact of all our programmes across the region, particularly on-line; and
— continue *Connections through Culture*, a programme which has created lasting relationships between 2,000 cultural organisations in China and the UK and supports long term policy priorities of the Department of Culture Media and Sport, the Scottish Government and the Welsh Assembly Government.

*10 March 2009*
THURSDAY 26 FEBRUARY 2009

Present
Anderson of Swansea, L
Chidgey, L
Hamilton of Epsom, L
Inge, L

Jones, L
Selkirk of Douglas, L
Symons of Vernham Dean, B
Teverson, L (Chairman)

Examination of Witness

Witness: Dr Kerry Brown, Chatham House, examined.

Q36 Chairman: Dr Brown, welcome and thank you very much indeed for coming along to our inquiry on the EU and China. I remind you that this is a public session, so it is recorded and we are webcast, which is probably far more important than being broadcast these days. I remind you that you will be given a copy of the transcript and, if there is anything on it that you do not feel is right, then you will have the opportunity to correct it. I think you have had a copy of the questions that we want to ask and I know that the Committee will be quite keen to explore some of those areas more broadly, but I wonder whether there is anything you want to say as an introductory remark before we begin.

Dr Brown: Just thank you for inviting me and I look forward to the dialogue.

Q37 Chairman: Perhaps I will begin with what is really quite a general area which maybe gives us a good opportunity for an introduction and ask you what you see as the main successes and challenges of economic, social and political modernisation in China over the last 30 years. I guess that could take three hours but if you could contain it to slightly less than that, it would probably be useful to the Committee.

Dr Brown: I think that it is generally accepted since 1978 when the real period of liberalisation began that China has achieved big increases in GDP growth and so you could say that, in the last 30 years, China has been a GDP growth factory and it has lifted probably 300 million people from poverty—that is a World Bank statistic—and created a successful middle class in the coastal areas and a kind of trickle-down wealth system. I think that it is more difficult to say whether it has been successful in creating educational outcomes or social outcomes—that is much more complex—but, in terms of wealth creation, it has been incredibly successful.

Q38 Lord Anderson of Swansea: I guess that anyone who looks at the period of the last 30 years must see an astonishing success story in terms of the quality of life of the ordinary Chinese citizen, and the aspirations of the booming middle class certainly in terms of housing demand has been massively met I would have thought. A couple of years ago I was at a housing fair in Shanghai with new estates with names like Hyde Park and Kinroyal and the number of young, wealthy Chinese—this was Shanghai of course—was amazing. Surely it is not confined to the coastal belt because in Chongqing and areas in the Three Gorges equally there is a vast explosion of new wealth.

Dr Brown: Yes. I think the issue now that it has become a reasonably long-term process of 30/31 years is that there has been a great deal of inequality from that growth and therefore I think you see in 1984 according to the Gini Coefficient which is an accepted measure of inequality, China was largely a fairly equal society and now it is one of the most unequal, I think as unequal as places like Brazil or places in Latin America. I think that the deal that was done in the late 1970s after the years of Maoist State Control of the economy—99% of the economy in 1971 was state controlled; it was a very closed economy with very little foreign trade through Hong Kong—really kind of led to a political deadlock and economic deadlock and the country was effectively bankrupt with no foreign reserves in 1977, a year after Mao’s death. So, a policy decision to liberalise the economy and look at what the Japanese had done after Mao’s death. So, a policy decision to liberalise the economy and look at what the Japanese had done in the 1950s and 1960s and become more of an export-led economy and try and move away from agriculture, and that has been successful. I think that the 1980s was a period of genuine liberalisation. There were real efficiencies in the agricultural sector freeing up massive amounts of people to work in enterprises and that has been maintained to this day. Even Deng Xiaoping, the paramount leader in the 1980s, said that that was an accidental process. They were not trying to achieve that, they were just trying to create an industrial infrastructure but, as the agricultural sector became so much more efficient, in fact they created a very big non-state sector and that has been a big engine of growth to this day. I think that the inequality remains a problem because of, as we see at the moment, issues of social stability and lots of protests. The last figures which are commonly quoted were 87,000 protests in 2006, but I think every week you can see quite large protests about living conditions and payment of wages which do not

1 Unofficial but widely accepted figures are 115,000 in 2008.
really get reported widely in the West. The other issue is that there are big differences on any kind of economic indicators between the coastal areas and the western areas and I think that the Central Government has tried to deal with that by trying to have provinces in the coastal areas sort of adopt provinces in the western areas and it has tried to produce taxation systems and it has tried to release some of the tax burden on agricultural workers in the last year, but that inequality is still a big worry and it remains a big worry. I think that the other issue really, which we will probably talk about later, is that while the middle class are economically very free, they are not politically enfranchised and that remains an issue and while the Central Government talks about it a lot and Hu Jintao, President of China, in his talk at the party congress in 2007, the 17th Party Congress, used the word “democracy” more than any other word and yet there have been no significant moves since 1989 to look at political enfranchisement and that kind of stuck transition I think remains a big problem and we do not really know how that will play out in the future.

Q39 Lord Anderson of Swansea: Democracy with Chinese characteristics!
Dr Brown: Indeed. The Party have promised democracy by 2050 with no Chinese characteristics, just democracy, so they are going to have to do something with that promise.

Q40 Lord Hamilton of Epsom: Following on from that, if you look at the Chinese in Singapore, they have some of the highest per capita income in the world and they do not seem to have any overwhelming desire to democracy, they live under a chosen one party state. Does that not read large over China itself?
Dr Brown: No because Taiwan has democratised very successfully with a bigger Chinese population and a probably more representative Chinese population since 1996. Whenever people say that the Chinese culturally do not need democracy, they have to explain Taiwan which has been very successful. They have actually seen the ruling party lose power in 2000 and then be re-elected in 2008 with stable, transparent and very good elections. Singapore is the size of a small Chinese city and so it is easily controlled. It has been talked of as a possible economic model for the whole of China, but I do not think because of the size and because of the historic background it is that relevant.

Q41 Lord Chidgey: I am particularly interested in some of the impacts of the tremendous growth in economic wealth in the last couple of decades as you touched on earlier and I wonder whether there is any sign of the benefits of that wealth being used to create much improved infrastructure through China and I am thinking particularly in the context of the worldwide recession/depression that we are facing. I am also interested in what you feel the pros and cons are for the Chinese economy in this current situation with their huge amassing of sovereign wealth funds. It seems to me that that could be a significant key in how we tackle the downturn in the world economy at the moment.

Dr Brown: Since 1978, the average economic growth has been about 10% per year and although in the last year it started to fall, it is pretty likely that, with the kind of fiscal stimulus package that the Central Government are talking about, they will meet the eight% target this year. There would not have been any way that the Premier of China, Wen Jiabao, would have used that figure if he knew that they were not going to meet it. So, they will meet that target this year. The 31 provinces in China is a territory that is bigger than Europe, so there are big differences between the west and the eastern regions with the GDP growth rate, and I think you are looking at pretty mature, developed provinces around Shanghai for instance and then you are looking at predominantly rural provinces which have very low growth rates. Tibet for instance is a particularly impoverished area. You might have 200 million people who are living on less than one dollar a day. So, real problems with systemic and endemic poverty. The issue about the kind of economy model is that the whole of the Chinese economy is still 45% agriculture and that is very important, and 45% industry and the issue that we really look at from outside is more the export industries, the international trade. That is only about four or five% of the Chinese economy, but it has been the main area where there has been big growth. So, in the 1980s in one of the special economic zones that was allowed to do international trade earlier than any of the others, Shenzhen just opposite Hong Kong, they had 40/50% growth rates over six or seven years; so an incredibly diverse and fragmented economy. That I think remains a real problem for Central Government policy makers in that they are making policy in Beijing for a diverse, complex territory where there are no rules really and that is part of the problem with the five year plans that they have, the five year programmes that they try and capture. Incredibly diverse economic realities. About the foreign reserves, at the moment they stand at $2 trillion and that has been accrued through investment and through export revenues. They run an export deficit or a trade deficit with the EU and the United States of about $260 billion a year in 20082. That started really from quite a low base. In 2001, there was not that big deficit. I think that what you can see from that is that China has been a big beneficiary, a big winner, from

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2 The figures for the EU, for 2009, are $220 billion
Q42 Lord Chidgey: When you say a trade deficit, do you mean there is a trade deficit for China or a trade deficit for us?

Dr Brown: A trade deficit for us and that is an important political issue. There are three issues with foreign reserves. I think that most economic good housekeeping means that you keep three months of import/export volumes. Two trillion dollars is 18 months’ worth, so it is right that the Chinese Government were anxious that they had no foreign reserves 15 years ago or 20 years ago, so they have saved and indeed Chinese middle class have saved $2 trillion or $3 trillion. Enterprises have saved. That is one of the issues at the moment, that there are these massive savings. The problem with having so many foreign reserves which are non-convertible, they basically exist and $1 billion of them are US Treasury bonds, so US debt, and then I think the rest of them are kept in a variety of currencies, some with other foreign debt. They have lots of Latin American debt for political reasons. Costa Rica changed its recognition from Taiwan to the People’s Republic last year with £120 million of debt being bought from it by the Chinese. So, this amount of reserves is a political issue. What do the Chinese Government do with it? One thing they have done is set up a China Investment Corporation with $200 billion and that has made spectacularly unsuccessful investments in which they have lost lots of money. One investment in Blackstone Hedge Fund, the investment fund of America, which lost $1 billion in a month, and one in Morgan Stanley which lost money. So, at the end of last year, the Head of the Chinese Investment Corporation, Lou Jiwei, in Hong Kong said, “We are not going to make any more investments in western financial institutions at the moment”. A government official said about Gordon Brown’s suggestion of them being involved in IMF bail outs, “We will not involve ourselves in the IMF when its voting rights are not representative”, I think six% of the voting rights are Chinese and developing countries, but very low, and the second thing that he said was, “Why would we want to become involved in an organisation which is then going to bail out western democracies?” like Iceland or East European countries. So, they are those issues, but they do have the money. The third thing that the Chinese have done with the money they have is taken very small shares in about 100 listed companies in London through an organisation called the State Administration for Foreign Exchange, so they have one% of Tesco and one% of BP and 1.7% of Total, lots of different small companies, so very cautious, very, very cautious. The third thing that they have also done is become involved in lots of mergers and acquisitions. So, this phenomenon of China becoming an outward investor is actually a major issue and in Europe last year the UK was the biggest recipient of Chinese investment—we overtook Germany for the first time. Chinese outward investment and the Chinese foreign exchange reserves are politically and economically massively important.

Q43 Lord Hamilton of Epsom: Do you think that they would be prepared to put more money into the IMF if the voting structure was altered and they would then drop their reservations about bailing out western democracy?

Dr Brown: I think that it is a broader issue of the representativeness of most multi-lateral organisations like the World Bank and the IMF and particularly the UN. China has vetoed or stopped Japan’s application to become a member of the Permanent Five Security Council. I think that China will drive a hard, hard bargain for every re-organisation of these international institutions because it has been dissatisfaction with them for a long time. It was dissatisfied with the way that the IMF behaved during the 1998 Asian financial crisis and it has also been dissatisfied with some of the World Bank’s operations in Asia. There has been talk in China at least of not being a G8 or a G9 or a G20 but really a G2, which is America and China. So, there is a sense that China deserves a special place at the table and I think that they will drive a very hard bargain.

Q44 Lord Hamilton of Epsom: You have already made reference to the growing inequality and migration across China. Recent figures show massive growth in unemployment. How would you characterise the economic challenges in China with the present global downturn? This really brings us on to growth rates. There has been talk from the Chinese Government that they somehow have to hit a growth rate of eight% having been nearer ten in the past. Does that actually add up, does that mean anything or is this a wish rather than a calculation? What do you think Chinese growth is going to be in 2009 though I am afraid to ask? If it is too low, then the ramifications are going to be absolutely massive, are they not? How should this shape the EU’s attitude towards China?

Dr Brown: On the issue of unemployment, in fact in the 1990s when there was big state owned enterprises, China laid off 60 million people. So, it can live with amazing amounts of unemployment statistically. The statistic at the moment I think has been that 20 million have lost their jobs in the last year because of
the downturn and I think we can conclude from that that China was very reliant on the US economy and that surprises me because I thought that there would be more domestic demand within China, but in fact its reliance on the US economy is clear from the number of people who have been laid off in the Pearl River Delta which is the main manufacturing area. I think that there are also issues of under-employment. The unemployment statistics are very, very speculative. On the growth rate, I am pretty certain that they will reach eight%. As far as I understand, the fiscal stimulus package of about 500 billion sterling which the Central Government has announced, about two thirds of that would be local government spending on infrastructure—I think they are going to build 200 airports by 2010 or something like that—and with that amount of money being pumped into the economy—and they calculate on a slightly different way; there is this controversy on how they calculate GDP growth—they will reach their eight% and the fact that the Premier Wen Jiabao said at Davos and said when he was in London in early February that it will be eight% means that it will be eight%. Whether we take that seriously or not . . . It will be a growing economy, that is the main thing. It will not implode.

Q45 Lord Hamilton of Epsom: Somebody said to me the other day that they are training riot squads in China’s 30 biggest cities so that they have people who can break up quite large crowds of people rioting and so forth. Is that true?

Dr Brown: Yes. They have The People’s Armed Police who are an 800,000 strong civil defence group. They performed spectacularly badly in 1989 and that was one of the reasons why the Government then sent in armed troops and that is going to be a problem this year because it is the 20th anniversary of that. I think that the thing about the demonstrations at the moment is that they are very widespread and they are very visible. When you go around China, you can see them. I was in China in January and you can see people protesting, but people are protesting about very specific things like land and loss of land or not paying wages when they have been sacked from factories. They are not turning that anger it seems at the Government, but the problem is that if they do become dissatisfied with the Government, that will be a really big tipping point.

Q46 Lord Chidgey: I am intrigued by this 500 billion local government stimulus package which is quite powerful, but it does link into the question that I wanted to ask you which is a little more about the 45% of the economy which I think you said was rural in China and it seems from what we know that the massive unemployment that has been generated by the economic circumstances is probably having a great impact in the rural areas because of the returnees from the towns. I imagine a lot of skill. I wanted to ask you what sort of planning there is—it is difficult to say central planning I suppose—and how is the Chinese establishment dealing with this potential? Presumably, if nothing is done, people will be starving in their thousands which clearly is not a solution to the problem. I presume that there is not a recognisable state social economic support system as we would recognise it, so this is back to my point because you said that there was investment in infrastructure through local government, but is this going to mop up the labour resources that are returning from the cities or will they be inappropriately skilled? There must be some dynamics here that China is trying to organise to prevent the mass unrest rather than just simply shooting them which is clearly not the alternative or the option that they wish to pursue.

Dr Brown: 1989 was not a major issue in the end because it was an urban phenomenon. If it had become a rural phenomenon, the Communist Party would be out of power now and that has been proved by many studies. The problem with the current Government’s challenges is that rural wages have stagnated, productivity has dipped slightly and China has pursued over the last 15 years a pro-urban policy which has led to all sorts of environmental problems and energy problems which we will talk about later. There were 200 million migrant workers and they have been the people building the cities with very little social welfare, no social security and no real stability. The Government have dealt with them in the current downturn with building disappearing by letting them go back to their towns because they are less likely to riot there. They will riot away from home but they will not riot where they are actually living. So, that is one thing that they have done. In the last year, they have put more money into education. China has 30 million more illiterate people now than it did ten years ago because of the failures of education in less-developed areas in China. So, that is the second. They have put more money into education. The third fiscal stimulus package is to put more into healthcare. In 2003 during the SARS crisis when people did return to their villages briefly or their towns, there was no healthcare system. So, they have put more or are trying to put more money into healthcare. If they do that, I think that logically the middle class will also maybe start spending because, on most studies, the middle class in China save for education because they have to pay for their educational costs, the Government do not provide those, and they save for healthcare because, if there is any problem, they have to pay for that, it is all private. They are always saving for the rainy day and now the rainy day is coming and the Government are trying to build up enough sense of security in the
social welfare system to basically give them that sense of reassurance. The fiscal stimulus package actually was already all planned. Most of it was already all planned apart from 100 billion extra before the current problems started. So, in a sense, this is part of a long-term ambition. The problem is that no-one knows where the extra money is going to come from and government borrowing in China is quite low, 25% of GDP compared to 50% here and 180% in Japan.

Q47 Baroness Symons of Vernham Dean: You have given us some extraordinarily interesting statistics as you have been talking, but may I do a quick recap on some of the points you have made to make sure that I have them straight. You said that there is no state secondary education and I think you said that there is no free health service in the way that we would understand a free health service and that there are 30 million more illiterate people than there were ten years ago, that 200 million people live on less than a dollar a day and 20 million who have just been thrown out of work because of the recent downturn. I think those were all the figures that you have given us which does sound a pretty grim picture alongside this enormous amount of S$2 trillion sitting in reserves and one is bound to draw the conclusion that, if you are prepared to live with that sort of social deprivation, maybe reserves in other countries would be a little greater, but that is a speculative point. You said that 45% of the economy was rural. What sort of percentage of people still work on the land? You have spoken about a lot more people moving to the urban areas with the explosion in building etcetera, but how many actually still stay in the country? Lastly, on these questions of growth and rates of growth, money and how things are being planned for the future, how reliable are the statistics? We have a tremendous amount of scrutiny of each other’s economies these days, but I have the impression, maybe erroneously, that China is not the most open country in the world when it comes to other people coming and having a look at what is going on. It would be nice to have some sense of the reliability of their own calculations.

Dr Brown: On the first question and it sort of also addresses the second question, the National Statistics Office produce a book every year, a statistical analysis, and that is the main source for most statistics and the Chinese Government would say that China is still predominantly a country where people live off the land and that over 54% of the population are rural. In fact, of that 54%, a large number work in what we call town and village enterprises and live in places that we would say were cities. Town and village enterprises have been the main non-state employer for the last 25 years. They can include anything from small restaurants to large factories that are now becoming international. So, it is very difficult to say who actually is still a farmer. The best analysis of that is probably if you look at particular provinces and then you can just about work it out with lots of different studies. There are a million kind of village level or county level what we would call post-code districts in Britain in China. You can get statistics down to quite a lot of detail for some of those areas. The statistic of 200 million people on less than a dollar a day the Chinese Government do not accept. They say that it is 23 million, but the World Bank has undertaken quite a lot of analysis of the western region of China and it says that the Chinese are using a much lower level definition of poverty. They are saying that it is okay to live on 25 cents a day, but we say a dollar a day. That is the reason why there is that discrepancy. On the 30 million illiterate, that is a source from an academic, Yasheng Huang from the Massachusetts Institute of Technology, who took the 1996 government book on the kind of statistics to which I have just referred and he compared it to the one in 2007 and there is this discrepancy. There is a generation of people who are illiterate and there will be controversy over how you define that but the statistics that the Chinese Government produce are not consistent. The only thing that you can say is that they have got better, they have got more robust and, in many areas, it is the only evidence that we have. The Chinese Government now see the value of producing good quality data in some areas and so basically on social welfare issues, some economic data is good and it stands up. In other areas, particularly military spending, it is hopeless.

Q48 Lord Jones: Pollution by air and water. We do hear that it is very considerable in China and you may yourself have a view or assessment of how bad it is or whether it is getting better or worse. Do you think that the EU could be of help to China or is it now assisting? Does it advise? Is there a role for us there? Dr Brown: Yes, definitely. The fundamental issue is that China has increased its energy needs massively, so I think that in everything apart from oil, it is now the world’s biggest energy user and that is because it is a very energy-intensive economic model, lots of industry and major manufacturing bases. The second issue is that it is still reliant on coal. Seventy to 73% of its energy is produced by coal and that is a big polluter. The mining of the coal, the transport of the coal, the kinds of coal which are very high in sulphur content, all of these things add to air-quality issues and that is an issue for Chinese people too because, in public surveys undertaken by the Chinese Government, the thing that people are most dissatisfied with in Chinese cities is air quality. Also, water quality. It is not widely known but, in the north east of China now, there is a big drought. Beijing is a city without sustainable sources of water, a city of 10
million people without a river that gets its water largely from neighbouring provinces. So, this issue of quality of the air being linked to the economic model that China has is a long-term problem. The other issue is energy efficiency. China, according to EU statistics basically when they have been doing cooperation with China, per unit of production is six times less efficient than Japan and something like three or four times less efficient than the EU. So, it is one of the major areas of debate because I think that China sees the EU as being a source of a lot of good technology, maybe world leaders, and China has signed up, they ratified Kyoto and they want to be part of Bali. I think the issue is that they feel politically that this was a problem that was not created by them. It was created by industrialisation elsewhere and they are taking part in it at the end really but the expectation towards them is to do more than maybe anywhere else. So, one of the things in the talks with the EU, as far as I understand it, is that they feel that there should be much more technological transfer and that these deals should not be commercial, they should be part of a gift really and the problem is that of course if we do not participate in that, it is now a global problem. I think that the US has claimed that 25% of the pollution in California can be traced back to China and that must be true of the EU too. So, it is a shared problem and I think that China feels that therefore the solution is not one that they should pay for themselves.

**Q49 Lord Jones:** I have read that the geographers say that about 80 miles north of Beijing you can officially say that the area is arid and that it is expanding and moving south. Is there any sign that the leadership in China is taking any steps to counter what appears to be the growth of arid regions within their borders?

**Dr Brown:** Yes. The desertification north of Beijing, the Inner Mongolian area, is due to inappropriate use of land, to put land that was for grazing over for cropping. In the 1990s, they tried to create a thing called the great green wall, planting something like a billion trees, but there is not enough water and much of that is already dead and gone, about a half of it. The central leadership of the Chinese Government are pretty tough on environmental issues. Wen Jiabao is a trained geologist and he understands the science of climate change probably better than any major leader. Their statements are that this is a massive problem and that they have to do something about it. So, the government has set their 100 biggest enterprises very tough targets for what they call green growth and they have asked if officials can be judged not on their economic performance but also on their green performance. The problem now is that, with the downturn, the Chinese Government are not going to think more than beyond a few months maybe, maybe a year or so, because they are going to have to put economic growth above everything else and, although they have very lofty environmental targets, they will not sacrifice those to social stability or an economic downturn that might end up meaning that they are booted out of power.

**Q50 Lord Jones:** Following that, with such a huge population and with aridity becoming a greater and greater problem, in the long term, is it ever possible that such a nation would not address that problem simply within its own borders? Does your organisation ever consider how it would wish to go elsewhere to get that help?

**Dr Brown:** In terms of energy, it has become a net importer of even coal although it has the biggest reserves of coal. Because of the geography of China, the manufacturing base is largely in the south and the coal is largely in the north, it is easiest to bring it from Australia. So, energy-wise, it has already become a net importer. In terms of water and water supply or other natural: it is self-sufficient in food at a moment and it is a big exporter of food and agricultural productivity is almost miraculous, it has become incredibly productive. China has within living memory in the 1960s, in 1964, starvation. It lost maybe 30–40 million people in the great famines in the 1960s. I think that the Government are really aware that drought, famine and some of the kind of climate change impacts, the big floods that happened only a few years ago, all of these are things that it needs to do something about. I think that it sometimes feels that it is almost overwhelmed by it. We have to remember that becoming the factory of the world and producing goods that have made us, the buyers of many of them, wealthy, it has also ruined much of its environment.
EU-China environmental co-operation and that has been reasonably successful, but the sums are very, very small.

**Q52 Lord Anderson of Swansea:** You have already covered part of this, I believe, the energy and natural resources on which China seems to be acting aggressively in particularly in its relations with African countries. Can you say a little more about their strategy to meet the growing, or at least until the recent recession, energy demands within China and a little more about energy efficiency and the greenhouse gas emissions and look at that, if you would, first in respect of energy and secondly in respect of other natural resources. How do you read for example the RTZ saga and I will come on to ask a little more about the dialogue with the European Union in these relates fields of energy and natural resources.

**Dr Brown:** The Government produced a white paper on energy in 2007 which is the formal statement of its needs. By 2025, by their fairly conservative prediction, China will use almost as much energy as the rest of the world put together. This is something where China disagree slightly with the US for instance in that the US says that it will remain heavily reliant on fossil fuels and there is no real sort of sign that it is going to be able to shift away from that. It is building 30 nuclear power stations by 2020, but that will still only produce something like three or four% of its energy needs. It is the world’s biggest user of solar power but that is only one% of its energy needs. So, one of the things that the White Paper says is that it wants to diversify supply sources and diversify away from fossil fuels. That is a worthy aspiration but there is no real clarity about how it is going to do that with its current energy hunger. It is also very wary of being reliant on one particular territory for energy supply. There are three main areas of supply: one is to the north of China from Russia for natural gas, one is through central Asian states; and one is through the south west Malacca straits, the place where they import most of the oil from the Middle East. There are problems with all of those. Obviously with Russia, there are problems with it trying not to be reliant on an old competitor, so they have not signed any deal with Russia for the natural gas. With the others, they are trying to buy assets in Kazakhstan. They have bought some assets in Uzbekistan, so they are diversifying, and they have also done long-term deals with Iran. The problem with that is that they are putting a lot of assets in politically very unstable territories and I think they feel that is because they have been locked out of more stable sources of supply. On the general issue of natural resources, the odd thing is that China should really be a resource-rich country. It has good deposits of copper and good deposits of other natural resources in Xinjiang and in Tibet, but, as I understand it, they are very difficult to mine and they need a little technology in order to get them and it is very expensive at the moment. It is also the same with oil. The current oil field in Daqing on the coast supplies something like 50% of China’s domestic oil, but it has reached its peak and is probably not going to be producing beyond the next 20 years. China has explored in Xinjiang in the north-west whether there are issues of the Muslim population there and political instability and also in the Bohai Sea, but again that is very difficult.

**Q53 Chairman:** How do we read the RTZ summary in this context?

**Dr Brown:** RTZ is Rio Tinto?

**Q54 Lord Anderson of Swansea:** It is China’s acquisition of it.

**Dr Brown:** I followed it a little but I think that the issue with that really is that a major state company in the resource sector with essential government support is basically getting a decent stake in a number of foreign mines and a number of foreign resources and the problem really with that is whether there is going to be a political price tag to it. I think the Rio Tinto shareholders are not happy that it was done, the increase in the shareholding by CHINALCO, quite a big increase to something like 40%, because it was not offered to the shareholders first of all. To me, the interesting thing about that is that it shows that Chinese state owned enterprises have access to massive amounts of capital where there is definitely going to be a political parameter.

**Q55 Lord Anderson of Swansea:** Although in Sudan, they have been more than willing to co-operate with the international community. Can you tell us in respect of the energy and natural resources where the European Union comes in. What is the nature of the dialogue, the current outcomes and where we can co-operate?

**Dr Brown:** It has been a fairly steady and high level series of meetings. It has focused largely on very practical things like clean coal technology and like efficiency targets. I think that the Chinese Government view the EU as a good partner on environmental and energy dialogue because it becomes politicised very early when they talk to the United States. That may change under the new administration.

**Q56 Lord Anderson of Swansea:** And Hillary Clinton’s visit presumably does give a different tinge.

**Dr Brown:** It does, yes. I think that the thing the Chinese are seeking with both their investment and their dialogues is technology. That is really what they are most focused on because they really lack a lot of
the most important and newest technology to move forward.

Chairman: Perhaps I could ask Lord Anderson to move on to the next question but, before we do that, you were well prompted because I think that one of the things we need to make sure of is the Chinese Government’s position remains wanting to register political parties, things like that. However, the issue is when it creeps into courts, and that is where things are locked. Lord Anderson, would you like to move forward.

Q57 Lord Anderson of Swansea: Perhaps I may begin on the background situation regarding the rules of law and human rights and how has this moved over the past decade or two? What is the role, following the indication from our Chairman, of the European Union in this? How can the European Union be most effective? I recall that I was part of a delegation in the early 1990s when the then Prime Minister, John Major, persuaded the Chinese to allow in a British Human Rights delegation led by Lord Howe of Aberavon and we could only, in our judgment, make progress by, as it were, leaving notes on the table and acting in a very subtle way rather than a full-frontal way. What, in your judgment, is the most effective way in which the European Union and of course our allies can most effectively impact on the human rights situation in China?

Dr Brown: On the background as to the rule of law, China would say that it has built a system from scratch since 1979 importing a lot of it from Japan from the civil law there and they feel that they have built up something that is operative. The real problem is the political control of courts and that is something that there is no evidence is changing.

Q58 Lord Anderson of Swansea: What about legal aid and access of the defendants to the case against them and so on?

Dr Brown: I think generally people are becoming more and more willing to use the courts in China. In fact, in environmental litigation, there have been some good judgments made and lower levels of courts have sometimes come up with very surprising decisions. However, the issue is when it creeps into territory like minority rights, representation or wanting to register political parties, things like that. There is a media control by the Party. On human rights, the China Government’s position remains that they are delivering economic rights and collective rights and that those have to come before individual rights and that is where things are locked. On the European Union and its role, the European Union is the biggest trading partner for China and that is a lot of power. The problem, as we found in last November, is that the Chinese Government are still very able to pick the Union apart. When Sarkozy met the Dalai Lama, the Chinese immediately walked away from the EU-China dialogue. Even though they knew that it was important to them to hold that meeting, they still said, “We don’t care because one of your Member States” the Presidency obviously but a Member State, “went and did that, so we are going to walk away”.

Q59 Lord Anderson of Swansea: How do we impact effectively?

Dr Brown: Unity obviously is very important, having unified lines on what we think about the human rights issue. It seems to me that the Chinese Government are very fearful and very nervous and that seems very strange, so a group of Chinese intellectuals in November last year produced a paper, Charter 08, simply asking for greater representation and they were immediately imprisoned. It shows that the Chinese Government overact and I think that the main thing the EU needs to do when these things happen is to be very consistent and unified in its reaction. If it decides that it is not important, say that it is not important; if it decides that it is important, collectively say that it is important.

Q60 Baroness Symons of Vernham Dean: One of the things that struck me during the period when I was a government minister is that one put human rights on an agenda and everybody accepted that there would be a part of an agenda dedicated to human rights but, when you come to dealing with it, there actually was not engagement. So, it left the comfortable feeling that, yes, human rights had been raised, but the uncomfortable feeling amongst those who had been in the room at the time that it had indeed been raised but had not been engaged with. Do you think that that is a fair assessment of the exchanges on human rights?

Dr Brown: Yes. Obviously, within the EU when consensus is forged, if it works, it can be very powerful, but if it is so watered down, then it becomes almost pointless. The Chinese Government become very defensive very quickly and feel that they have not been recognised for delivering wealth, lifting people from poverty, creating a legal system and creating all sorts of different forms of representation like local village elections and things like that. I think that the issue of Tibet is a particular problem because, for some reason, it is associated with Europe rather than with the US. It is odd because the US—Pelosi, the Head of the House of Congress—have been very assertive and yet Tibet seems to have been parked in Europe. It is an odd thing because the UK specifically had a different policy towards Tibet than any other EU country, which was to recognise suzerainty or special influence but not sovereignty and that was
changed last November, so now we are all at one. We all recognise the Chinese legal right to sovereignty in Tibet and yet there still seems to be a desire from the Chinese leadership for something more than that. They talk very different languages. That is why, when Sarkozy met the Dalai Lama, it became much more than just kind of irritation because the Chinese Government were willing to behave in an incredibly aggressive and almost self-destructive way because I think they regard sovereignty not as a legal issue but as a moral issue and they want to hear western leaders say not just that they have the legal right to be in Tibet but that they are doing morally the right thing, and therefore I think that western and Chinese leaders when they talk about this issue are simply talking different languages. When the French or the Czechs now, the Presidency of the EU, talk about Tibet, what the Chinese want to hear is basically a huge congratulation and to say, “You are doing the right thing and we were wrong to have these concerns all these years” and of course no western leader can do that. So, it is a really difficult area and it is difficult for the EU because of historic links probably just to think that it is a particular EU issue.

Q61 Baroness Symons of Vernham Dean: One thing that was very noticeable in the Olympic Games was the huge diversity of ethnicity amongst the Chinese. I confess to great ignorance; I had no notion that there were as many streams of quite clear different ethnicity within China. Are there human rights issues amongst these different groups? Are there differences in the way in which they are regarded and in which they regard each other? What is your assessment of how women are regarded in China? That is always a difficult question because everybody will argue more or less to the degree that women on the whole do not confess to great ignorance; I had no notion that there was a huge diversity of ethnicity amongst the Chinese. I think that it does relate back to the EU occupying a particular EU issue.

Q62 Baroness Symons of Vernham Dean: Is there still female infanticide?
Dr Brown: Not officially. Pre-birth screening has been made illegal. But I suspect it does happen.

Q63 Lord Hamilton of Epsom: May I turn to the more mundane areas of the legal system. The rights of property is something where inward investors have tremendous problem coming up against Chinese courts because they found that the court always found in favour of the Chinese almost whatever the argument was and that is why they are comfortable to have their companies registered in Hong Kong because of the more objective legal system. Has the legal system within China changed at all in those terms?
Dr Brown: I think that it does relate back to the EU in a way because one of the benefits of having had so much investment into China, $600 billion of foreign investment into China and about one quarter of that from the EU, is that the Chinese have set up a reasonable legal system to protect rights on business interests, contract law, employment law and property because investors going in do not want that insecurity. In fact, although ultimately all the land in China belongs to the Chinese State, there are a variety of leases from 30 years for factories for reasonable lengths of time. One issue that has not been solved is the ability of farmers to use their land...
for security on debts. The Chinese Government last year tried to bring that in, but there was a great deal of opposition to it because Chinese farmers at least and small entrepreneurs have said that they are not able to get any credit, a similar problem in a way to here but for different reasons. They cannot get loans from banks and they had no security because their property was not considered adequate. The Chinese Government did not succeed last year. They may well try and do that this year. Also, one of the issues with the EU and China on legal dialogue is that I think that the Chinese have been much more interested because of the diversity of Europe in coming to look at different political and legal systems in Europe to try and learn from them, not so much in the US. I think that that is one key area where there has been actual tangible interest in what Europe has to offer.

Q64 Lord Hamilton of Epsom: Does a farmer have a long leasehold on his land but the State—?
Dr Brown: Yes, the State still remains the in effect landlord.

Q65 Lord Hamilton of Epsom: Will that ever change?
Dr Brown: They are trying to change it but it goes to the heart of communist control really.

Q66 Lord Hamilton of Epsom: If they start with the land, would they be more inclined to give away the freehold of land?
Dr Brown: Historically, land reform in China has been a massive problem. In the 1930s before the communists came to power, the KMT tried to bring about more equality in the holding of land and it ended up in revolution. So, the solution in 1949 was that the Government owned all the land, but the problem now is that people want to start using that land for more than just growing and building on. There is also the issue of land grab where government officials have taken land and built on it without giving people proper recompense.

Q67 Lord Inge: You talked about a Chinese delegation going to Europe and looking at our democracy system. Are you seriously suggesting that China is thinking about introducing some form of democracy?
Dr Brown: Yes. My view is that China will have to become a democracy because its leaders have promised that it will and also because it has such a diverse and uncohesive population in a way that I cannot think of any other system that will really accommodate all of those. I think that they have sent delegations to look at social democratic systems in Northern Europe. They felt that it was great but that it was too expensive. They have sent delegations here to look at parliamentary democracy. The issue is that because of their unique complexity, no real system properly works.

Q68 Lord Inge: I think that is behind my question really.
Dr Brown: Some people say that Singapore is maybe a potential model.

Q69 Lord Inge: It is small.
Dr Brown: It is about the size of an average city. I think the likeliest is to do what Taiwan did and in a sense, although Taiwan is much smaller, there are more cultural commonalities and Taiwan kind of has successfully made the transition from marshal law in 1987 to a thriving democracy now and it did it with the KMT being able to maintain power. So, for me, the issue is that the Communist Party in China will reform only if it knows at the end of it that it will maintain power. The issue is whether it will allow opposition groups to register and that has always been the issue. The Communist Party can talk about democracy and can talk about intra-party democracy but, in 1998 when 24 people went to a government office in the centre province of Anhui and tried to register their party, the moment they tried to register an opposition party, they had crossed the line and that remains the same about any registration of political parties. It is not accepted.

Q70 Lord Inge: So, how do you get democracy?
Dr Brown: I do not think that it will be an easy process but I think that they will have to do it. The party issued a white paper on democracy in 2005 in which it said that the first phase was rule of law. When that phase had been fulfilled and there was a proper legal infrastructure, the second phase would be to introduce deeper village and town elections. They have had so far 970,000 village elections. There have been issues about how transparent and well conducted they have been but they had those. Last year, they started to talk about introducing special democratic zones. That was put on hold but they did talk about it and five zones were looked at to hold elections for Communist Party officials. The issue is that the Party’s vision of its democratisation will be a managed transition and I think that the actual reality will be that it will be a messy transition but they will do it, probably by about 2025.

Chairman: We will bring you back in 2025 and see how they did.

Q71 Lord Selkirk of Douglas: May I ask about China’s relationship with the EU, how China and the EU view each other and to what extent their mutual perceptions have changed through the passage of time. What are the values, interests and ambitions held by China in terms of its European strategy? What priorities does China place on its relations with
Europe? I would also like to ask an extension to what our Lord Chairman has already said and that is, to what extent is Tibet likely to remain a major problem in the development of good relations with EU? You did say in your remarks that China’s legal right to sovereignty was recognised. May I ask, was it not the case that Tibet was independent before it was invaded, so what is the basis of the recognition of a claim to legal right? To what extent are the views that Tibet should be allowed some aspirations towards autonomy very strongly objected to by China and to what extent have the EU countries put forward their particular thought?

Dr Brown: On the first question, what China thinks of the EU is a massive issue. Within China, there is very strong recognition of individual countries in the EU, a very strong recognition of Britain, France, Germany and Italy, and there is a kind of shifting awareness of what the EU is. I remember one Chinese academic last year saying to me when the EU was 15 countries, “That made sense. There were 15 wealthy countries all banding together. Then it extended and it added countries which were maybe not as wealthy and we Chinese started to become confused because we wondered why you would have a group of countries getting together where there were such dissimilarities?” I think the issue there is that there is confusion over what the EU is, the enlarged EU, the 27 strong EU. I think that a great deal of effort in China—and you will probably discover this as you go into this inquiry—is going on in a number of different places about what the EU is and what it actually offers to China. The issue a few years ago was about the EU lifting its arms embargo on China because of 1989 and I think that that was a moment of realisation because the Chinese Government had expectations that the EU would lift that embargo and then because the US gave the EU so much pressure, it was not lifted. I think that that confirmed to some of the sceptics in China that the EU was very soft. It was a huge market, the biggest market, for Chinese goods. It is a huge trading partner. Since the year before last, it has been the biggest trading partner. There it is important and the Chinese understand the idea of this common market. They do not understand the EU politically and I think that they see the EU, as one Chinese official said to me in Beijing, as “very complicated because we will go to them and say that we are unified and we work together and then, for instance, when you have a big contract for a train line or something, you will get Germans fighting against the British and the Italians fighting against French, so what is this thing that says it is unified and yet fights like hell with itself?” They do not get that with the US obviously. Very quickly on the issue of Tibet, the legal position is very, very unclear and historic documents, as far as I understand, are very unclear. The Chinese Government have said that Tibet has a level of autonomy, but in many ways it obviously does not. There is no evidence that the Chinese Government will compromise on this. The UK Government argues that symbolically it could have maintained its recognition of suzerainty but not sovereignty, but in fact it had no real purpose anymore because it was so isolated. There is controversy over that. I think that the Chinese themselves have shown that they have no intent to recognise for instance a special status for Tibet legally, to make it a special zone like it has with Hong Kong, to kind of give it more autonomy in terms of security personnel there. I think it is an issue where the EU can be tougher on China because it can say that it is very damaging for China’s international image to have this. It is very damaging for China to be vulnerable in this way; it does not need to be like that. I think that that would be one area where the EU could probably really try and turn this debate in a more constructive way.

Q72 Baroness Symons of Vernham Dean: That leads very neatly into these different ways in which we view sovereignty. In the European Union, we are increasingly keen on issues about self-determination of different groups of people, whether you are looking at the way in which we have had the devolution issues in the United Kingdom or the increasing power of different groups in Europe generally, the Basques for example and whomsoever. How does the EU’s position on these questions when we look at our own split geography and we look at our own issues around self-determination for different groups shape our relations with China? I was very taken with your point a moment or two ago that this is not just a political issue, that this is a moral issue for them and that they want others to join in the recognition not only of a political right but of a moral certainty over the rightness of that. How do you think those two contrasting views shape the relationship?

Dr Brown: It is true that the Chinese Government have sent delegations to look at the devolution as it has worked in Scotland and I think in Wales, and there were some suggestions—

Q73 Lord Jones: Dozens of professors.

Dr Brown: There were some suggestions that the Northern Ireland situation is comparable to Tibet. The issue is that the Communist Party of China is obviously wanting to control things and it might play around with a solution that might have a little bit of indeterminacy but it will not play around with something that might lead to a local election or a local assembly suddenly chucking up some unplanned design.

Q74 Lord Jones: Very wisely because that is what we have done—
Dr Brown: I think that is because its position is very vulnerable. It knows that you are dealing with in Xinjiang, which is exactly the same as Tibet, in the north west, 18% of the territory of China, very rich in natural resources, 55% Muslim Uygur, very different culture and a different language. Everything is different. So, the Chinese Central Government know that it is almost like an either/or scenario. Either there is strong control and no compromise or they talk about some kind of deal where it becomes a slightly separate territory. Xinjiang was a separate sovereign country from 1945 to 1949, so within living memory. Then you have to deal with the fact that there are provinces within the traditional Chinese territory that are not really very Chinese: Inner Mongolia and Yunnan has something like 30 ethnic minorities. Even if you go to the difference between the north and south of China and then you get a nightmare and the whole thing breaks apart. I think it is preying on the Chinese leadership’s mind that they have delivered unity since 1949 and that has been very, very costly, but it is an absolute imperative that if they do not defend unity, they are not legitimate leaders and any leader who talks even vaguely weak on this is doomed. Hu Jintao is the President of China for one reason. In March 1989, he allowed 170,000 armed police to go from Chengdu in Sichuan into Tibet and kill Tibetan protestors for which he got the affection of Deng Xiaoping and Deng Xiaoping in 1991 basically said that he will be the successor to the Leader of China/President of China. He did the killing. Basically, with that record, his qualifications for supporting unity are unblemished and I think that we should not underestimate just how powerful that is in the mindset of the Chinese leadership. I think what you said was right in that, yes, we can have discussions about the human rights in Tibet and things like that and I think that, if we pick our territory, we will get outcomes with more transparency. Tibet closed in March because it is the 50th anniversary of the annexation and people cannot go in there. We can maybe guess outcomes in terms of more openness, seeing ethnic Tibetans getting more economic outcomes from the economic prosperity of China but I do not think that we will see any shift at all on the sovereignty issue and the issue of control.

Q75 Lord Hamilton of Epsom: What does the EU have to offer China as a partner and how can it best influence and learn from Chinese thinking and policy? How does the degree of coherence of the EU’s policy impact on the EU’s ability to engage and negotiate with China?
Dr Brown: The EU offers what China wants from most modernised industrialised economies; it wants intellectual property; it wants expertise; it wants management know-how and it wants to know how to modernise its own economy and therefore it looks at the EU and it looks at economies within the EU as being potential partners and models for that. I think the coherence of the EU’s policy impact and the EU’s ability to engage and negotiate with China is more mixed because on some areas, on trade negotiations mainly, we have been more powerful when we have gone in, but in other areas I think that China has been very good at picking apart divisions within the EU and it has done its research on the different economies within the EU and their support for different trade policies and how it can therefore create disunity. That was true when Lord Mandelson was the EU Commissioner and he tried to negotiate about market access. The EU does want greater market access from China. There are still a number of barriers and a great deal of national treatment of enterprises trying to go into China, but I think that the Chinese argue that, in them coming to Europe, they are also faced with a very uncohesive trading environment. I think that in one way we should practise what we preach but I do think that, in terms of trade, it has been a positive relationship.

Q76 Lord Hamilton of Epsom: Do China have a very big delegation in Brussels?
Dr Brown: Massive, yes.

Q77 Lord Hamilton of Epsom: Second only to the Russians?
Dr Brown: To the US, I think!

Q78 Chairman: What is the perspective of different EU Member States in relation with China and how do these different perspectives shape the conduct of European, foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy?
Dr Brown: I think that in the EU on the whole the UK, the Germans and the French have really been the leaders with policy towards China because they have had most common interests. In terms of investment in China, the UK is the biggest, Germany is second and I think the French are third. In terms of outward investments, that is almost the same. It is a very reciprocal relationship. If you invest in China, then you tend to get investment from China and in terms of political links too. Germany has been very good at sending their Chancellor every year for high-level visits from 1998 and I think that the French did a French year in China in 2003. It is quite unusual that they are in the doghouse at the moment; we are usually there because of historic memories over Hong Kong and things like that. I think that the Council and the Commission produced very comprehensive, strategic documents. I do not know how far they are properly implemented and I do not know how far, when talking about political issues in Beijing,
the Chinese Government seriously talks to the Commissioner there, the delegation head or to the different embassies. Certainly during negotiations over WTO up to 2001, the role of the Commission was absolutely crucial and the outcome was reasonably successful and I think that is a good model.

Q79 Chairman: If—and I do not know whether they do, so perhaps you could tell us,—Barroso or Solana turn up at Beijing, are they seen as important people? Do they understand who they are?
Dr Brown: Yes, they definitely do. For instance, when you are talking about North Korea, the EU’s role in the links with North Korea has been very good and that has been almost like a middleman between China and North Korea sometimes, so you can see specific areas where the EU is seen to have a definite political role and a useful political role. I think that it is more what the Chinese decide rather than what the EU decide and maybe that needs to change.

Q80 Lord Inge: May we move on to defence and I wonder if you can give me a feel because China is now spending considerably more money on defence but has the European Union been able to clarify what it thinks the Chinese increased expenditure on defence is really all about?
Dr Brown: I think that the best data on that is produced by the Americans still. They produce a Pentagon bi-annual paper on Chinese defence spending where they say that the official Chinese budget of $48 billion is probably understated by about 300%. It is probably way into $160/$170 billion. I think that the issue of the embargo is a very symbolic one because, as I understand it, most of the legal infrastructure is there to stop the sale of any sensitive equipment to China from the EU and so I think that the US, when it gained pressure in 2003–04 to stop the lifting of the embargo (a) did not want to be isolated and (b) was really flexing its muscle and showing that, in this area, it was the sort of lawmaker.

Q81 Lord Inge: If you look at what they were trying to spend the money on, as you say, the embargo had some impact on them but they were going for what I would call an internal armed forces to one that was able to project military power, significant military power, not just playing with that title of projecting military power. Was that aimed at Taiwan or where was it aimed?
Dr Brown: Yes. Their major strategic objective is Taiwan and therefore, since 1998 when they got out of commercial operations, the People’s Liberation Army has increased its technical capacity massively, more than we ever expected, and increased its fire power. So, it has over 1,000 weapons facing Taiwan and, when it shot the satellite out of the skies in 2008, it showed that it had much more capacity than had been expected and I think that was a sign of well, we wanted the People’s Liberation Army to decommercialise but, as a result, we have ended up with a much more formidable fighting force.

Q82 Lord Inge: If you look to the future with their return to Africa if you like to an extent—and they may have to leave Africa because Africa fell apart and they are trying to buy it this time, so people say—do you think they will ever use military power for protective reasons in Africa?
Dr Brown: Yes. Last year, they did send two ships to deal with piracy in Somali but I think there was a problem in that they went and just looked after their own interests and did not work with other forces in the area. Through the UN, they have sent a lot of peace forces to the Sudan, I think about 30,000. They have become very proactive in some ways. It is not clear whether they are doing well and they have lots of assets abroad, so they need to protect them and become more proactive or they have some sort of bigger ambition and there is a controversy over whether this is welcome and China protecting its assets abroad is actually legitimate and some people feel uncomfortable about whether it is hiding some bigger geo-political kind of ambition.

Q83 Lord Inge: They certainly do not understand the use of minimum force.
Dr Brown: Yes.

Q84 Lord Selkirk of Douglas: What is the United Kingdom’s and the EU’s assessment of China’s role in East Asia including in the security field? What can you tell us about China’s relations with its major main neighbours, including Japan, India and Russia? Those are really two separate questions in one. What is your assessment of the effectiveness of the Chinese Armed Services? For example, do they have the most powerful land army in the world? Also, you wrote an article China is an opportunity and not a threat and I wonder if you would like to develop on that theme.
Dr Brown: It is absolutely clear that China wanted to be a major regional player. Whether it wants to be a global player we will have to leave for another time, but it does want to be a regional player. Its relations with Japan and Russia are very contentious. With Japan, there is obviously an historic memory from the war and also a lot of competition. Japan has given China a great deal of technology and has been a big partner in its economic development and there has been probably some quite poor returns for that partnership for the Japanese and I think that the Japanese, because the economy is in such a major drop, are probably becoming much more—
Lord Selkirk of Douglas: Can you explain that point when you mentioned a poor return for China… Do you mean for Japan in China?

Dr Brown: Yes, for Japan. Poor political returns in terms of Japan not having a seat at the UN and a seat at the P5 and Japan being blocked in most of its attempts to be a more visible regional player because of China’s uneasiness about Japan militarisation and all the rest of it and the talks about North Korea where China has been very much in the lead and Japan has had to follow. I think on those areas Japan feels that it has been blocked in some ways. In 2005 when China blocked the Japanese sitting on the P5, there were riots in Beijing and I think that, with Russia, it is as difficult because they have such common interests. Russia has sold a lot of military equipment to China. Most of it can only be used in Taiwan across the straits. Russia has historically a very fractious relationship with China. I think that China’s aspirations to be a regional power are not going to be particularly easy to deliver but, as you say, in terms of its military expenditure now and in terms of its military capacity and in terms of its economic capacity, it has become enormously influential and is seeking more and more signs and recognition of that influence.

Chairman: I suppose the one thing Japan does have is Premier Aso who is actually the first in the White House. I was in Japan last weekend and I think that is certainly a feeling in the United States of realisation that there has been an imbalance in the relationship and, as the second largest economy in the world, Japan perhaps still does count for something. Dr Brown, thank you very much indeed for a great tour de force and I congratulate you on your breadth of knowledge on all these subjects. Thank you very much, indeed.

Supplementary written evidence from Dr Kerry Brown, Chatham House

A year ago, when this enquiry started, UK China relations were in good shape. Premier Wen Jiabao came to the UK and welcomed the publication by the Foreign Office of the UK China Strategic Relations paper, the first to have been produced about a specific country. In late 2008, the UK had specifically changed its policy on Tibet, shifting from recognising Chinese suzerainty (special influence) in the area, to acknowledging Chinese sovereignty there, bringing it in line with every other major power. While China’s relations with France and Germany had been negatively impacted by the meetings of President Sarkozy and Chancellor Merkel with the Dalai Lama in 2008 and 2007 respectively, the UK was largely untainted by this. For most of 2009, relations were good. The UK even became the main destination for Chinese investment in the EU.

In the space of a few months, things have changed. China’s relations with the rest of the world have become more fractious. Its hosting of President Obama in November 2009 was viewed with confusion by most commentators. Obama was allowed no significant access to Chinese people, his town hall style meeting with students while in Shanghai was not shown on Chinese television, and he was allowed no proper press conference with President Hu Jintao, just the reading of a prepared statement with no questions allowed afterwards. Things got worse with the Chinese response to Copenhagen. For the first week of the summit, their tactics were interpreted by those from other countries attending as obstructive and uncooperative. In the final two days, with the arrival of the national heads of state of most of the EU countries, the US, and Premier Wen Jiabao of China, a potential deal was almost scuppered by China’s hard line negotiating tactics. One observer said that the Chinese stripped out almost all the meaningful targets and binding commitments from any deal. Their inability to show flexibility during the conference was best illustrated by the inability of Premier Wen to speak directly to President Obama at one session, sending a junior minister instead. Even the G77 group of developing nations grew frustrated at what they saw as China’s self interested and narrowly focussed behaviour.

For the UK, Environment minister Ed Milliband’s outspoken criticisms of the Chinese tactics and position only raised shakles in the Chinese media. Many influential bloggers and commentators only saw his behaviour as symbolic of the arrogance of the west. On 28 December, despite over 25 representations from the British government, including two letters from Prime Minister Gordon Brown to President Hu Jintao, British citizen Akmal Shaikh was executed by lethal injection for being caught trying to smuggle heroin into the Xinjiang area. While an explicit link is unlikely, many in the UK, and some in China, saw the Chinese government’s failure to grant clemency in this case as a direct response to the British government’s open criticism of it at Copenhagen.

China’s treatment of dissidents in the last six months has grown increasingly harsh. Two cases in particular illustrate this. The announcement on Christmas Day 2009, two days after his very brief trial in December, of the writer and scholar Liu Xiaobo for 11 years in prison on charges of subversion following his role in drafting the Charter 08 document in late 2008 asking for more political rights and greater freedoms was the longest
sentence ever pass under this legislation since it was introduced in 1997. It has been internationally condemned. The disappearance of human rights lawyer Gao Zhisheng in February 2009 is perhaps even more distressing. He was badly tortured during his previous period in custody in 2007. But his abduction without any form of trial while on a visit to his home province in February, and the subsequent failure of any Chinese official to clarify where he is, whether he is still alive, or what state his health might be in, is extremely worrying. In September his brother was informed by the local police that he “had gone missing while out walking.” This information only raised more questions, which got the unhelpful response in early January from a Ministry of Foreign Affairs spokespersons that “Mr Gao is where he should be.” It is very likely that he is either dead, or in a condition which would make his public appearance unacceptable. In either case, the handling of this case reflects very poorly on the Chinese authorities, and on their inability to deal with miscarriages of justice. I have attached Mr Gao’s open letter on his treatment while previously in custody in China, as it remains a powerful, and deeply distressing testament to a side of China that is too frequently forgotten.

Google’s threat to withdraw from China in January due to what it claims was evidence of aggressive cyber attacks in December, and dissatisfaction over the increasing levels of censorship it was seeing exercised over its material in China, was greeted by initial silence by the Chinese authorities, but has been interpreted as symptomatic outside of China as increasing frustration at unfair trade practices against those trying to work in China competing with Chinese companies, and the often arrogant and dismissive attitude of some Chinese officials. The Chinese overvaluation of its RMB currency is almost certain to be one of the largest sources of tension in the coming months, with a major conflict on this issue with the US and EU very likely. Some economists estimate that the RMB is 40% overvalued. Protectionism of some sort as the year wears on is now far more likely.

The UK, as with any other major partner involved with China, must ask hard questions about what their engagement has really delivered over the last few years. There are some areas of real success and achievement, of course. And the fact is that China and the UK are now better able to speak to each other and understand each other than ever before. But with issues for instance like the change of policy over Tibet, we have to wonder whether in the end it delivered anything at all to the UK. Foreign Office Minister Ivan Lewis did get to visit Tibet in October, and there have been other UK official visits. But even though the Chinese government has announced after a major meeting in Tibet in January in Beijing a major raft of measures to deal with the area, none of these address the issue of more self determination by Tibetans, or explicitly try to tackle the sense of ethnic Tibetan social disenfranchisement there. The cancellation at short notice of the UK China Human Rights dialogue in January by the Chinese is perhaps symbolic of how much priority the Chinese government give this. In any case, perhaps it is now time for the British government to review its commitment to a forum even some activists say delivers nothing except propaganda value for the Chinese.

We are entering a very difficult period, where issues of necessary but long postponed administrative and legal and political reform in China are coming increasingly to the fore, with no real sign that the Chinese political elite have the vision or the appetite to deal with these issues. The international global situation, with an increasingly angry US populace, is far less benign towards Chinese government rhetoric about its rise being “win win” than in the last few years. China has been undergoing a period of deep contention within itself in the last decade. It is now entering a similar period with the rest of the world. There will be some hard and difficult conversations in the months and years ahead. But hopefully the last few weeks have given us a warning in the UK that our engagement strategy needs to be focussed and robust, and our risk assessment needs to always be high when dealing with China. As one Chinese academic stated in 2008, “I never understand why you foreigners are so relaxed about how things in China are. We aren’t, and we live there!”

25 January 2010
THURSDAY 5 MARCH 2009

Examination of Witnesses

Witnesses: Mr Charles Grant, Director, Centre for European Reform and Ms Isabel Hilton, CEO, China Dialogue, examined.

Q86 Chairman: Good morning. Can I welcome you both to Sub-Committee C? You are some of our first witnesses in terms of the EU and China investigation we are doing at the moment. Perhaps I could just go through the procedure before I go through the House warnings about being recorded live and that anything you say can be modified afterwards. We have two sets of questions and if you would not mind the Committee would be very pleased if we could go through them sequentially, but if either of you have comments you would like to make on the other person’s questions as well then we would be very keen as a Committee to hear those comments. Question numbers eight and 16 are the same so we will deal with those both as question number eight. This meeting is being web cast and will be taken down as well. You will be sent copies of the evidence and if there is anything that you want amended at that time then there is the ability to do it then; I do not think we can re-digitalise the web cast though. Is there anything either of you would like to say in terms of a brief opening statement?

Mr Grant: I do not have an opening statement.

Ms Hilton: I am happy to start with questions.

Q87 Chairman: I know there are one or two other questions that will arise as part of what we are doing as well. Mr Grant, I have a very broad question for you to start with, what is the current nature and level of development of EU-China relations in the broader context? What should be the primary objectives of EU policy towards China? How do Europe’s interests in closer interactions with China on trade, investment, environment and technology relate to its wider foreign and security strategy? That is very much a broad opening question; we will see where we get to from there.

Mr Grant: The Chinese like the EU more than the Russians do. They generally think it is a good idea because the Chinese believe that a multi-polar world is emerging and that it is desirable. Anything that prevents or impedes a US dominated uni-polar world is therefore a good thing for the Chinese. The Chinese have great expectations of the EU as a pole in the multi-polar world order. They have, of course, been disappointed in recent years when, in issues like the EU arms embargo on China, the EU buckles under US pressure. The Chinese are very good at taking a long view and they reckon that in the long run the EU will be something different from the US and therefore will help to create a more democratic world order (as they put it; it is a strange use of the word democracy but that is what they sometimes say). I think they are generally quite encouraging on the EU. More specifically in the last year or so there has obviously been a lot of tension between the EU and China; as you know they cancelled a summit between the EU and China last November. It was quite unprecedented to do that but they cancelled it to punish Sarkozy who not only met the Dalai Lama but issued a press release about his meeting with the Dalai Lama which was a really stupid thing to do from the Chinese point of view. On issues like Tibet or Taiwan the Chinese get very, very agitated and very emotional—I am not a sinologist like Isabel so I defer very much to Isabel on questions of what China is really like but I can look at the EU-China relationship—and when these issues like Tibet and Taiwan crop up they think it is more important than anything else and, in my opinion, they overlook their own economic self-interest which is to work with the EU to ensure an open trading system. To answer the second part of your question about what the EU’s objectives should be, my own view is that China could become a supporter of a multi-lateral system of global governance, as the EU normally is, but there is a risk that it could throw its weight around in a unilateralist way like the US does on a bad day. Within China there is quite a big argument as to whether they should become liberal internationalists or assertive nationalists. I see the role of the EU as being to engage China, to demonstrate to China that it is in China’s self-interest to support strong international institutions in general (like the UN), to work with the EU to make sure that the world trading system remains open (because China is the world’s biggest exporter, equal biggest with Germany) and to support other sorts of multi-lateral institution[s].
have written a book on the EU-China relationship which came out last summer and I stand by what I said in this book which is that the EU should focus on areas like Africa, like climate change, like non-proliferation (notably Iran) and like reforming global governance, to work on the Chinese to show them that China’s own interests are well served and best served by sustaining strong international institutions in those areas. That to me should be the objective of the relationship between the EU and China from a European point of view.

Q88 Chairman: Ms Hilton, would you like to add something?

Ms Hilton: I do not disagree with Charles at all. I think that if one were to look at it from the Chinese point of view for a moment, the Chinese are joining a world in which all the rules were made by us essentially. They certainly feel that and they have been trying to find their place in this world. At the same time China is very much a work in progress in the international order. It has its own needs for natural resources, its own needs for energy and it perceives the balance of power in the world as being against it. It has a number of concerns about the terms of the construction of good governance and the international order. China has a number of concerns about the international order. It has its own needs for natural resources, its own needs for energy and it perceives the balance of power in the world as being against it.

Chairman: I do not disagree with Charles at all. I think that if one were to look at it from the Chinese point of view for a moment, the Chinese are joining a world in which all the rules were made by us essentially. They certainly feel that and they have been trying to find their place in this world. At the same time China is very much a work in progress in the international order. It has its own needs for natural resources, its own needs for energy and it perceives the balance of power in the world as being against it. It has a number of concerns about the international order. It has its own needs for natural resources, its own needs for energy and it perceives the balance of power in the world as being against it.

Lord Crickhowell: Can I broaden this question into the context of the world economic crisis which we are now facing? China has been running a massive trade surplus with the rest of the world particularly with the United States and if, as seems likely and indeed essential, there is going to be a sharp reduction in US consumption, this is going to mean that China is going to be in a huge over-production situation unlikely to be met by the increase in Chinese consumption in the short term. Surely this is going to have pretty important consequences for China’s relations at the present time with the rest of the world and particularly with a large trading partner like Europe. How do you see these things developing? They are likely to impose severe internal strains inside China but it seems to me it is likely to have consequences for its relationship with Europe as well.

Mr Grant: I think that is a very good question. It is pretty obvious to most of us that China and the EU have a strong interest in resisting protectionist pressure because we are both very big exporters and beneficiaries of transfers of technology and capital and so on. The worry is on both sides. Even before the economic crisis, protectionist sentiment was growing on both sides, in China and in Europe, and southern Europe in particular where the industries compete directly with some Chinese industries like shoes, for example, and women’s clothing. There was already a growing hostility towards China, a growing feeling that China was not playing fair in recent years, and a hostility towards the Commission for being controlled by ultra-liberal Anglo-Saxons who were not being tough on China. As a result, Mandelson, when he was trade commissioner a couple of years ago, did try to get a bit tougher with the Chinese; he read the riot act to the Chinese and said, “Look, if you guys don’t do more to open up your markets, I won’t be able to resist protectionist pressure in Europe”. I do not think that had much effect because the Chinese, according to the reports of the European Chambers of Commerce in China, China is not doing a lot to open up its markets. I am sure you are aware of the complaints of intellectual property being stolen, of hostility to foreign investors in China, of obstacles being created for foreign businesses operating in China (hidden obstacles rather than formal ones), discrimination in favour of Chinese companies against foreign companies and also import controls. I think from the European side we are very worried about the 200 billion dollar trade deficit that emerged last year between the EU and China; Europeans feel that the Chinese are not playing fair. This was before the recession and I have not been in China recently but I suspect that the desire in China to open up markets for foreign goods
is probably even lower than it was before. I think there is a serious danger of rising Chinese protectionism or economic nationalism provoking strong reactions from Europe of a similar nature. So far, to be fair to the Commission, I think it has held its ground: I do not think there has been a great increase in protectionist measures like anti-dumping duties against Chinese goods, but I think this is a very worrying development on both sides and its something we need to guard against.

Q90 Chairman: Ms Hilton, did you want to say something particularly on that?

Ms Hilton: I would only say that on intellectual property rights there are many complaints and many of them have been justified by past problems with intellectual property, but this situation is in fact improving and it is improving as China itself wants to move up the value chain and more and more stakeholders in China have intellectual property that they wish to see protected. That puts pressure on the legal system to function more effectively. It is quite true, it should be noted, that foreign firms suing for intellectual property rights in China have a rather greater success than they do in that constituency in Texas where I believe no foreign firm has ever won a case. Perhaps we should keep a sense of proportion here.

Q91 Lord Anderson of Swansea: Mr Grant, you talked about the Chinese world view, the constant theme being against the US hegemon, how does this affect their view currently of relations with the European Union? Is this world view likely to diminish as Chinese power increases and the ageing European Union diminishes in its own world power? Is it a self-serving matter at the moment or is it likely to continue as a major theme of Chinese foreign policy?

Mr Grant: I think it is going to continue because I think most Chinese thinkers and leaders, whether they are on the liberal international side or on the more assertive national side, see China’s objective as to overtake America. They do see America as their peer group, not Russia and not the EU. However, they know that the European economy is very important and I think they know that Europe has technology which they need for their own modernisation. They know that we are the biggest markets for their exports; China exports more to Europe than to the US. So they have to think about this quite carefully. They know that the Europeans are not very good at getting their act together on foreign policy, yet, but they hope that we will grow up one day. I do not expect a significant change to that world view. I think Europe getting smaller relative to China in relative terms yes, but not in absolute terms. I do not think the European economy will go on shrinking in the long run. They take the US seriously as a strategic actor because the US has the weapons and it has a single government and a single foreign policy; they find EU is very difficult to deal with—perhaps we will come onto this later—as everybody does because it is so complicated. Of course the EU finds China very difficult to deal with. However, I would not expect a major shift in the Chinese world view on that point.

Q92 Lord Jones: Turning to trade investment technology and specifically the aerospace industry, I read recently that E.A.D.S. (the parent company of the Airbus manufacturer, of their product, giant aircraft, giant airlines) have literally begun production in China as an Airbus company. Has this come across your desk? Has it any potential and how do the Chinese rate that industry as a way of getting into the EU?

Mr Grant: I think the world aerospace industry has been becoming increasingly global for quite a long time and if you want to sell airplanes into a particular market you may need to make parts of your aircraft there. Boeing makes a lot of its bits and pieces in Japan, for example; it does not, I believe, do so in China. However, I do remember in the old days when I used to follow the aerospace industry, McDonnell Douglas had a factory in China to make aircraft and that did not work very well. So it works two ways. On the one hand the Chinese want our technology and so they want our assembly lines there and they do steal whatever goes into China—everybody knows that—and they copy it secretly at night and all that sort of stuff. On the other hand, if you want to sell airplanes in China you have to do that sort of thing. This is very relevant for the US-EU relationship because the US has a very strong fear or worry that the EU is too lax in allowing high technology goods to go to China, hence the long running argument that we may get into on the arms embargo. The DoD in Washington—the defence department—is very annoyed with the Europeans for allowing all sorts of bits and pieces of high technology, dual use equipment to go to China. Of course the Americans have their own problems there and the US has itself prosecuted American companies for allowing missile technology to leak into China. It is very difficult to control these technologies.

Q93 Chairman: We are coming up to G20 and a lot of preparations are being made there. What pressures do you think that the EU might put on China at the G20 and what about currency revaluation, is that going to be something that Europe is going to be looking for?

Mr Grant: Firstly on the currency, obviously one reason for Europe’s huge trade deficit with China is that China has deliberately undervalued its currency.
I do not think there is much doubt about that. I am not an economist so I will not say very much on that. I know you can argue these things both ways and it seems to me that it would be helpful for China’s own interests if it allowed its currency to revalue somewhat, to rebalance its economy so that it becomes less export dependent. The Americans of course have put massive pressure on China on this issue for several years with some results and the currency did start to rise against the dollar to some degree. It rose less against the euro because of the movement between the dollar and the euro. That is an issue but the way the EU behaves it is never going to threaten the Chinese like Geithner did in his famous comment of a couple of months ago when he said accused China of deliberately manipulating its currency which really upset the Chinese. The EU does not have the ability to speak assertively and even aggressively in a single voice in its foreign policy. The EU will always be a bit softer and laxer with the Chinese which is one reason why the Chinese quite like the EU. On the G20 generally I think the main concern of the British and the Europeans is just to get the Chinese to engage. As Isabel said, they have never really taken a great leadership role in global governance issues because they see global governance as something invented by the West for the benefit of the West and that is a fairly accurate description; the West, particularly the Europeans, are ridiculously over-represented in many international institutions like the international financial institutions and the EU Security Council. China has seen itself as a poor developing country which is exploited by rich developed countries. What the Europeans have to try to do is get the Chinese to understand that they are part of the top table of the world these days; all the world’s big problems like climate change, migration and economic dislocation cannot be solved without Chinese involvement and that means getting China to take a role in re-shaping the institutions so that they represent emerging powers like China better. The Chinese are scared of responsibility. They have never wanted to join the G8 and they are worried that if they are made to join the G8 they would have to deliver outcomes on climate change which would be very painful for them and they would have to give more aid to third world countries. They are very worried about responsibilities. They are a kind of adolescent; they know they are growing up to become an adult but they do not want to do the things that adults have to do. Hopefully that will change slowly as they become bigger and stronger. Perhaps the G20, because it is not the G8 and it does have more developing countries in it, is a good forum in which to get the Chinese to really become leaders and to take responsibility for reshaping global governance. They are not in the International Energy Agency, they are not in the Financial Stability Forum—two very important bodies—and they should be encouraged to join and the rules should be changed to encourage them to join in my view.

**Q94 Lord Chidgey:** Mr Grant, I think you have made some very interesting opening remarks and to a degree you have inevitably touched on some of the issues in the section we are now coming on to: managing the EU-China relationship. Maybe this is a bit of a sweep-up rather than moving to previously untouched ground, but just to make sure we do get everything can you give us your views on specifically what the EU has to offer China as a partner and how it can best influence Chinese thinking and policy? Perhaps more importantly, how successful has the EU’s diplomacy towards China been in attaining these stated objectives and, critically, how could it be improved?

**Mr Grant:** Obviously the EU has a market to offer China; a big single market and China likes that. It has technology to offer China. The Chinese are very offended that we do not sell China armaments but the EU has a lot of technology to offer China; the Chinese know and like that. How can the EU best influence Chinese thinking policy? Well the EU believes of course in engagement. The EU always does tend to believe in engagement and it believes that if you talk to them and are generally quite polite then you are more likely to be able to nudge them in a certain direction. This is the case, for example, in the human rights policy which Isabel will have a lot to say on later I am sure. The more we talk, the better our chances of pushing them in the right direction. Has this been successful? On economic issues I think probably not terribly successful. Peter Mandelson has himself said something along the lines that if we are soft on the Chinese they ignore our wishes on opening markets and if we get tough with the Chinese it does not really work either. I think European diplomats, not just Mandelson but the EU Commission in general, is at a bit of a loss as to what is the best method of influencing the Chinese. I think the general view is that getting really tough is not going to achieve very much but I do not know what the answer is to that. How could we do it better? There is something new which started last year, as well as these annual summits which have happened (as I said the last one was postponed). It is a sort of process driven thing called a high level mechanism. It is a deliberate attempt to ape the US-China high level strategic dialogue that Hank Paulsen established and it started off last April when Barroso took a plane load of commissioners to China and they sat down with a group of ten Chinese ministers around a table together to talk about climate change, Africa and other things. I think the more you engage probably the better. Do you get any results from this engagement? In the short term you do not. On some
specific things, on the foreign policy side for example, it is almost easier to nudge them on the economic side; on issues like Sudan, Zimbabwe and Iran there are examples of China bending its policy just a little bit to get the West off its back, to keep the EU and/or the US happy. On Iran, for example, China has supported the United Nations sanctions three times against Iran—albeit very modest sanctions—because the EU and the US pushed it to do so. On Burma and Sudan—I am sure Isabel knows more than I do—although they have essentially not been particularly helpful on the substance, they have given a little bit here and there just to keep us happy occasionally. I guess you can say that is a result of the dialogue.

Q95 Lord Chidgey: What about the Chinese military assistance in the piracy problems off the coast of Somalia?

Mr Grant: It is obviously very much in the Chinese interests to stop their ships being hijacked. That is an example of them becoming, as Isabel said earlier, more responsible global stakeholders. That is a phrase coined by Bob Zoellick, head of the World Bank, and he said this when he was Deputy Secretary of State. I think China is very slowly becoming a more responsible global stakeholder. There are a thousand Chinese peacekeepers in Lebanon, at least there were last year. It is helping, as you say, off the coast of Somalia. It has helped a little bit on Iran. It is very small scale stuff but it does feel it has to take some responsibility for these global problems which it used not to.

Ms Hilton: If you look also at the regional issues for China we tend to think of the challenge being Taiwan cross-strait relations but actually China is the biggest investor in Afghanistan for instance; it has a huge copper concession in Afghanistan. China is a long time ally of Pakistan; China has a Muslim problem in Xinjiang. This is going to force China eventually to take a pro-active role in regional security and I think China would be a country that we should talk to about Afghanistan. It has played a positive role in North Korea; it is one of the few countries that are able to exert effective pressure in North Korea. It did move on Sudan and it did move on Burma, possibly infinitesimally. However, it did move. I am not sure that this is the result of EU high level engagement and I think in terms of EU pressure and how it could be more effectively brought to bear the EU has pulled back rather from the kind of public statement and public commitment to values that the United States perhaps occasionally does too stridently. I do think that since the Chinese are very concerned about symbolic politics as well as real politics that this is a mechanism that the EU has been too shy to use since things like the human rights dialogue moved behind closed doors; it makes it almost too easy. Although the mechanisms are very much in place for engagement with China, the political content of those mechanisms remains deeply confused—the nature of the EU, if you like—and the Chinese find it relatively easy to create disorder and dissent within the EU—who would not?—and divide if not rule. It is an easier for them to do in the European Union with the many pressures that all the political leaders in the EU are subject to—anxieties from businessmen, concerns about the economy—which tend to weaken the EU’s commitment to a public message to China on the issues of concern.

Q96 Lord Hamilton of Epsom: On the Muslim problem in Xinjiang, is this Sunni or Shia?

Ms Hilton: As in most Muslim territories this is an evolving situation and there were, as you will recall—

Q97 Lord Hamilton of Epsom: Yes, but are they Shia or Sunni?

Ms Hilton: There is an incursion now of Sunni ideology. Elements of the Xinjiang Muslims have become involved in the global expansion of hard line Islamist ideology but that is not the dominant mood; they are mostly Sunni with a strong Sufi influence.

Q98 Lord Hamilton of Epsom: Does that mean that China is more worried about the Taliban or about Iran?

Ms Hilton: They have rather good relations with Iran. They are certainly concerned about the Taliban and they are certainly concerned about the destabilisation of Pakistan. They are concerned to the degree that elements in Xinjiang are involved in global jihad. You will recall that there were Xinjiang prisoners in Guantánamo who were captured in Afghanistan. They were never actually charged.

Q99 Lord Anderson of Swansea: What about Chechnya?

Ms Hilton: China, as you know, has the Shanghai Corporation Accord and has central Asian influence. I am not sure that Chechnya directly is of concern, but Xinjiang certainly is and there has been long running discontent which is local in nature but of course risks becoming contaminated by the global situation.

Q100 Lord Anderson of Swansea: The average British and French citizen would be aware of their political leaders leading trade delegations to China; they would be less aware of any impact by the European Union. Apart from the trade rivalries between various EU nations, how significant are the differences in perspective between the different EU countries and to what extent does this make a common policy more difficult?
Mr Grant: In my view the fundamental interests of the main EU countries on China are very similar. They all wanted China to develop successfully, to respect human rights better, to get on well with Taiwan, to be nicer to the Tibetans, to control carbon emissions and so on. Despite that I think it is fair to say that the big three countries do not cooperate very well in China; they are obsessed with their own immediate short-term commercial interests. They compete against each other in Beijing for the best contacts, the best contracts and so on. They do even undermine each other to some extent. For example, in 2007 when Mrs Merkel met the Dalai Lama and got into trouble there was not much solidarity from the British or the French. Everybody in the German Government tells me—I do not know whether it is true—that Sarkozy phoned up Wen and said, “The Germans have let you down but we can be your best friend now”. Even if that is not true, people in the German Government at high levels believe it is true. Then of course recently when Sarkozy got into trouble many people in Brussels believe that he himself handled it rather badly with the way he met with the Dalai Lama in the autumn and again there was not a lot of solidarity from other EU countries.

Mr Charles Grant and Ms Isabel Hilton

Ms Hilton: After Mrs Merkel did get into trouble over seeing the Dalai Lama the Chinese made a great deal of noise about how damaging it would be to German/China relations. The head of the EU/China chamber of commerce in Beijing went back over similar rows to see they had in fact impacted on bilateral trade in the country concerned and in fact there was very little trace of any effect. The Chinese are extraordinarily pragmatic; if they want to buy something they will buy it but they do succeed in convincing the pale and trembling businessman that all contracts will be lost if their political leaders do not put their interests first. I think we could be a little bolder on this and I think it really is in the EU’s interest that China becomes a solid legal state. China makes much of non-interference in other countries’ internal affairs. However, it thinks nothing of publicly rebuking a European head of government or head of state for what that head of government or head of state does in his or her own country. I think it should play both ways.

Q102 Lord Jones: What is the current state of the institutional framework for the conduct of EU-China relations? How well do the summits, dialogue mechanisms, technical agreements and programmes meet their aims?

Mr Grant: I think the relationship is not what I would call strategic. By that I mean firstly it is mainly about economic issues; secondly I would say it is not very focussed on a small number of priorities; thirdly it is not very focussed on the long term. This is not a problem so much for the EU-China relationship; it is a problem for the EU’s relationships with everybody (for example the EU-US relationship, the EU-Russia relationship). The current framework, as you know, is that there are annual summits. The one last November was cancelled but it has been re-arranged in Prague and there is going to be another one in the autumn so we have sort of caught up. The Chinese are practical and pragmatic and they will catch up when they want to catch up. There is this new body created which I referred to, the high level mechanism, which brings together the Commission with the Chinese Government. I think the Chinese quite like the Commission because the Commission quite likes China and Barroso is quite good with the Chinese. How effective is all this? It is not strategic therefore it is less effective than it should be, but as well as the summits there are also these dialogue mechanisms on a whole number of subjects. I think there are roughly 30 platforms in the technical jargon used by the Commission on subjects such as social security reform, lots of things on carbon emissions, energy security, various sorts of industrial collaboration in particular sectors, social problems, health. There is a huge number of these dialogues and platforms which bring together civil society and I suspect that some of...
them are quite useful just for promoting contacts between Chinese people and European people. I wish that there was something a bit more focussed. The EU is very badly organised for dealing with China. One problem has been that a lot of different commissioners in Brussels all go to China and do their own thing; there has not been enough concertation. That has got better in the last year or two because Barroso took charge and set up these high level mechanisms and I think it is more concerted now than it was. The Commission, of course, does not talk to the Council very often; that is a problem which the Lisbon Treaty will hopefully rectify if it ever happens. Solana himself has no senior official covering China. This is very sad. He has his priorities—the Middle East, Africa and the Balkans in particular—and for all sorts of complicated bureaucratic reasons he has never been able to appoint a very senior person on China which I think is regrettable.

Q103 Chairman: Do you think he has a wish to and the institutional framework stops him from doing that?
Mr Grant: I must be careful I do not go beyond my expertise here, but the whole issue of personnel appointments in the Council is very complicated and particular jobs tend to have particular national flags on them. So if Solana wishes to appoint a particular person for a particular job, it may be one particular country has the right to appoint that person and if the country offers a person who is not very good Solana can actually decide to say no and keep the job vacant rather than appoint the wrong person. I certainly know of examples where that has happened. It may be the case in China but I could not really comment in detail on that.

Q104 Lord Chidgey: Mr Grant during your responses on a number of occasions you have referred to the Chinese liking the EU and the EU liking China which tends to illustrate that there is a sort of personality issue here, that individuals can do business with individuals in China which is something which is quite intriguing because it infers that there is stability within the Chinese side of the negotiations or discussions which is sometimes matched but otherwise not matched by their EU counter-parts. How important would that be? Or does it exist at all? Is it just bureaucracy or is it really a question of personalities gelling and able to look at the wider issues as representatives of the Chinese Government and the EU?
Mr Grant: There is always stability on the Chinese side because they do not kick out the ruling party too often. The Chinese do attach great importance to long term relationships that they build up with individuals. They got to know Barroso when he was Portuguese Foreign Minister handling the Macao negotiations long ago. They got to know him and trust him just like they got to know and trust Chris Patten having initially disliked him intensely when he was in Hong Kong. In more recent years when he was the EU External Affairs Commissioner they did like Fat Pang, as they called him, a lot. I think these relations are important which is why I would not say, despite my earlier comments on the importance of unifying EU policy, that the EU should replace the Member States in dealing with China at all. This is the EU itself does not have an awful lot of expertise in certain areas, particularly the strategic side of dealing with China. If the French or the British or the Germans or the Italians go to China they can bring more to the party. My point is that they should speak to EU policy and support EU policy rather than try to undermine the other EU countries. Again some of the individuals in particular countries, for example Chirac and whatever you think of Chirac the Chinese knew him for a long time and they trusted him and he could be relied upon to bat for their interests which he did very well, as did Schroeder. They do like individuals that they get to know over a long period.

Q105 Lord Chidgey: Could you tell us who you feel fulfils those roles now or might do in the near future?
Mr Grant: The leaders of the three big European countries now are not people who have known China for a long time. Gordon is the one who has not upset them greatly; Merkel and Sarkozy obviously have both upset them on the Dalai Lama front, although Merkel is now forgiven and has been rehabilitated and the Germans are now winning contracts again. Sarkozy has not yet been rehabilitated; the French spat with China has not yet been solved which is still creating difficulties for the EU’s overall relationship with China.
Ms Hilton: One of the big problems with Sarkozy is that they find him unpredictable; the Chinese do not like that.

Q106 Lord Hamilton of Epsom: Mr Grant, you mentioned that the Chinese were an unelected elite. The EU Commission would have a lot of knowledge of being an unelected elite. When they come to lecture the Chinese on democracy, do the Chinese come back and say, “Well, when it comes to institutional change in Europe, the Commission and everybody else in Europe seems to be extremely reluctant to allow the people to actually have any say”. That is what I would be inclined to say if I were Chinese.
Mr Grant: I have not heard the Chinese say that. I have heard the Chinese lecture Europeans on the stupidity of being democratic. The Chinese believe that the reason why the EU is sometimes protectionist against their exports is because the Commission—like the Member States—does have to
listen to public opinion, does listen to industrialists and trade unionists who demand protection and I have heard somebody quite senior in the Chinese Communist Party say, “We worry that your democratic system prevents you from modernising your economy and we worry that your economy will continue to decline because you give in to public opinion on protectionist issues”. I have heard them say that.

Q107 Lord Jones: What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?

Mr Grant: I think serious negotiation between China and the EU started in 2007 on this new agreement. I am told they are about half way through on the substance which means that we might expect to see a conclusion to the negotiations in 2010. These things always take a long time. I am also told, talking recently to people in Brussels, that there is a distinction between the economic side and the political side. On the economic side the Chinese are giving away nothing but the EU hopes to use this negotiation to get the Chinese to open up their markets, as we have discussed already. I am told that the Chinese are not yet giving anything on that. There has been a bit more progress on the political side. There has been a long discussion on human rights; there is always a human rights clause in these agreements between the EU and third parties. What I am told by one official is that the Chinese will eventually agree to a human rights clause so long as we give them all the wording they want on Taiwan which the EU is reluctant to do but probably will do in order to get the whole agreement moving forward. I think, despite the cancellation of the summit last autumn, these talks are proceeding and I guess to some extent the process of the talks is itself a good thing because it just brings the two sides into contact with each other and helps us to understand each other better. It is an awfully painstaking and laborious task to push through one of these agreements.

Q108 Lord Jay of Ewelme: I was very interested in what both of you were saying about global governance and China’s attitude towards global governance. I have one question following up on that if I may. Do you think that the Chinese would be tempted into some kind of G2 whereas in effect the US and China, the two of them, were an active motive force for global governance? I understand that the Obama administration was considering a little while ago the idea that the major emerging markets group might be shared jointly by China and the US. I think they have moved away from that now, but can you see the Chinese being tempted to that sort of format?

Ms Hilton: Certainly on an informal basis this is a very, very powerful partnership in which there are very strong mutual interests. As you know, China holds US debt in very large quantities. They both have a powerful interest in the stabilisation of the world economy. There is simply no prospect of progress on climate change without the US and China and that has been a dialogue which has essentially been stalled for eight years under the Bush administration and is now opening up very rapidly under Obama. Under the Bush administration the high level strategic dialogue was a treasury driven initiative and relations were fairly good at that level. It is now becoming a much wider political conversation and it remains to be seen how, in the Obama administration, the balance between state and treasury and other aspects of government will play out. I think that on both sides there is a renewed interest in recognising that in the global dialogue, this is the one that counts. The Chinese are still quite nervous of the Obama administration and are waiting really to see what it is made of. They know that with the Bush administration they could hide behind Bush’s reluctance to act on many fronts. They knew that Bush’s foreign policy was distracting the United States to China’s advantage; China managed to fill a lot of space that the United States was not able effectively to occupy under the Bush administration and gained a great deal of influence in the process. I think they now recognise that it is time that this becomes a more explicit dialogue. Whether that becomes G2 we will see, but in effect it would become G2 I think.

Mr Grant: I agree with all that. I just think we have not yet got to the stage where the Chinese are prepared to acknowledge that they are world leaders. They still like to benefit from the idea that they are an exploited developing country that has been screwed by the West in many ways for many years. It would be great in a way if they could think of themselves as part of a G2. Incidentally, I have been in Russia recently and the Russians have a massive fear of this G2; it is a big thing dominating what Russian leaders are saying now, that this G2 is an awful idea and why do the Russians and the Europeans not get together to prevent this G2 running the world. The Russians seem to think that the Europeans will happily join them in that task.

Q109 Lord Jay of Ewelme: Following on from that, how do you see the developing US-China relationship affecting the EU-China relationship? Do we just follow along in the wake? How does that affect us on foreign and defence policy, for example?
Mr Grant: When China and America are getting on badly that creates problems for the EU-China relationship and if they get on well then that reduces problems. If China and America get on badly that creates divisions amongst Europeans by definition because some European governments always want to keep America happy. We saw this in the arms embargo row which was five years ago when the EU chopped and changed several times as to whether it was going to lift the embargo or not. In December 2003 it said it would lift the embargo and then the Americans got heavy on the Brits and other members who were just joining the EU (the Poles and the Eastern Europeans) and then we could not lift the embargo after all because of American pressure. On Taiwan also that is an issue that divides the Europeans and when the Americans are having a strong disagreement with China on Taiwan that creates divisions amongst Europeans. If China is getting on well with America then that is not so much of an issue. In general the Americans think the Europeans are too soft on China and they are prepared to compromise their principles on human rights in order for commercial benefit. That is a general American view, particularly in the defence department there is a view that Europeans will do anything to sell to China and disregard all the rules and principles they should follow on impeding the transfer of sensitive technologies. Having said that, so long as America and China are getting on fairly well I do not see why the Europeans and Americans should not work together on China. In fact one of the good outcomes of the awful business of the arms embargo and the disagreements that the Europeans had amongst themselves is that as a result of that the US and Europe set up a strategic dialogue on East Asian security in order to talk more about these issues. I think Europeans did learn a lesson and after that 2004 row more European governments started to understand that China was not just a market, it was also a strategic actor, a rising power and that they needed to consider those factors as well as the economic side of their links. The more the Europeans think strategically, the easier their relationship with the US on China. However, the transition from Europe as being a player that sees China in economic terms to one that sees it in more strategic terms is very slow and very hesitant.

Q110 Lord Anderson of Swansea: You stated that China’s self-perception was still to some extent that they were part of the non-aligned group, that they were the victims of an international system and they are still not fully adjusted to their weight in political and economic terms in the world. Is it the view of both the US and the European Union that they should be encouraged to punch their weight in terms of their foreign and security policies? Or is there a certain caution and hesitation if they were to do so?

Mr Grant: I think the US has some hesitation and there are different views on the US. The predominant view throughout the Bush years (Bush the second years) was, I think, fairly positive on China, to engage it and hedge; hedging means trying to form alliances with some of China’s neighbours in case it turns nasty. The more right wing Republican focus on containment was pushed aside in the Bush years.

Q111 Lord Anderson of Swansea: Now with Obama Kissinger has been brought in to advise.

Mr Grant: I would expect a fairly positive view on China to persist but of course within the US system, particularly in some of the armed forces and the DoD there are those who do see China as a real threat and those who would favour some sort of containment, and those who worry about the consequences of engagement, and those who think that the US should remain the number one power and do what it can to stop other people overtaking it. The Europeans have a different view. The Europeans are all happy to see China emerging as a new power because the Europeans are not as obsessed as the Americans are about maintaining the supremacy of US power.

Q112 Lord Anderson of Swansea: The National Intelligence Commission report showed a recognition in the US policy makers about the rise of China. Do you think that the Obama administration will have a substantially different perspective? Does this mean that there will be a convergence of views between the European Union and the US in terms of the Chinese power?

Mr Grant: It is too early to say I think.

Chairman: That is a fair enough answer; we will revisit it in due course.

Q113 Lord Hamilton of Epsom: When Europe comes to deal with China should this be on the regional and international basis? Clearly European countries meet in global forums such as the UN, presumably the EU cannot meet China through the UN, can it? Is it about individual countries or is the EU able to do that as a collective organisation? What is the role of regional organisations such as the ASEM process in terms of institutions of global governance and promoting the EU’s objectives?

Mr Grant: I think the Chinese are more sympathetic to regional governance than global governance for the obvious reason that they can dominate more and America is not involved. So the Chinese are very keen on the ASEAN Plus Three format and the East Asian conference (the one that has India, Australia and New Zealand in it; I forget what they are all called). It is also quite keen on the Shanghai Cooperation Organisation as well. What these bodies have in
common is that the US is not involved and China is the biggest fish in them. I think they are generally more sympathetic. The EU does take part in the ASEM meetings, these regular Asia-Europe summits which do not, I think, achieve very much. A lot of people turn up and have a sort of party for a weekend but there are so many people there that the Europeans often do not send their top people and I think the Asians get rather offended about that. I think the Europeans should encourage regional cooperation, encourage China to take a strong role in regional cooperation because even though it is not the same as global governance the Chinese sort of getting more involved in these regional bodies helps to socialise them into their neighbourhood, helps to create trust between them and their neighbours which I think is all desirable. I think the Europeans should say yes to as much regional cooperation as possible. I think the Americans should not be quite so sensitive about bodies being created of which they are not members. They should just get used to the fact that they cannot be members of everything.

Q114 Lord Hamilton of Epsom: You are talking about the Europeans; are we talking about the EU as an institution or are we talking about individual European countries?
Mr Grant: I think both.

Q115 Lord Crickhowell: On regional cooperation and influences, my question is not so much directed at the European aspect; you have already referred to the important influence in Afghanistan and the potential influence in Pakistan. Pakistan is a terrible threat to everything at the moment. Do you think that China is capable of playing a role in providing more stability into Pakistan’s situation?
Mr Grant: I do not know enough about Pakistan to answer that question.

Q116 Lord Crickhowell: You did refer to it earlier which is why I wanted to follow it up.
Mr Grant: I have looked a bit more at the situation in Burma and in Iran and in Afghanistan (again I know very little about Afghanistan) and in Burma and Iran China has the ability to make change. I believe that if China got serious about leaning on the Iranians with the Russians there is a significant chance that Iran would change the policy on its nuclear programme. One of the most interesting negotiations between the Chinese and the Europeans in the last five years has been the slight shift in Chinese policy on Iran. Five years ago the Chinese were saying, “What have we got to do with the Iranian nuclear programme? We just see Iran as a country where we have to invest in the energy industries and get oil out of it.” That has changed. The Chinese do not like this pressure that the West is forcing them to put on Iran, but they have signed up to three rounds of sanctions and if they got tougher I believe that they would have some impact. In Burma China is the dominant power in the country and Isabel knows better than I do that if China tried it could achieve some changes in Burma.

Q117 Lord Crickhowell: They have not shown much sign of trying up to date.
Mr Grant: Not in a significant way; perhaps in very small ways.
Ms Hilton: On Pakistan I think this is a relationship that bears examination. As you know in the Cold War there was traditionally an India-Russia alliance and a Pakistan-China relationship. Since then China has made enormous infrastructural investments in Pakistan, including the building of a deep water port and pipelines. It is a player in Pakistan. Given the complexity of Pakistan’s problems, whether any external power can be the magic bullet I doubt, but is stability in China’s interest? Absolutely, and there are other things China could do. On Afghanistan the United States was forced to close down an airbase in central Asia recently; that is an area in which China has influence. It is actually an airbase which helps to service access to Afghanistan for United States troops. I cannot believe that in the strategic military dialogue with the United States that these issues were not raised. We may not see much public evidence of this but I would lay money on this conversation being had and it being important.

Q118 Lord Anderson of Swansea: That was Russian pressure.
Ms Hilton: It was Russian pressure but, on the other hand, China carries a lot of weight in that region. If we are looking for allies in US interests or in Western interests in regions it is a conversation to have.
Chairman: Perhaps we can move onto question eight. Could I ask Ms Hilton to go first on this one and then Mr Grant to follow?

Q119 Lord Selkirk of Douglas: I ask this question in relation to Europe and China’s development model in Africa and the developing world. What is the Chinese view of promoting security and development in Africa and the developing world; and how far does this approach correspond to that promoted by the EU? In answering this question can I ask you to confirm if it is your view that China does plan over an extremely prolonged timescale, and also there is a danger of them being under-estimated?
Ms Hilton: Yes, I would agree with both of those things. I think China does plan over a long time scale and I think China’s strategy in Africa is an interesting example of that. Africa is important to China for a number of reasons. We have talked about China feeling locked out of energy markets; China’s
demand for energy is very large and growing. It seeks
other raw materials in Africa. We have discussed this
rather adolescent condition of China’s self-image and
its international image, this notion of “Poor little us,
we are just another developing country”. This has
been extremely useful in Africa where former colonial
powers are not always the most popular and it has
been possible for China to strike a political posture
which is much more acceptable in Africa, particularly
when it was accompanied by explicit commitment
not to interfere in internal affairs. When western oil
companies pulled out of Sudan, China moved in;
when no-one is going to do business with Mugabe,
China does. Loans with no strings attached, support
for governments which are not regarded as the best
by international standards have been no problem for
the Chinese. They are not alone in this. Equatorial
Guinea, a major ally of the United States is hardly an
example of good governance. So one can exaggerate
this and one can exaggerate the importance at present
of the scale of China’s investment and aid for Africa.
European concerns were obviously high on that level.
How do you bring rogue states into line if China is
there with no strings attached money? How do you push forward things like the extractive industries
transparency initiative if China becomes the major
purchaser of minerals and is not interested in
enforcing that? We have seen an evolution of this
position because although China might argue that it
was forced to go to unstable and possibly unsavoury
regimes for what it needed, it is also beginning to
understand that unstable and unsavoury regimes are
not good long term partners. This is a slowly evolving
position but I think it is one that the EU could
certainly encourage China to make more firmly its
own. We should also acknowledge that China, as well
has handing out no strings attached aid, has made
substantial investments in Africa. As a major trade
partner of many African countries it has contributed
to relative African prosperity over the last decade.
Some of the things are probably problematic in the
long run and I would refer you to food security as an
upcoming issue. China and other countries are
buying land and settling in farmers, buying land for
food production which is intended for China. I think
politically in the long run, should food security return
to being an acute anxiety, this could be problematic
for China. Finally, Africa has been a sort of proving
ground, if you like, for China’s first steps in becoming
international business players. We have a curious
situation in China where there are very big companies
which are trying to go global without first exhausting
their domestic markets. This has not really been tried
before. When Japan became a global industrial and
commercial trader it had already exhausted its home
markets. China is trying to do this in one leap. This is
quite a difficult thing to do. China has encouraged,
with financial support and political support, Chinese
companies to set up in Africa and as it were to
practise being multi-nationals. That has been an
interesting experiment and one that is not to Africa’s
detriment.

Mr Grant: I do not think there is a unified Chinese
policy on Africa. Within the Chinese system there are
different views. There is the traditional view which is
that Africa is a developing country; China is the
friend of the developing world in contrast to the
imperialist, arrogant West, we are the Africans best
friend and we do not impose conditionality on our
aid and so on. There is that view which is quite strong
in the Chinese system, but there is a debate and an
argument going on and I have heard Chinese scholars
taking a different view. They say, we do have to think
about governance because whilst we do not want
Africa to be democratic of course, but actually our oil
workers get killed and kidnapped in certain parts of
Africa. This has happened and if various places
dissolve in a civil war this is not very good for the
Chinese investments. So using our discrete, subtle,
gentle influence to push governments towards
thinking about governance is not such a bad idea. I
think at least some people in the Chinese system think
that and of course Chinese companies operating in
Africa do not necessarily do what the government
wants. Chinese companies have their own policies in
Africa so even if the government does want to do
something it does not mean that the Chinese energy
companies will necessarily do it. There is quite an
array of different institutions and organisations with
tentacles in Africa. From the EU point of view, the
main problem the EU has with China and Africa is
governance. EU aid, like American aid, like IMF aid
is conditional and the Chinese really do not have any
conditions except (a) you must not recognise Taiwan
if you get our aid and (b) you must spend the money
in China. That is more or less it. This is where the EU
clashes with China. Again, I am not an expert on
Africa but I think in at least some African countries
there is some resistance and opposition to the Chinese
approach. Although the Africans like the lack of
western style conditionality, for example the Chinese
say is nothing about human rights, they do see the
Chinese companies exploiting their countries in the
way that the Europeans used to do. In fact Thabo
Mbeki did say something a couple of years about the
Chinese behaving in neo-colonial ways. I think the
Chinese have to watch their soft power in Africa.
Overall they probably have more soft power than the
Europeans in many ways and many governments
there like Chinese involvement, but they do have to
worry a little bit. They tend to always focus on the
governments; they do not think about public opinion
of course. They got shocked when they sent a ship of
weapons to Robert Mugabe about a year ago and the
South African trades union refused to unload the
weapons. The Chinese do not really understand this;
they do not have free trade unions. I think some people in the Chinese system do understand that they need to think freshly about how they cope with Africa, engage not only with governments but with other actors too and perhaps think a bit more about governance. I hope there is a bit of a re-think going on but I do not have enough knowledge to say how profound such a re-think is if there is one.

Ms Hilton: I would certainly echo Charles’ point that there is a policy debate and I think as a general point when we look at China from here we tend to see an effective vertical system, untrammelled by questions of public opinion or clashes of interest. This is simply not true; Beijing is always weaker than you think. It is dealing with its tremendous constituency of interests domestically and all sorts of things escape its control. I would just add two more points on Africa in terms of long term relationships which are largely environmental. China now plays an important negative role in terms of illicit extraction of certain natural resources—timber, illegal fishing—and this is a problem of China’s own governance. The toxic combination of poor governance in Africa and poor governance in China mean that all sorts of illicit trades flourish into the Chinese market. On dam building China has traditionally been the world’s largest dam builder. It has been relatively easy to do in China because China has not had to worry about other stakeholder opposition, what happens to populations who are affected or indeed the general debate on the effectiveness of dams. China is now building dams in Africa on quite a large scale and these issues of course arise there: what happens to the people who live there? How are these issues dealt with? What sort of compensation or consideration is paid and how effective are these mega projects? Just looking at the long term possibilities of backlash against China’s operations in Africa this is another area that has potential.

Q120 Lord Hamilton of Epsom: The West has not had great success in Africa when it comes to improving governance and it has now had lots of years to do it in. When it comes to investment in Africa the commercial sectors find it extremely difficult to operate there. It strikes me that the Chinese may actually have a formula which is more successful than ours. On balance would you not think that Chinese investment in Africa was a good thing?

Ms Hilton: I think investment in Africa is a good thing and I do not think we have any right or possibility of obstructing Chinese investment in Africa. If it works it is a good thing. What we are discussing are the conditions under which it might be thought to work and whether it will work in the long run on this model. Time will tell.

Q121 Lord Anderson of Swansea: Some claim that the investment by China is reckless to the extent that it increases the indebtedness of African countries and that we in Europe and the international financial institutions will have to pick up the bill. How significant is this as an effect?

Ms Hilton: It is certainly a concern to the British. The British have been to the fore in the question of African debt and debt forgiveness. There is a great risk of a re-run of African indebtedness and that is certainly a concern.

Q122 Lord Anderson of Swansea: Is that an argument for a greater dialogue between China and the European Union and the IFIs?

Mr Grant: I think it is. There is an EU-China dialogue in Africa, there is also a British-China dialogue in Africa and a French-China dialogue in Africa. I think this is very important because the Europeans might I think agree with what Lord Hamilton said that it is fundamentally a good thing if China invests in Africa but why do we not at least try to collaborate on some issues? Perhaps there are some common issues or common problems like rebuilding war torn countries where we could team up with our complementary skills. The Chinese are good at building roads and railways; we are not very good at that but we do other things. The more we talk about this to the Chinese the better. I do not think anybody wants a great game in Africa between ourselves, the Americans and the Chinese; it would not be good for anybody.

Q123 Lord Anderson of Swansea: Is there an attempt to do just that, to have a degree of dialogue?

Mr Grant: I do not know how far it has got but there is a Commission China dialogue in Africa as well as the various ones I referred to but what result is coming from them I do not know, probably not very much so far but let us hope that they do something.

Q124 Lord Chidgey: Mr Grant, you touched earlier on the Chinese attitude towards the standard of governance in the countries they are investing in or extracting materials from and it seems rather intriguing, it is a sort of dichotomy really. The Chinese wish to have a fairly stable sort of government and yet on the other hand they do not want to market it because it tends to upset the troops, so to speak. There is a great deal of intellectual and other investment going into African states from the West to try to improve the strength and good governance and rule of law through institutions such as the African Union and its projects and NEPAD which you are probably aware of. How is China playing this? Does China recognise the influence of the African Union in trying internally within a
constant to resolve conflicts and poor governance or does it like to keep out of it?

Mr Grant: I think the Chinese have not been very good at engaging with the AU. The EU has given money to the African Union to help it train peacekeepers, for example, but as far as I know the Chinese do not have much of a relationship with the AU but I may be ill informed on that. I think they tend to focus on national governments in Africa. There have been examples where they have undermined the EU’s efforts to promote better governance. There was an occasion about four or five years ago when Hilary Benn cut off aid to Ethiopia because of human rights abuse and the Chinese stepped in and matched the cut off aid pound for pound. In Angola equally there was a time when, to avoid IMF conditionalities, the Angolans went to the Chinese instead. I think there are examples of the Chinese directly undermining western efforts to promote better governance. As we have both said, there is a debate going on within China; I think many people in China are taking a somewhat different view now. Of course let us not forget that a lot of Africa is actually democratic to a greater or lesser degree and the Chinese have to accept reality. Many countries in Africa hold fairly free elections these days.

Q125 Lord Selkirk of Douglas: Mr Grant, you used the word “neo-colonial” and think we all know what you mean by that, but for the sake of clarity can you make clear to us exactly what you meant in today’s context by the use of that word?

Mr Grant: It is partly an attitude: many African governments and people claim that western countries are arrogant and patronising when they deal with them. It is partly a policy issue which is that western institutions and governments tend to apply conditionality when they give aid. The Chinese claim—I guess rightly—that perhaps in those two respects they are different from the Europeans.

Q126 Lord Selkirk of Douglas: In other words there is an element of exploitation.

Mr Grant: Yes.

Ms Hilton: Can I just say something in general terms about the risk that that charge could be levelled at China? We do already see a reaction in Latin America and in Africa, over the pattern of trade which is essentially the old Manchester model: we import raw material, we export cheap manufactured goods, to the detriment of local industries. That is what Chinese trade substantially is and that is also noted.

Q127 Chairman: How does the EU’s policy on promoting the rule of law and human rights, including women’s rights, and its advocacy of political pluralism, freedom of expression and civil society interact with its broader foreign policy objectives on China? What is the priority, scope, content of the bilateral dialogue on rights and law; and is it meeting its objectives?

Ms Hilton: To take the last point first, no I do not think it is. In terms of the EU’s interests in China it is clearly in the interests of China to promote the rule of law of civic and political rights in China. To take a historical view, when I first went to China in 1973 when I went to university there, there were no human rights and there were no civil rights; there were no rights that the party did not give and the party could not take away, so the broad direction of travel of course is very positive in China and there have been huge improvements in this respect. However, we do seem to have got a bit stuck and I think you could do more to move this on. China has signed but not ratified several international conventions; the EU continues to urge China to ratify them but no progress is made. The EU does have benchmarks on its expectations of China in human and civil rights but it does not really seem to have any timetable for achieving those benchmarks and it does not seem to have any mechanism to deal with failure to achieve those benchmarks. I think that there is a general timidity in trying to move the agenda forward and a sense that China will react in negative ways. On the positive side I think that both the EU collectively and individual EU countries have made a considerable contribution to assisting China in building a legal state. There has been a very active dialogue. Certainly in the recent past there was a very active track two engagement on the death penalty. This has not yet of course resulted in the abolition of the death penalty but there is at least a constituency in the Chinese judicial establishment which is in favour of the abolition of the death penalty. Other contentious issues include the use of labour camps, of reform through labour which is an administrative measure which is taken without reference to accord and which an individual can be sentenced for up to four years hard labour. The EU continues to press China to abolish this without result. There are many areas in which no progress has been made for five, six or seven years and I think the EU should be more robust, as I have said.

Q128 Chairman: If you were running this policy what would you say the EU should do to make it more effective or should it just accept that this is a token argument, it is not going to get anywhere and therefore it needs to talk about it but get on with the real business of the relationship?

Ms Hilton: I think the real business of the relationship is the rule of law and I think that if we were to frame it in those terms we could benefit from the fact that China is committed to building the legal state. Joining the WTO was very important in that; you cannot do business if you do not have law. Once you
have law citizens can begin to use law. If you go into any Chinese bookshop there is a tremendous shelf of books with titles like How to be your own lawyer. In the absence of the possibility of political action, which is effectively not available to Chinese citizens, the law is a very interesting instrument. China has many statutory rights which are not defended by the state but citizens have begun to reach for the law in order to try to assert these rights and in order to try to defend them. It is pretty tough because the Chinese legal system is, as I say, a work in progress.

Q129 Chairman: What is the most important thing that Europe should do to make this agenda real? Ms Hilton: I think Europe should bundle the human rights conversation into the legal conversation because that gives the European Union grounds on which to stand; this is something to which China is committed. Much of trying to engage China on these issues is about language and the question of human rights sends up all sorts of rather negative static. Once you get into a conversation about human rights in China you get into non-interference and you get into the record of the West in Guantánamo, of torture, of all these issues and it becomes an extraordinary sterile exchange of: “You’re not better than we are”. If you put it into a technical area and you can describe it as a technical area, you can help to build institutions whereby the Chinese themselves who, after all, have an interest in human rights and in the rule of law, can take that on and eventually what will make this happen in China is not what the EU thinks or does or says to the Chinese, but what the Chinese citizens are inclined to do for themselves and that is where we can help.
Mr Grant: I totally agree with everything Isabel says. Of course the Chinese leaders know that their long term economic development depends on greater respect for rule of law. They know that so it is very hard for them argue against it if the EU focuses on the rule of law. The EU does have programmes to train prison officers and judges and things like that which are probably of direct benefit and I think we should absolutely focus on rule of law rather than use the words “human rights”.

Q130 Lord Anderson of Swansea: Presumably they will understand in the commercial and business world that the rule of law means the honouring of contracts, an impartial arbitration procedure, the protection of minority shareholder rights and so on. To what extent do you hear British and European businessmen complaining about the lack of rule of law in those relationships?
Mr Grant: They do complain about it but as Isabel as already said the courts are getting better and you now hear that some western businesses fight on IPR or other cases in courts and sometimes they win. I think there is a positive trend in the way the legal system is developing.

Q131 Lord Anderson of Swansea: The Chairman mentioned women’s rights. Is there any serious discrimination against women?
Ms Hilton: There is no political discrimination against women but if you look around the senior leadership in China you get a picture, rather as you do in this room, of not very many women.

Q132 Lord Selkirk of Douglas: How successful has the EU been in encouraging Chinese participation in international conventions and institutions in this area, such as the International Convention on Civil and Political Rights; and the United Nations Human Rights Council?
Ms Hilton: The UN Human Rights Council I think has been a bit of a washout all round, partly because of its structure. In a previous iteration of that body there were regular efforts in which the EU used to support to try to bring resolution on human rights in China. I do not think it ever got to the table and it made no further progress on the convention. On China’s participation in things like the International Covenant on Economic, Social and Cultural Rights that has been signed and ratified. The ICCPR has been signed but not ratified as I recall and the EU has really failed to get China to move forward on that.
Mr Grant: It has really tried. When the arms embargo row was happening in 2003 and 2004 they actually said, “If you ratify this convention then it is easier for us to lift the embargo” but the Chinese did not; I do not really know why they were so reluctant to do it but they did seem to be very reluctant.

Q133 Lord Anderson of Swansea: China appears to be fairly consistent in its foreign policy in respect of non-interference in the internal affairs of other countries, territorial integrity and so on. I am thinking, for example, of their refusal to follow the Russians in recognising South Ossetia. Are there any exceptions to this policy?
Ms Hilton: I think the question of non-interference is a rhetorical one. The point has been made that if you have relations with an illegitimate government you are interfering in the internal affairs of that country. You are certainly having an influence in the internal affairs of that country. Part of the evolving discussion on Chinese foreign policy in the real world as opposed to the symbolic and rhetorical world is a recognition of that. I think it is slow but I certainly think it is coming, and that is to do with long term real interests as we have discussed. In terms of recognition of breakaway states, after 1989 in Europe China recognised all the emerging states including Yugoslavia. Part of the caution in terms of recognising newly independent states refers to
China’s internal situation and the extreme tensions with Tibet, Xinjiang and Inner Mongolia. China’s national and international story is that China is the oldest continuous civilisation and China is today as it always has been. This really does not bear very much examination in terms of history. China is twice the size that it was in 1644 at the fall of the Ming Dynasty. It is a land based empire of relatively recent date in its current form and those contents are present.

**Lord Anderson of Swansea:** The dissident territories of the non-central territories be it Hong Kong, Macao, Taiwan, Tibet and Xinjiang—are relevant to its external relationships. Can you say generally what is happening there and what is the relationship with the Chinese Government? Is it changing positively or not?

**Q134 Chairman:** Perhaps I could also bring in the next question which I think goes well with that, that is how is the EU should react to that or the effect that it has on EU relations as well. Perhaps we could roll that into the same discussion.

**Ms Hilton:** You mentioned Hong Kong; I think there are no particular problems there. There have been issues over legal jurisdictions but I think Hong Kong on the whole is a success story. Taiwan is in rather a good phase, particularly since the recent elections in Taiwan which brought to power Ma Ying-jeou, of the Kuomintang, who pretty much see the Taiwan issue oddly enough in the same way as Beijing does. They are, after all, the former rivals in the civil war so they have a view that it is one China, and they are not part of the Taiwan independentist movement which has, on the whole, rather quietened down. The Chinese have taken a long view of Taiwan and I do not think that anyone sees it in their interests, provided Taiwan does not do anything to change the international legal order that this should become a military issue despite having given themselves the right to invade Taiwan if they wish. I think they hope for this to be a stable and maturing relationship; they have a very close economic relationship with Taiwan and for the moment that is not an area of tension. I could not say the same about Tibet and Xinjiang. Tibet in particular is in a very unhappy situation. As you know there was a major uprising throughout the Tibetan territories in March of last year and Tibet is effectively under military occupation at present; 10 March marks the 50th anniversary of the uprising which led to the exile of the Dalai Lama in 1959. The Chinese government recently issued a White Paper on Sino-Tibetan relations which was the so-called 17 point agreement for the peaceful liberation of Tibet which was negotiated after the Chinese military occupation which gave a kind of one country, two systems status to Tibet. It broke down, for reasons we need not go into, but given the success of one country, two systems in Hong Kong and the de facto one country, two systems in Taiwan, one might have hoped that this could be applied. I think if the EU has a role to play it might be to encourage that and I think that the EU should certainly take a robust view of the Chinese management of Tibet. I do not think there is any prospect of independence for Tibet or for Xinjiang; they are strategically important. Tibet sits at the headwaters of the rivers on which China depends. Even if it were not a question of minerals the question of water supply for China, which is one of China’s most acute and serious long term issues, is bound up with the fate of Tibet. So independence is off the map. However, there is a great deal of autonomy that could be given to Tibet without going that far.

**Q135 Lord Anderson of Swansea:** Do you think they have gone too far for that? They have demonised the Dalai Lama; he may die within a reasonable period. He seems to have moved beyond what some of his constituents might want; do you think there is any prospect at all of an accommodation?

**Ms Hilton:** The experience of the rather slow talks of the last five years has been extremely discouraging and I think the Chinese are missing a political opportunity here because if there is a moderate voice in my view it is represented by the Dalai Lama. There are also very few people—I cannot think of another one—who would be able to deliver both the exiled constituency and the domestic constituency in Tibet to any agreement that was negotiated. With his eventual loss—we all know how old he is—the Chinese will lose that opportunity and I think they believe that with the loss of such an important figurehead their problem will diminish because he plays such a big role in raising the international profile of the issue. I do think that is a mistake; if you have the option of a moderate and effective interlocutor this is rather a good opportunity and I
would hope that they come to understand that. Again I think that the EU should be clear on that point.

Q136 Lord Swinfen: Is there any danger of fundamental Islam from Afghanistan or Pakistan causing trouble?
Ms Hilton: There is, and again Xinjiang suffers very tight control by the Chinese authorities. I think one of the political problems which is likely to precipitate that sort of reaction is that China essentially mistrusts local cultures and mistrusts local identities. In China’s now centuries old search for a modern political form the dominance of Han culture has become an instrument of state to the detriment of other cultures within the country. To the degree that both religion and culture have been seen as vehicles for local nationalism, the Chinese state has attempted to re-educate; patriotic education is one of the instruments of state and this does, I think, tend to set up very strong reactions. An attack on culture is felt very strongly. There have been incidences—although they have been relatively minor—of terrorism or what has been classified as terrorism by the Chinese state. I have limited knowledge of Xinjiang but what I have encountered amongst Uygurs is not militant Wahabism, but the more frustration there is, the more tempting that option will be.

Q137 Lord Jay of Ewelme: Could you say a little bit about how you see the environmental consequences of Chinese economic development and how effectively do you think that the Chinese authorities are responding to those challenges? I suppose there is a series of linked challenges really which are part of the economic social which leads into political challenges and also technological ones. As a final question, there is a widespread perception in the United States in particular that China is not really doing anything at all about climate change which, in a sense, is also bedevilling a little bit some international negotiations; how justified do you think that is?
Ms Hilton: The Chinese model of development in what has been the biggest industrial revolution ever seen has been pretty much like that of Yorkshire: you get rich first and you clean up later. That has been very much the attitude. However, it became clear four or five years ago that this was not a sustainable position because China simply does not have the headroom to continue with the level of pollution and the level of environmental degradation that the industrial revolution was causing. There was a very stark list of China’s environmental problems delivered by Minister Pan Yue in the Environment Ministry in China who talked of acid rain over 25% of the territory, terrible water pollution, something like 30% of the water that flows through China’s cities is grade four which is unfit for any purpose whatsoever. There is advancing desertification which is a serious problem. There are health issues; there are entire cancer villages in China caused by chemical discharge of one sort or another. There is pollution of very large bodies of water on which large urban communities depend. Air pollution became a high profile issue over the Olympics and they struggle to control that. As a result of this perception that China was not going to go on getting rich if it did not actually make its development more sustainable, the government attempted to balance its development and this became explicit government policy about three or four years ago. Now officially the policy is sustainable development. However, there are a number of problems. If you look at what eventually cleaned up our industrial mess, civil society played an important part in this, an effective legal state played an important part in this; free press played an important part in this. The Chinese remains a very vertical system where Beijing attempts to pull levers which, as often as not, come off in its hand. You get conflicts of interest not only between the very powerful state industries and the state itself in this area, but also between provincial governors who are thinking of their own GDP growth, their own unemployment and you will find a chemical plant can be closed down in one province and it is immediately offered favourable terms in a poorer province further west where they want to industrialise. So it is a very tricky thing to do. The Chinese regard it as an expensive thing to do but at the same time they feel it is a necessary thing to do. As in this country, the environment ministry is much weaker than the Treasury; it is much weaker than the industrial ministry. It does its best. I have not been able to check this, but I was told that in terms of the number of personnel in the environment ministry in China there are more personnel in Mao’s Mausoleum in Tiananmen Square. Clearly this is not a powerful or a particularly effective body. The USEPA has 70,000 employees; the Chinese has about 400 or 500. In addition to that, the provincial environmental protection agencies work not to the national agency but to the provincial governors so they are under the thumb, if you like, of people who have a direct interest in headlining economic growth over environmental issues. That said, efforts are being made; that said, civil society is weak but growing in this respect; it is vulnerable and the Chinese have an ambivalent attitude to it because they fear that if civil society is organised around environment then sooner or later it will organise round other issues as it did in Europe in 1989. There is nervousness but they know that the state cannot do it all. The same is true for the press. The press, when it comes into conflict with state interests, is explicitly censored. When it gets away with it it does really quite a good job of investigating...
and exposing environmental abuses. On climate, I would say that up to about five years ago the Chinese pretty much took the view that the Indian Government had held rather more recently, that it is the West’s problem, and the West can clear it up. However, it is being borne in rather forcefully on China that this position may be rhetorically satisfying but it does not actually save you from the consequences of climate change which, in China’s case, are extremely severe. China is very vulnerable to climate change. It is currently suffering a major drought in north China; this is one of the areas that the UN reports say will get worse: extensive flooding, more violent storms in the south. The most serious issue of all is the melting of the glaciers of the Himalaya. The glaciers of the Himalaya are the source of all the rivers in Asia and 40% of the world’s population. In Chinese terms they are the source of the Yangtze and the Yellow River. This is very serious. Different rivers depend to a different degree on glacier melt, but in Xinjiang, for instance, it is a very, very high dependency. This is a very arid region. Without the glaciers Xinjiang is really in trouble. This is a serious and long term problem which has certainly helped to focus the Chinese Government’s mind on climate change. The essential position is that China is willing to be constructive on climate change and there are many policies the Chinese Government has adopted which have dual use; they are to do with energy efficiency, energy security, diversification of energy supply and they also have utility for mitigation. These are ambitious targets: 25% renewable energy, 25% energy efficiency and so on and so forth. What China will not do is accept caps. It will not accept caps because it argues that it still needs to develop. It does argue that although China overtook the United States as the world’s biggest emitter of greenhouse gases last year, per capita Chinese emissions are a fifth of the United States’ and half those of the European Union. So it says that historically the greater responsibility lies in the developed countries. The greater capacity to address this lies in developed countries and the developed countries are currently addressing this insufficiently. If the developed countries make greater efforts, including the European Union, China will be a willing partner not only in seeking to control its own emissions but also in the development of low carbon technologies and in the area of industrial and technological cooperation where there is much to be gained by cooperation with the European Union.

**Q139 Lord Crickhowell:** The Chairman will remember that when we were on the Joint Committee on the Climate Change Bill—together with Lord Jay—we had some very specific evidence from a representative from the Chinese Government that they were taking this very seriously and wanted to do something about it. I think you have already answered one of the questions that I was scheduled to ask about caps and targets, but what is the scope do you think of the EU’s environmental cooperation in assisting China and helping it to mitigate the damaging consequences about which you have been speaking?

**Ms Hilton:** I think there is tremendous scope and I think there is tremendous scope for technological cooperation. There is an investigation going on currently by a group of researchers in Europe and a group of researchers in China on the idea of low carbon zones, for instance. The idea would be to create low carbon zones, to pioneer low carbon technologies which would be of use. The EU is cooperating at the moment slightly ineffectually on carbon capture and storage experiments. One of the problems with policy right now is that much of it is dependent on clean development mechanism and carbon trading and, as you know the carbon price is currently on the floor. This means that this has effectively come to a halt so one of the key mechanisms for investing in low carbon technologies and in mitigation in China is currently looking pretty ropey. One thing the EU could do would be to do something about the carbon price and this is something that governments absolutely have to do to make the system work.

**Q140 Lord Crickhowell:** I have to declare an interest at that point because my son is a major player in Climate Change Capital and pays frequent visits to China and indeed was in China last week. It has not entirely come to a standstill. He was in China dealing with a scheme under emissions trading but, as you rightly said, the world economic situation, the fact that nobody is investing around the world in new plant at the moment means that the price has gone through the floor and there is a real problem. **Ms Hilton:** It makes most of these projects uneconomic.

**Q141 Lord Crickhowell:** Yes, but it is not only problems affecting China, it is affecting the whole working of the emissions trading scheme in Europe and elsewhere. It is going to be a major problem. There are contradictions still, are they not? They are and have been doing quite a lot of these schemes I have described; they have a large nuclear programme but they have still been building coal fired power stations on a massive scale so that at times Hong Kong is almost uninhabitable because most of those
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coal-fired power stations are just outside Hong Kong and the fumes and the pollution pours over. Do you see any sign that they recognise this problem, this dichotomy, that it is not just enough to do the nuclear things and make some improvements to existing polluting plants, but they really have to stop a huge number of coal-fired power stations using the worst sort of coal?

Mr Grant: Of course they are going to go on building coal-fired power stations because they need the power.

Ms Hilton: And they have the coal.

Mr Grant: There is no doubt that China will become a much bigger producer of carbon in the atmosphere than it is now. Whatever happens to the world’s climate China is going to be pushing out a lot more carbon. I wanted to make a point about the EU. The EU does have a whole number of schemes to transfer technology to China on climate change but the Chinese are not very enthusiastic about it because it uses energy less efficiently than other sorts of power generation. There is no more important issue in the EU-China relationship than climate; it is the single biggest issue. I know that when European leaders—not just Barroso—when they go to China they say that this matters more than anything else because we all know that without China there can be no effective global system. There is a serious risk of Europe getting protectionist on this issue. Sarkozy has called for carbon tariffs against exports from China if China refuses to accept limits on carbon emissions. I am not sure if there would be much support from other Member States, but some Member States would support it. The openness of the whole global economic system depends on getting China signed up for something. My guess is that on so many other foreign policies we talked about they will not perhaps agree to quantitative caps that we have discussed but they will agree to something. Wen has indicated that he will agree to something because he will want to keep the rest of the world off his back. They will do the absolute minimum to make sure that there are no economic penalties imposed on China and they will do no less than that; they will probably do the minimum in the long run I would suggest.

Q142 Lord Crickhowell: Possibly the fact that the American administration seems now likely to develop an emissions trading body will reinforce and help rescue the present European scheme and the problem that it is facing. It may make it easier for China if we really have a sort of worldwide system developing rather than a purely European one. Do you agree?

Ms Hilton: I certainly think that the change in position of US policies is very important but I was in Poznan last December, talking to the Chinese delegation You will recall that at the same time as Poznan the European Union was having its own energy summit in Brussels. What the Chinese complained about in Poznan was that they had come with several proposals on various aspects of the potential Copenhagen Treaty including financing for adaptation and finance mechanisms for mitigation and they had had no reply at all. At the same time the European Union was busy making concessions to Poland on coal and making concessions to industries on permits. China has coal; China has an energy problem. Although China is building coal-fired stations—and this is extremely worrying—they are super critical these days and they are closing down the old plants. They have plans currently to close down one-third of the sector. This is substantial. The economic downturn is assisting them in this respect; the demand for power has fallen quite dramatically because of the slow down so there is an opportunity to do this. As Charles says, they are sceptical about CCS; I have to say that I share that scepticism. I think the technical challenges of CCS are formidable and it will not happen for 20 years. However, where they are being extremely proactive are in things like wind and solar power and of course in hydropower which is rather more problematic.

Q143 Chairman: I think at that point, if Lord Swinfen will forgive me, we have talked quite a bit about the energy side and I am warned there is likely to be a vote in the next few minutes so perhaps we could bring the session to an end at that. We have had a very, very good tour of all the issues here and unless there is anything that either of you specifically want to say that has not really been brought up.

Mr Grant: There is just one very final comment from me. We were discussing the responsibilities to protect earlier and the principle of non-interference, and I do think there is a real shift going on in China’s thinking on this. Let me give you a very brief quote, an important quote. A guy called Feng Zhongping, a Chinese scholar I greatly respect, says on the question of Chinese not wanting to interfere in other countries, said about the change, “It is so slow, we look at this case by case, there are not going to be any revolutions, we are not going to say we scrap the principle of non-interference but in practice we are changing it, bit by bit pragmatically” and they are. Look at what they are doing in North Korea and Iran and so on. They are actually beginning to interfere in other countries’ affairs but they will never see the principle; they will just do it in practice. I think that is a very positive development.

Q144 Chairman: Ms Hilton, was there anything else you wanted to say?

Ms Hilton: I would just like to stress the point that has been made about climate and the European Union. One of the things that concerns me about the Chinese
position here is the question of stabilisation targets. As you know we have signed up to 450 parts per million; the science now says 350ppm. The Chinese do not believe that 450 is achievable and they think they can live with 550. I think this is really quite worrying. However, in order to move that, they look to the European Union to have the courage of its convictions. We will get a much better response from the Chinese if we are seen to be vigorous in our own territory.

Chairman: That is a very strong comment, thank you. Can I thank you both very much indeed for the long time that you have given us. This is a really very important study as far as the House is concerned; thank you for participating in it.
Present Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Inge, L
Jay of Ewelme, L
Jones, L
Selkirk of Douglas, L
Symons of Vernham Dean, B
Teverson, L (Chairman)

Examination of Witnesses

Witnesses: Professor William A Callahan, University of Manchester; and Professor Rana Mitter, University of Oxford, examined.

Q145 Chairman: Professor Callahan and Professor Mitter, may I welcome you very much to Subcommittee C. If I could just perhaps go through one or two things. First of all, this is an evidence session which is live and is webcast. We also take a record of proceedings and you will be sent a copy of that so that it can be corrected as and when, or if, it is incorrect. What we have done is to ask individual members of the Committee to pose particular questions to you and, as I think I mentioned to you outside, if whoever wants to take the question or lead on it, please work that out between yourselves, and if the other wants to come in, then that will be fine as well, and no doubt there will be a number of supplementaries. We normally give witnesses an opportunity to make an opening statement. I do not know whether you feel that is necessary or shall we just move into the questions?

Professor Callahan: Straight into the questions is fine.

Professor Mitter: That is fine by me.

Q146 Chairman: What we are trying to do particularly in this session is to understand what China wants, specifically from the EU. That is the overall context of what we are trying to achieve today, to understand what China as a nation wants, particularly from the EU. To start that off, China was once regarded as having a ‘world view’ that was different from that held by other societies or states. Does China still think in world view terms; and what is distinctive about its own perspective?

Professor Callahan: Thank you, Chairman, I am very happy to be here. In China there are lots of views of the world right now. There is lots of debate going on. In the West we usually hear about the liberal world order and about how China is engaging in the world and being more multilateral than before, but there is also a lot of interest right now amongst academics, and some policy-makers, about reviving imperial Chinese concepts of the world that generally placed China at the centre of the world. Rather than being multilateral and egalitarian, this world order is very hierarchical, and it is usually seen in terms of China as the centre of civilisation and other places as barbarians of various degrees, depending on how close they are to China. What is interesting is that among academics there is a growing consensus that China’s ancient world order, which is often very romanticised, was a moral world order that is seen as superior to the current world order, the failing world order of equal nation states in the international system, because a lot of Chinese academics look at the world and they see that this is a problem of the West, it is a violent and selfish world order of competing nation states and that China can contribute something—its moral world order—to solve all these problems. Of course that has lots of problems in and of itself. I think that this side of the debate has some implications for the grand strategy in China because it signifies a shift from Beijing embracing current international rules and norms to something else, which puts pressure on Beijing to think about how there should be a Chinese-style world order, because China is a growing world power so it should have normative power as well as military power. You can see this in some aspects of Beijing’s current policy of promoting a harmonious world, because that can mean lots of things, and one of the things it can mean is promoting a traditional Sino-centric view of the world.

Professor Mitter: Thank you very much for giving us a chance to speak to the Committee. I hope that what we say will be useful. I would not disagree in any way with Bill Callahan’s very useful summary there. I think I would add a few comments that I might say were at 90 degrees to it, so to speak. I think it is absolutely right that one of the things that is most notable about the China of today, by which I mean really since the late 1990s or even the 2000s, which is the very current scene that Bill is talking about, is that there is a revival of interest in what China used to be as a way of informing the way that China might be
today and in the future. That being said, I think I would want to add one major point to what Bill has said, to keep, a balance in our minds as to how China thinks of itself. I think that is something that does differentiate us from the idea that in some sort of way China is simply going back to a traditional view of a Sino-centric place in the universe or in the world in which China is at the centre, all of which is very much in the thinking there in the early 21st century, in a way that was not true 100–150 years ago, very much part of China’s own understanding of itself as part of a modern world order. The experience of 20th century nationalism and Communism, all these things have, I think, fundamentally changed the nature of Chinese society. One of the things that I think makes the Chinese view of itself and its place in the world very distinctive is that it is one of the relatively few major societies left in the world, probably the single most important society left in the world, that regards itself as modernising, but not seeking a model which in some way is based on the liberal, multilateral, multi-party type of model that we note in other countries around the world. I think that distinction is important for this reason: a variety of other societies, as we know, fall down very badly on that model, and I think the way that Russia is going is an obvious case of that, and yet it is significant that Russia continues to maintain a rhetorical attachment to being a multi-party democracy of sorts, whereas China does not. Those who observed the National People’s Congress, the Chinese Parliament, last week will note that Wu Bangguo, the Chairman of the Parliament, and of course a member of the nine-man—and it is man—Politburo Central Standing Committee, said that there was not going to be now, or at any point in the future, a Western-style, multi-party democracy in China. This was also a statement and commitment to a type of progress and modernisation that does, nonetheless, look towards a more socially egalitarian sort of society in China, one that engages in trade and intellectual engagement with the rest of the world, and which learns a great deal from political models elsewhere. Just understanding and learning is not necessarily being, as they would see it, a slavish copy, but rather an adaptation. I think it is in that context all the things that Bill Callahan has talked about, including a very real interest in the much more assertive but also self-confident China of 100/200/300 years ago, is coming back into Beijing’s minds today. Those are the sorts of balances in the minds of foreign policy-makers, and indeed in many parts of the wider parts of the population in China today, when they think about their own place in the world.

Q147 Lord Chidgey: Gentlemen, welcome. May I just say thank you for those opening remarks and very broad-ranging and interesting they were. I am going to try and bring us down to the format that we have in the information that you have been provided with in advance, and ask you if you could try to bring out the bullet points of your opening remarks, so to speak, in response to this whole question of China’s foreign policy today which, as we know, is often described as pragmatic, to indicate its separation from the ideological perspectives of the revolutionary era, which you have touched on but, as we know, China’s history in the 20th century must still shape its approach to international affairs. Succinctly, what are the major legacies of the era of war and revolution in terms of institutions and values that still shape China’s foreign policy?

Professor Callahan: Thank you for that question. I think the major legacy is talking about China in terms of unity. Unity is one of the key values that comes from the 20th century and persists in the 21st century. Lots of countries talk about unity—there is the United Kingdom, there is the United States, and there is the USSR—however, when we think of those three countries they have to say they are unified because they were not (because they are 50 states or four nations in Britain and so on). In China, the lack of unity is seen as coming from the outside, from what they call the century of national humiliation, which started with the Opium Wars in 1840, more or less, so what Mao did and the Communist Party did was to put China back together again, and that is how they presented it. They reuniﬁed China in a very particular way; as a very hyper-modernist, hyper-sovereign state, with very strong borders, territorial borders initially but also borders of politics and ideology and culture, so that there is a very strong sense of differences between China and the outside; China and the West; China and the EU; China and various other countries. You can see this in how China frames a lot of the major problems right now, so the problem with Tibet, which is on everyone’s minds, is seen in terms of sovereignty. It seems as though people who question Chinese policies in the Tibetan autonomous region are seen as “splittists”. Other countries would call them separatists but in the China they are called splitists, splitting the unity, so it is not just separate. When you talk about splitting you assume that it is a whole that is coming apart. If I could, I would like to talk a little bit more about the pragmatic foreign policy because I think that is also very interesting. The pragmatic foreign policy is seen as coming after the Cultural Revolution, and after the Maoist revolutionary period, and is associated with Deng Xiaoping and his economic reforms, but a lot of people in the past decade or so have been asking pragmatic for what purpose, because pragmatism does not tell you a goal; it just tells you how you get to a certain goal. Some of us have been asking what are the values and what are the strategic goals that Beijing is pursuing. Initially Beijing’s grand strategy was pragmatic in the sense that it was crucial for
China to join the international system after being isolated during the Maoist period, and to join the international system to foster China’s economic development, to develop trade and investment ties that it did not have before, with the West, and with overseas Chinese in South-East Asia. Beijing’s official policy for a while in the 1980s and 1990s followed Deng Xiaoping’s ideas of peace and development. You can still hear that a lot from Beijing, that peace and development guide their foreign policy. Again, China needed international peace to have economic development, so that is how they are linked. I think the question remains what will China do once it succeeds in this economic reform project, once it gets richer? It is already rich in some ways now but what happens after the economic objectives are fulfilled? How will it see its new economic, political, cultural and military power? Again, this is one of the debates in Beijing, and it considers whether China should continue with this current pragmatic policy to work through international institutions, or whether it should do something else, because people who are critical of this current policy see international institutions not as for the common good of the world, or as universal norms and values, but as Western norms and Western values that are not necessarily Chinese. Again, on the one hand, there is a liberal group which says we should keep engaging with the West, we should keep developing as part of the international system, but there is also a group in Beijing that says no, the West is uncomfortable with China; the West does not respect China; the West is trying to obstruct China’s rise. You hear that a lot whenever there is a problem in China, whether it was the demonstrations last year in Tibet, or problems of economic trade, one of the reactions in Beijing is to say, “Oh, the West or the US or Europe or France is obstructing China’s rise,” getting in the way of this thing which they take as natural. Some of these people are saying that China should stop trying to join the West, as it were, and go off on its own road to be a leader in Asia, which it is already doing in a lot of ways through multilateral organisations, but also a leader of the global south, what we used to call the third world, to be a leader in Africa especially, but also Beijing has been building close ties with a lot of countries in Latin America. Right now Beijing is pursuing both of these policy narratives, engaging with the West and engaging with multilateral organisations and international organisations, and that is what we hear a lot about, but, at the same time, it is doing something else. I see this happening a lot in China, that there are often two things going on, some of which are very positive, some of which people see as negative; there is a positive/negative dynamic. Again, we go back to China’s policy of promoting a harmonious world. You can understand it in two very different ways. One way to understand it is that China is supporting peace and development in the current international system, so harmony, in the way we understand it in English, is usually about the interaction of equality and openness and tolerance, but there is another way of understanding harmony in Chinese. Harmony is a key concept in ancient China and it refers to a very hierarchical order that again is centred on China, centred on the Emperor in China, and centred on the father in the household. Thus a harmonious world can also mean China promoting a Chinese-style world order. I agree with Professor Mitter that they are not going back to the 19th century or the 18th century; they are very clearly reviving and tinkering with these traditional ideas for the 21st century, but I see this kind of English version of harmony and Chinese language version of harmony both being pursued right now. I think that the financial crisis, which is becoming an economic and political crisis in China, could push China towards a more confrontational Chinese foreign policy which sees itself as in distinction to the West, so rather than talking about shared values or international organisations, they will talk about Asian values and Asian organisations as opposed to Western values and Western organisations. This is the sort of thing that Professor Mitter was talking about when he told us about the speech at the National People’s Congress last week. It was very much not just about, “We do not want a multi-party democracy”; it was about, “That is a foreign thing and we have to do a Chinese thing and we will do it our own way.” That is one manifestation of China’s confidence.

Q148 Chairman: We are going to have to tie up on this question pretty quickly. Professor Callahan, if you just want to finish your remarks there and give Professor Mitter an opportunity to come in.

Professor Callahan: That is it, I am done.

Professor Mitter: I will make a short comment since Professor Callahan has covered the ground extremely well. I just wanted to pick up one word in the original question which is the question of how war, as well as revolution, has shaped the institutions and values that inform China’s foreign policy today. We sometimes forget that for much of the century that has just gone past, in one sense or another, you could argue that China was a state at war, obviously so in the civil wars of the 1920s and 1930s, the invasion by Japan and World War II, and the civil war of the 1940s between the Communists and Nationalists. Then of course there is a growing body of certainly academic but also other interests that would argue that the era of Mao, even though China was technically not at war, was in fact one of constant confrontation, everything from the terror campaigns in the countryside in the 1950s to the famous Cultural
Revolution of the 1960s, which certainly looked like a war out on the streets to many people at the time. This is a subject that is of particular interest to me because I run a research group that looks particularly at the effects of World War II in China, which is a highly under-studied area and, again, one of the things that often tends to be rather annoying to people in China today, particularly those who are historically informed, is the amnesia that exists in the West about China being one of the wartime allies. Many now will be vaguely aware of this, but the reality is that something like 15 million Chinese were killed during World War II, some 80 million became refugees, and that, essentially, without holding down one million Japanese troops in China during that period, it would have been much less easy for the Western allies to defeat Japan. All of these things are felt, rightly, by the Chinese to be an important contribution to the wider global allied victory of World War II, and one of the many aspects of the historical past which Professor Callahan has mentioned which simply do not seem to figure on the Western radar screen. Let me just finish that point by giving you one example of why it might be important for us to be more aware of these historical issues. I think the reason why remembering the impact of World War II on China is important is not because it helps to explain Chinese anti-westernism or xenophobia—and you sometimes get these reports, and we have all seen them, of Chinese students being bussed outside the Japanese Embassy in Beijing or consulate in Shanghai during a time of high crisis and people throwing bottles and so forth—those phenomena are important but I think somewhat passing, what is much more interesting and important is that there is a growing idea developing in China which splits between the policy people and historians and the wider public (which is more and more a factor in China) which suggests that China should remember World War II because it was a time when it took part in a global progressive alliance, together with the US, the British, and obviously the Soviets, the Russians, as well, to help defeat Fascism. I think that is an example of a rather co-operative and positive message from the past that is coming out of China but one which relatively few of us seem to be willing to hear. I think that wartime past is something that we should pay more attention to.

Q149 Lord Hamilton of Epsom: Could I pick up a point with Professor Callahan about Mao Tse-Tung. You were saying that he was seen as a force of unity in China and the man who introduced the hyper-modern state. That does not quite tie in with my recollection of Mao Tse-Tung because I thought the Cultural Revolution would have divided the nation by murdering large numbers of intellectuals, and the hyper-modern state seemed to start with the melting down of cooking utensils and farming equipment, and the result was that millions of peasants died. Is he being re-visited now or is he still regarded in a God-like way in China? Is his history being revised at all?

Professor Callahan: Mao is a person who still provokes a lot of interest in China in a lot of interesting ways. Maybe Rana can comment on this, but I do not see much revision of the original view of Mao that criticises the excesses of his leadership. What I have seen is that there is a particular view of Mao, both in popular culture and among a lot of academics, where they point to a certain Mao, a good period of Mao, the revolutionary Mao who founded the PRC in 1949, and then they generally look away from the Mao of the Cultural Revolution. What is the calculation? Mao is 70% good and 30% bad, so the 30% bad is 1966–76 and 1957–61. Although there is a lot of interesting research done on modern history in China now, I do not know how much that is changing people’s views of Mao. He has become more like a god but not a god in a Christian sense. He has become a god in a Chinese sense because Chinese religion is about continuity between living and death, so you turn your ancestors into gods, that is what ancestor worship is about, so Mao has become a kitchen god in the sense that there are little Mao icons that you hang in your car from your rear-view mirror and your little Mao pictures, so he is treated in some ways as a personal god rather than as an all-knowing figure, but I will defer to Professor Mitter.

Professor Mitter: Just a couple of quick notes on those very astute points. One of the reasons I think that there is not more attention being paid to a revision of the view of Mao in China is not just because there are political sensitivities, and that there has been an official verdict but also, like all such societies (dictatorships in Europe, Fascist Italy and Nazi Germany etc) it would end up quite quickly with people having to look at their own behaviour. If I may say so, people of perhaps the age of the honourable members of this Committee, and perhaps a little younger than that, not in the flush of youth as I concede, if you were Chinese you would have all taken part, one way or another, in the Cultural Revolution because the outbreak of mass suicides, killings and destruction, could not just happen on the say-so of one man and, even if it did, it needed an awful lot of people to do it. So I think there is an awful lot of self-preservation in the reason why people do not ask too many questions about this. Also on the question of the treatment of Mao, and the phenomenon I just mentioned of the revision of 20th century history more generally, has thrown up an interesting recent development that again is surprising to those who do not keep a close eye on Chinese history. For most of the Cold War, for decades, the big demon figure in terms of leadership in China was Chiang Kai-Shek, the leader who had
been defeated by Mao and fled to Taiwan, and died in exile just a year before Mao of course in 1975. People are often surprised to know, but it is a fact, that for the last ten or 15 years Chiang Kai-Shek is now a rehabilitated and honourable figure in China. You can go to Chiang Kai-Shek’s old mansions, you can see the places where he took leadership decisions. He is still criticised very heavily for all sorts of things that he did, not least persecuting the Communists, but he is now regarded as basically a patriotic leader who made certain severe mistakes, and in the words of at least one cheeky student, who was saying these things to people I know, it was pointed out that he made these sorts of mistakes “just as Mao had done”. So I think there is a level at which people who have made some contribution to the Chinese past are being brought into the harmony that Bill Callahan has mentioned, trying to find some sort of positive way out of this really very dark and disturbing history that China has had over the last century or so. So if you are an enemy just wait long enough and then perhaps eventually you will turn into a friend, it seems.

Q150 Lord Anderson of Swansea: Rather like people asking for a one-armed lawyer, you said that there are the tendencies of this and the tendencies of that, for example the view of the international institutions being moulded by Western values. My question is what is the prevailing tendency? 
Professor Mitter: Let us be frank, I think Bill and I probably take slightly different views on this so shall I give you my view and, Bill, you are at great liberty to contradict everything I have said.

Q151 Lord Anderson of Swansea: Balance! 
Professor Mitter: I believe overall that the government structure, the foreign policy-making structure, and the direction in which China is going is one that is ultimately and overall fundamentally modern and highly shaped by ideas that are not necessarily Western values but are values that have come from the West and been adapted in a Chinese context, by which I mean the idea of an international system that consists of nation states—and I know that nation state sovereignty is one of the questions that you sent to us beforehand that may come up—but I think that is very, very central to Chinese thinking about its place in the world, and that is not going to be chipped away. I think it does still believe basically, in some sense, in a non-hierarchical world system, by which I do not mean that it does not want China to be a powerful player in the wider world, just as the United States does and just as the European Union does, but that it nonetheless regards a world system in which states have equal status with each other to be the most useful, explicit way for that system to be described rather than a named hierarchy of states taking place. While the ideas of harmony and things taken from Confucian systems of thought are making a very important theoretical and rhetorical impact on the way in which China thinks about itself, I think that, nonetheless, it is as shaped, if not more shaped, by modernist currents of Communist and Marxism—and all of these things are modern as well, as we sometimes forget in an age of liberal democracy—as well as a real engagement and understanding of what a more liberal notion of the world order might be, even while not accepting large parts of that. If it were not interested in that it would not sign up to international human rights agreements and various types of international agreements that essentially give up, at least by implication, some part of the state sovereignty for a wider set of values. For me I think China is a fundamentally modern polity with some neo-Confucian trappings that should not hide the fact that it is at some level a child of the enlightenment.

Q152 Chairman: Do you want a quick comment, Professor Callahan, to contradict Professor Mitter? 
Professor Callahan: I agree what I find really interesting in Beijing is that the official policy says one thing and then people on TV and academics and the newspapers say something very different. The official policy is all the things that Professor Mitter has told us about, that China is joining the world; that China wants to be multilateral; that China is reaching out to the European Union, but there is a strong under-current which is unhappy. There was a book published this month—and I have not read it, I have just heard about it—which is called China is Unhappy, and it is by the people who published a hyper-nationalist book China Can Say No in 1996, so this is their new version of what it means to be Chinese. China is unhappy: they are unhappy with the world; they are unhappy with the West, and it says that China should be like the Tang Dynasty, so again this is where people are looking. There is a famous professor, Professor Yan Xuetong who goes on TV a lot. He is known as “Mr Security” in China. He has very strong, very realist views about military security, but recently even he has been talking about China flowering in the 21st century as it did in the 19th century with the Tang Dynasty. I think you can look at the dominant view in China, but if you stop there you are really missing something, so you need to take these alternative views into account whilst also recognising that they are not the dominant view—but they could be.

Q153 Baroness Symons of Vernham Dean: The only time you have mentioned the word democracy is to say they do not like it very much. Is that what you mean us to understand, that there is not a substantial body of public opinion in China that wants to see
democracy in the way that we understand it? You have your differing views but on that you seem to be at one with each other.

Professor Mitter: Yes, I would say that there is not at the moment a significant body of either public opinion—and by the way public opinion is real in China these days through the internet and through various consultative mechanisms—nor is there a significant element in leadership which is looking to move China towards a multi-party democracy with a free civil society, which is what I think we would expect. What I would add to that though briefly, but I think very importantly, is that people have never been talking about democracy as much as they have in China today. I have a graduate student, for instance, who is looking at the way in which textbooks in civic education which are given to children have changed over the last 20–25 years, which is not a terribly long period. In the 1980s there was very little mention of minzhu, the general translation of “democracy” in Chinese, but in the 2000s the books are full of it, but they mean something rather different. They mean essentially something that we would call consultative capacity; the ability of the state to find out what people are thinking, enable them to get redress for grievances, feed information back into the Communist Party within which debates will take place, but not to allow other formalised party mechanisms to enable those sorts of views to take place. That actually draws on the model of democracy that Mao, who we have heard about before, came up with during his revolution in the late 1930s and 1940s, which as called the “mass line”, and it was very much a means of trying to gather views from the wider population. They also look to places like Singapore, which is also a Chinese society in many ways, which has multi-party voting but does not have a free civil society. You can argue that partly because they have much better control over the population, it is much harder to get what you might call dissent views out in Singapore than it is in places of China. By looking at what the Chinese understand by democracy, rather than necessarily interpreting it through our own viewpoint, we can understand what they mean by it even if we do not agree with it ourselves.

Professor Callahan: There was an interesting thing that happened last December on Human Rights Day, when a couple of dozen intellectuals in China signed what they called a Charter 08, which is modelled after Charter 68 from Czechoslovakia in 1968, calling on China to reform in terms of liberal, multi-party democracy with civil society. Over the next month it got about 7,000 or 8,000 signatures, which is pretty good since it was not publicised in China. However, when you compare that to some other internet petitions, it does not look quite as good, because there was a petition in 2005 to criticise Japan and Japanese text books and in the same period of about six weeks/two months it got 25 million signatures. You can say that it is not a fair comparison because one was highly publicised in 2005 and in 2008 it was not publicised, but I think it shows two things: that there are groups of well-placed and thoughtful intellectuals in China who are thinking about democracy in the way we understand it, but again they are not a dominant force by any means.

Chairman: Perhaps we should move on then, Lord Jones?

Q154 Lord Jones: A major principle that seems to shape China’s external strategy, but also its posture towards international actors that take an interest in governance inside China, is the principle of sovereignty. What do the Chinese understand by this term and why does it carry such significance?

Professor Callahan: As we have already said, sovereignty took on a lot of meaning with the revolution that was successful in 1949 about how the legitimacy of the party-state right now is based on the idea that the Communist Party saved China, and that is the phrase they use; they saved China, they saved the country, and they saved the country in 1949 by uniting it under a strong government. That is a sense of what they mean by sovereignty: a unified, strong state. I think that sovereignty actually has multiple meanings in China. It is often divided up into economic, cultural and political sovereignty. Economic sovereignty is very permeable and it is about international trade. As I was saying before, that is the basis of the economic reform programme in China. Globalisation and national sovereignty are usually seen as opposite ends of a continuum. But economic globalisation is actually quite popular in China. China has succeeded quite well even through the World Trade Organisation. However, as we have been saying, political globalisation is seen as a threat by the party. Political globalisation was seen, as Professor Mitter said, as multi-party democracy, as human rights. Just like Russia, China is very concerned about the colour revolutions that they saw in Eastern Europe and Central Asia in the past few years, so political sovereignty is something that they take a lot of care to preserve and have a very strict view of. There is a very sharp distinction between inside China and outside China, so that this exclusive notion of sovereignty I think works even when China is doing multilateral things, China’s main regional organisations in Asia, the ASEAN Plus Three and the Shanghai Co-operation Organisation, need to be understood, not just as China being multilateral but also China as using them to preserve its sovereignty. For example, the Shanghai Co-operation Organisation is about lots of things, but one of its main goals is to guard borders in Central Asia, so there are not cross-ethnic rebellions. Rather than
sharing sovereignty, like we hear about in the European Union, I think that a lot of the multilateral organisations are trying to preserve a certain kind of sovereignty in China.

Professor Mitter: I would agree with everything that was said there. It is important to understand again the historical context in which China understands sovereignty. For much of the late 19th and early 20th century, China was in a position of highly compromised sovereignty. From the Opium Wars onwards it saw Westerners with gun boats and opium and bringing in Christian missionary tracts. Whatever form the outside world took in China in that period, it came in unasked, so to speak. After China regained full sovereignty, which happened first of all under the previous Nationalist government in the 1940s but then in a different way with the Communists in 1949, it essentially stuck to a very territorially bounded idea of sovereignty, which in fact was course was quite welcome within the UN structure at that time because large numbers of European states which had been invaded by Nazi Germany felt that absolute inviability of borders was an important principle elsewhere in the world. The change towards liberal interventionism in the 1990s, which again Bill Callahan has mentioned, towards more permeable borders, towards a world in which borders were going to be more flexible, is one that remains very troubling for the Chinese, who have had a bad experience, to put it mildly, in historical terms with those sorts of borders. We mentioned the WTO and of course that was a very important development with the Chinese enthusiasm to enter it in 2001, but for many Chinese of course it had to be seen in the context of a rather different sort of trading engagement in the 19th century, where opium was being brought in to Chinese borders without any say-so or permission from the Chinese imperial government of the time. These comparisons are brought up over and over again in China. In Britain we may have forgotten long ago about the Opium Wars but they have not forgotten about them in Beijing.

Lord Jones: Thank you and to help move things on I am going to surrender the sovereignty of my supplementary!

Q155 Lord Anderson of Swansea: I have a question on the direction of travel. You said that in 1949 the self-perception of China was as of a victim and its self-perception later was as part of the non-aligned movement. Now with a newly assertive China, which is more powerful politically and economically, where are we moving towards? Is the doctrine of non-interference, which clearly was part of their policy for example in relation to the Balkans and Serbia being modified? How do they respond officially at the moment to the responsibility to protect and the general diminution of state sovereignty? On the direction of travel where, in your judgment, are they likely to go over the next decade?

Professor Mitter: At the risk, my Lord Chairman, of disagreeing with Lord Anderson, I am not sure that we are necessarily in a world of a more assertive China; it is only more assertive than it was in the 1970s and 1980s. I think China was more assertive by far in the 1950s and 1960s under Mao, when it was actively looking to protect a revolutionary, anti-imperialist creed which actually involved the involvement of various local Communist parties, not only in South-East Asia but elsewhere, and it had influence in Africa of course in those days. Compared to that period, which is perhaps in historical terms not so long ago, we ought to consider current Chinese behaviour perhaps in a relatively more moderate light. In other words, I think there is concern there but it is not the kind of concern that sometimes leads to apocalyptic scenarios of a “rising dragon” that may be about to take over in the region. Some of the evidence for that comes from the way in which China is using the new economic and political might that it has in the region. First of all, it seems to me very clear that where it is possible, in fact, China is doing a great deal to try and take part in multilateral operations, both political and military, that enable it to have a presence in that wider world structure without seeming overly assertive. For instance, the sending of the Special Envoy to the Middle East during 2006 when the Lebanon War broke out and in the years following. Also the emergence of a presence in peace-keeping operations across the world where Chinese military engineers and other such figures are sent along as a symbol—quite a useful symbol—that China wishes to take part in these international endeavours. Of course, that in some ways parallels a rather different debate that takes place across the sea in Japan about their new presence in this rather changed sort of world order. It seems to me far more likely that the Chinese are going to be doing what they are doing now, which is continuing to use its economic power and its ability to essentially project itself as an example of a rising non-European state that is able to interact peacefully with the outside world, to actually project its image rather than necessarily using any of the military capabilities that it has in a very assertive way. Responsibility to protect, which is a phrase that has tripped off many tongues in recent months, is definitely a very troubling term for the Chinese because it again seems to spell liberal intervention, which for the most part they are very much opposed to. The fact that they are willing to take part in some of these peace-keeping operations suggests that that position is, at least at some level, flexible as well.

Professor Callahan: I agree with everything that Professor Mitter has said. I think that China had various understandings of the Kosovo War in 1999.
One of them was the principle of non-intervention because of sovereignty; the other was because Kosovo seemed very familiar to them as an Islamic state on the borders. I think some people were talking about Kosovo like it was Xinjiang and how if Kosovo was able to split off then perhaps Xinjiang would be able to split off if there is foreign intervention to support that. I think that China certainly has principles that question intervention, but it also has a lot to do with their own history and their own situation, which means that it does not necessarily have a wider view of what China might do in a new situation.

Chairman: Baroness Symons?

Baroness Symons of Vernham Dean: Lord Chairman, I think that both witnesses have really covered the point that I wanted to raise, which was about China’s position in terms of world affairs. I think in the interests of saving time it is probably better to go on to the next question, if I may suggest. Some of the other things will be picked up when Lord Jay tackles the UN.

Chairman: Lord Swinfen?

Q156 Lord Swinfen: What is the connection between “problems of history and nationalism in East Asian international relations?” How is China’s nationalism viewed by other East Asian nations: as an understandable legacy of history or a problem emanating from the Chinese Communist Party?

Professor Callahan: The history problem, as you probably know, generally emanates from Nationalist movements in East Asia, not just in China, especially when we talk about textbooks, so there is a lot of talk about Japanese textbooks that whitewash atrocities during World War II. This becomes important in China because Chinese textbooks also have their own view of history. We have been talking about the history of victimisation and humiliation at the hands of the West and at the hands of Japan, especially in the first half of the 20th century. The history problems affect mostly Sino-Japanese relations but they also affect EU-China relations sometimes. The recent controversy over the auction of Chinese bronzes in Paris a couple of weeks ago is a case in point because the bronzes actually have very strong significance. As Professor Mitter said, in Britain and in the West we do not generally think about the Opium Wars that much, it is not a main point in our history, but in China it is. These bronzes came from China’s main Garden Palace which was burnt and looted by Anglo-French forces in 1860. Chinese nationalists see it as a badge of honour to get these things back. They see it as looted art that they need to recover, not just because of nationalism but for China to be a great power and to get these things back. The history is not just about Sino-Japanese relations; it is about China’s relations with Europe at times. The Koreans share some of China’s criticisms of Japan because Korea was colonised by Japan for five decades. I think we should also recognise that the history problem works in specific ways in Japan too. There are left-wing historians and journalists who agree with the Chinese and the Koreans that Japan should apologise for imperial Japan’s past actions, but I think that we also have to see how China’s complaints are actually feeding the growth of conservative nationalism in Japan. Right-wing politicians in Japan often complain that Beijing uses instrumentally the history card, as they call it, to squeeze economic and political concessions from Japan. It is a very strange situation because although people worry about the influence that these Japanese textbooks have on Japan’s children, it turns out that the right-wing textbook that is at the centre of the controversy is very unpopular in schools in Japan. It has been adopted by fewer than 1% of Japan’s school boards. It is very curious because the history problem is not actually an educational issue in terms of what children are learning in school; it is more of a media issue about discussions between conservatives and liberals in Japan as much as between Japan and China. There have been some moves lately to write a shared history between China and Japan. It is still in the early stages and they ran into some problems. I think in maybe ten years they might have come up with something which is a reasonable thing to think about, but these problems still fester even though Sino-Japanese relations are going quite well right now.

Professor Mitter: Essentially the continuing problem between China, Japan and other parts of the region in terms of history is that in too many of these societies history is still regarded essentially as a political football. The idea of even writing a joint history of the war between China and Japan, while it sounds very admirable, actually sounds very odd to historians, as opposed to politicians, because the aim of writing history is not to achieve consensus; it is to analyse the past and possibly provoke debate. I think the last thing that the participants are trying to do is actually to provoke a debate in that sense; they are trying to find something that will be politically useful. In those wider terms, essentially China’s nationalism seems problematic, or non-problematic in historical terms, to other actors in the region in terms of the way in which everyday politics is going on, so when there is, for instance, a Chinese territorial claim to parts of the wider Pacific Ocean, as we saw last week with the incident with the US naval vessel off the south coast of China, then aspects of the historical past will be brought in to try and bolster justifications for that action on both sides, but they will not in any sense be genuinely historical discussions; they will be useful carvings out of parts of the past to try and make a political point, which may then be forgotten as things
get warmer or colder as the next season comes around.

**Q157 Lord Swinfen:** Right at the very beginning on the first question, Professor Callahan, you said that China harked back to its imperial past. I have always understood that China is now a smaller size than it was at its greatest period and that it wishes to reclaim sovereignty over the areas that it has lost. Is that still the case and where are the areas?

**Professor Callahan:** This is a very interesting question and something that I have actually worked on. Beijing’s policy is a very progressive and encouraging one, which is to settle borders. Especially over the past 20 years; it has worked to settle borders with Russia, with the Central Asian states, with Vietnam, with most of its borders. Even though it still has disputes with countries like India over its borders, generally it is doing it in a non-violent way. Recently it invaded Sikkim but other than that the general trend has been towards using diplomacy rather than warfare, and using a conservative notion of its borders rather than an irredentist one. Alongside this official view, which guides official policy, there is also another view that talks about China’s lost territories. There are some maps of China that talk about China’s national humiliation which list all the territories on the periphery, especially in Central Asia and the Russian Far East, but also including Korea and South-East Asia. These are the things that people will talk about on the web, so someone will find a map, often a map from the 1930s and they will post it on the web and there will be a discussion about, “That is ours, Mongolia used to be ours,” that sort of thing. I do not think that these irredentist reactions are very influential right now but, again, it is another under-current that we should be aware of, but put it in its proper context.

**Q158 Lord Jay of Ewelme:** I would like to bring the discussion down to the particular concerns of this inquiry and ask you about how China sees the EU, either as an institution or the Member States of the EU. Going back to the question the Chairman asked at the beginning, what does China want from the EU and what would it like to get from the EU? If you could also answer that question in the context of China’s interest in others, in particular the US, and how that relationship with the US might influence the relationship with the EU? One question in that context: there is much talk about a possible G2 of the US and China as a kind of driving force as a resolution to global issues; is that something which you think China would be tempted by?

**Professor Mitter:** I think the phrase G2 brings to mind a discussion that went on about 20 years ago when Japan was riding high, and it was proposed by at least some on the Japan side that it would be worth cutting out Europe and the rest of the world and Washington and Tokyo simply acting together, so I think that is a salutary warning that global orders can change, and sometimes quite fast. That having been said, I think it is fair to say that what China would like more than anything from the European Union is to know what it is that the European Union thinks it is doing and particularly what it is doing about China. Essentially it would like the EU to be a more stable and predictable partner, I think that is probably the right word to use, in terms of engagement with it on trade, political, cultural and other matters. It struck me that the European Union and China are very similar in various ways because they are both developing policies that are going in a certain direction but are not quite sure where they are going to end up at the other end and it is often perhaps this mirroring on both sides that makes them a bit wary of each other. I think the problem about the EU in China’s eyes at the moment is until it is clear what the European Union actually wants from China it is more difficult for China to take it seriously. In my mind there is no doubt that the primary relationship in global affairs from China’s point of view is with Washington DC. There is a strong argument for saying that possibly a secondary relationship is with the South East Asian region, but, that having been said, you could argue that the secondary relationship is with the EU although it is a very clear second at the moment because it is not clear what the parameters of the EU are and, therefore, at the moment quite often the EU acts in China’s mind as a counterfoil to various initiatives coming from the American side, in other words being able to say on various matters, “Well, I don’t think we should do that because Europe won’t like it”, or “If we get together with Europe on this, that or the other then we can try and prevent the Americans acting in this way”. Trade disputes would be an example of how that might operate, specifically.

**Professor Callahan:** I agree. Early in this decade China and Europe were both very excited and positive about each other, so in 2003, as you know, both sides proposed setting up a strategic partnership. That has not come about yet, there needs to be a new agreement between China and the EU to order that. Right now, as Professor Mitter said, it is more aspirational than something that is going on. China thinks of the European Union the way it thinks of a lot of countries and organisations in terms of a balance of power or triangular diplomacy balancing, in this case, the US off of the EU or the EU off of the US. I think that the EU-China relationship was strong in 2003 for very specific historical reasons, not because of shared values, although there are some shared values, there is a difference of values, but because of what else happened in 2003, the US started talking about, and eventually invaded, Iraq, so there was the Iraq War. It was not a shared value
so much as a shared concern about American unilateralism. Things have moved on a little bit and European and American leaders are co-operating a lot more and talking about shared values, again perhaps in an aspirational sense. Because the US and Europe are closer, China feels left out, it feels marginalised. It uses the military language of a “Western camp” when the EU and US are together. There is an article in a recent journal that talks about the “Western camp” and how China needs to think about dividing this, usually appealing to the European Union to oppose American actions. China is not really optimistic that it will be able to split the US and the EU in the current climate. China has cooled a lot on Europe in the past year or so especially and you can see this both in official documents and things from their think-tanks but also in the popular press. I was reading a tourist column in an economic magazine in preparation for this Committee meeting and this tourist column had a very negative view of Europe. It said Europeans are cheap, dull and lazy compared with China, that Europe’s cities are boring, the hotels are lacklustre. It even went into detail saying the cars are too small and the televisions in the hotel rooms are too small. This reflects a general view in China, as I said, that China is unhappy. It is unhappy with the West and it is unhappy with Europe in this sense. I think that is a real problem and it is very hard to see how the European Union can address China’s unhappiness because the unhappiness seems to be framed in these Chinese texts at a very basic level of values and lifestyle and people-to-people relationships. I know I am being very pessimistic but I think it is important to tell the Committee these views because I do not think they come out so much in the English language press.

Q159 Lord Jay of Ewelme: Can I just ask one follow-up question? Which EU Member State, if any, would the Chinese see as being genuinely important to their interests?
Professor Callahan: They focus on Germany.
Professor Mitter: Germany.
Professor Callahan: The way they are trying to divide the US and the EU is similar to the way they are trying to divide France from Germany. France right now is the main focus of China’s negative attention.

Q160 Chairman: Do you have an alternative view, Professor Mitter?
Professor Mitter: I will just briefly add to that. I would have given exactly the same answer that Professor Callahan did that Germany seems to be very much at the centre of policy talks on Europe. In a sense, the answer to the question of what are the perceptions of Europe in policy circles, the wider public and so forth, is there often are not that many perceptions.

The dominance of interest in the United States and also in various other regional players means that unfortunately, or fortunately, whichever way you want to look at it, Europe does not necessarily get that much of a look-in. It sometimes seems to me that one of the ways in which it might be possible for the EU to move forward on this is perhaps moving away slightly from what sometimes seems to the outside observer as a strategy of over-blandness. Professor Callahan talked about the way in which the Chinese government are using harmony over and over again as a sort of cover-all for a set of policies; it sometimes seems that the European Union is using similar sorts of phrases to try and overcome the fact that there are real and tangible differences in the way in which, say, Europe and China look at the world. A frank, honest and positive acknowledgement of those differences may be a little more useful in terms of engaging with policymakers and thinkers in China. To tell the Chinese from the European side that we necessarily share large numbers of values, have the same goals and so forth is accurate up to a point, but an acknowledgement that also there are significant points of difference and we have to acknowledge those and overcome those might lead to a genuinely more engaged conversation on both sides, and certainly I have got that impression sometimes from the Chinese side.

Chairman: Perhaps I could ask Baroness Symons to ask her supplementary and move straight on to Lord Chidgey and our witnesses can answer them together.

Baroness Symons of Vernham Dean: Do you think that the Chinese actually want a relationship with the European Union other than the economic relationship where we buy lots of their stuff and help keep the Chinese economy buoyant? After all, we are the biggest single market in the world. It does seem interesting that you are projecting quite a negative view of how they think of us. In all of that, do you think there is a real appreciation that we are all very different from each other: we are not America, one government? That is the trouble with democracy, is it not, it does not actually produce constant stability. When you say they want us to be a stable partner, the fact is we have democracy and we keep on electing different governments and our views do keep changing. Do you think there is any wish to understand that and engage with that politically?

Chairman: Can I just ask Lord Chidgey to ask his question because they work together.

Q161 Lord Chidgey: It does fit very well with Baroness Symons’ question. From the comments you made a few moments ago in your description of how the Chinese popular press, if that is not an oxymoron, see the West from a tourist point of view, you gave a very strong impression, and I want to check whether this was what you intended to do, that the Chinese
per se have a very biased and bigoted view still towards foreigners, something which historically was writ large in their whole concept of the invading foreign red devil, which I think was the expression used in the 18th and 19th centuries. You have left me with the impression that things have not really changed very much. Is that what you intended?

Professor Callahan: No, it is not what I intended. I think the way the Chinese spoke about foreigners as barbarians 150 years ago was very different from the way Chinese people, even when they are being critical, speak about foreigners today, even when they use the word barbarian which occasionally pops up. In a way it is a bog standard cultural nationalism that guides these views and criticisms as the sort of thing you would find amongst segments of the populations in most countries. It is important to look at how Chinese people have negative views of Europe, in this case, but see it as evidence of current trends and current political situations, not as something that is essential to a Chinese identity.

Q162 Chairman: Would you like to answer Baroness Symons’ question that particularly we are a big market and democracy is perhaps not always convenient to other nations.

Professor Callahan: I think that China takes its economic relations with Europe very seriously and is very happy at the trade; obviously it is benefiting from it. The whole discussion about a strategic partnership starting in 2003 was about getting beyond an economic relationship and going to a political and cultural relationship. That is where there are problems.

Professor Mitter: Perhaps I could pick up on Baroness Symons’ point, if I may. I think I may have slightly mis-stated where the concern about stability lies. In a sense, your question provides some of the kernel of the problem for the Chinese because you pointed out that the European Union is one of the world’s largest markets, but the thing is you cannot really have a relationship with a market as such. The instability is not so much the question of democracy, China has perfectly good and indeed, I think, very subtly understood relationships with a variety of democracies—the United States, France, Britain, Germany, you can name dozens more, I am sure—and that is not the problem. The problem in terms of instability is the incoherentness, the changing of the European Union’s own idea of what it is and what it wants to engage with. Is it a set of values? The European Union is many things but in and of itself it is not a democracy, it is a supranational structure that is made up of a set of democracies, which is one of the things that makes it difficult for the Chinese as well as others to work out how to deal with it in that sort of way. There is one very clear and good answer about how the European Union more generally might engage further with China, and I am afraid both your witnesses today have a vested interest in that, and that is in the field of higher education where very, very large numbers of Chinese, mostly of a relatively younger generation, come, they spend very large amounts of money and more and more are very concerned to get good value for that money in universities and institutes of higher education all across the European Union. This is one of the areas where, in effect, the United Kingdom specifically has an advantage, not least because of the quality of higher education but also because of the language issue. I was in France last week acting as an outside assessor of French research institutes on East Asia, including China, and it was very clear to me there is a significant and continuing engagement by other European Union members with China and numbers of Chinese researchers, academics and students being sent to France as well. I do not think France is in any way untypical of that. The question will come whether the European Union is more genuinely willing to put forward those links in a European way or whether we are still playing the old game of putting it under an EU umbrella but actually doing national conversations underneath. That is the instability that I think confuses the Chinese: are they talking to London, Berlin, Paris, or are they really talking to a centralised organisation that has a consistent message to put forward?.

Q163 Chairman: In a sentence, do you feel with Lord Chidgey that there is still a concern about foreigners?

Professor Mitter: I do not think the Chinese overall are any more or less contemptuous or friendly towards foreigners than Americans, British or any other citizens. I think it is fair to say that until recently and even now there is more restriction of information about foreign affairs in China than is the case in a liberal democracy, but there is an awful lot of exposure to the outside world these days in terms of commercial products, television programmes, films, and huge numbers of foreigners flocking through China these days, it is a very easy country to go to if you wish to visit. In those terms I think any more negative views that we sometimes hear about the West and Europe by the Chinese are tempered by the reality of day-to-day encounters and the much more positive visions that they see all around them through the media in China, for instance.

Q164 Lord Anderson of Swansea: I have one question within the framework of strategic partnerships. In your judgment, how do we best influence the Chinese? Related to that I have a question on higher education. When the Chinese send students here, are they almost entirely in the field of applied sciences and areas which are perceived to be relevant to China’s development? How open do
you find yourself and your colleagues as researchers in terms of the contact you have with fellow researchers in China, be it in academia or think-tanks?

Professor Callahan: Most Chinese students do study science, engineering and business. There are growing numbers who study humanities and social sciences though. If you look at the people in China who are influential now you will find that a large proportion of them have studied in the West, in the US, in Britain or in France in particular. That is one way to influence China. It is not always a good influence because a lot of the people who are very critical of the West are people who have studied in the West. We cannot take for granted that people who come here will understand things the way we teach them. The more contact and more interchange we have, the better things are and will be. As Rana said, we have a vested interest in this and I have even more of a vested interest because I am part of a British Government funded research and teaching body called the British Inter-University China Centre which joins Rana’s university, Oxford, and my university, Manchester, with a University of Bristol and trains postgraduate students and some postdoctoral people as well in China. The reason we have to do this is because there is a great demand for people who know China, who can speak Chinese, who can understand Chinese social sciences and humanities, but there are not that many candidates, there are not that many people studying it in Britain or in Europe at large, so the Government had to pump-prime to get it going.

It has been very successful. A lot of universities are hiring people doing Chinese history, Chinese politics, sociology, economics and the environment, but we still do not have enough candidates for them. I guess I would ask the Committee, if you could, to try and support this and other programmes because in the current financial crisis there is a real worry that there will be some retraction and that would be a shame. In a way, one of the weaknesses of EU-China relations is because we do not have people who understand China. If you look at the think-tank reports put out by the main European Union think-tanks—Are you going to visit Brussels next week to talk to them?

Q165 Chairman: The Committee is visiting Brussels next month.

Professor Callahan: One of the things you will find if you look at these think-tank reports from the European end is that nobody knows anything about China, they have not studied China. These are just the people who run the think-tanks who write reports about the US, Russia and China and it affects the way these reports understand China because they tend to take uncritically what their Chinese counterparts are saying. So they have these meetings of China’s and Europe’s think-tanks and they talk about each other.

It is troubling how a lot of the European think-tank reports just take the Chinese talking points, clean up the grammar and publish it as their own research in a very uncritical way. That is why we need to have more people who can read Chinese language text and can understand China and who have experience as students and researchers in China: not just for universities but for the government, for think-tanks and for business.

Professor Mitter: I would briefly echo that and come back to the question Lord Anderson asked, which is how can we influence China. I think the clear answer to that question is not by telling them what to do and what to think because that has not been effective in the past, there is no reason why it should have been, and it will not be in the future. The way in which we can influence China is by showing China, and that means this wider public opinion that I have kept coming back to in the session today and is very important, in other words leaders are important but the wider population is as well, letting China know that we take them seriously, and that does include the embedding of expertise. Adding to Professor Callahan’s point, the project I mentioned on World War II in China, generously funded by the Leverhulme Trust, advertised and not one British appointment were we able to make in a group of eight or nine positions for postdoctoral fellows and graduate students because the candidates are not there. Of course, we filled them very happily with people from the United States, which is a country which takes China very seriously and which is taken very seriously by China. On my visit to Paris last week that I mentioned, the thing I did not mention, even though there is a great deal of very interesting expertise there, is that the average age of the researchers in that French top institute, the EHESS, the higher college for social sciences, is in the mid-sixties. The younger generation in France is even worse off than in the UK in terms of bringing up the next generation of experts in China. These are two major European Union states, the United Kingdom and France. The situation in Germany has its own peculiarities. They have better language training but they do not have jobs there. Coming back to this question of how things can be co-ordinated, how the EU can be taken seriously, looking at the way in which we deal with expertise and education is one certainly not simple but clear way in which we can demonstrate our seriousness about China to the Chinese.

Q166 Lord Crickhowell: You said very clearly something we understand very well, the difficulties that China has in dealing with the EU as an institution and by strategic partnership, but is not one of the ways forward to take areas where there are common interests and common concerns? One
obvious one is climate change which China is beginning to take very seriously and where there is already not only substantial investment but growing co-operation. That links with what you have been saying about the academic world, research, technological development and so on. Is not an obvious way forward to really get China interested in Europe for Europe to play an increasing and major role in co-operation on climate change, on the necessary technological research and, indeed, on the investment? There is quite a lot of it going on already and I would suggest that is an obvious way, among others.

Professor Mitter: Yes. The climate change agenda has absolutely come to the forefront of all the major industrialised states and groupings like the EU, and China is absolutely no exception to that. There is a great deal of very serious policy engagement and research going on in China on this question, not least because anyone who has been to China can see the impact of both climate change and environmental degradation which is linked to the use of fossil fuels and so forth. It is clear to anyone who walks out on the street in the city or the countryside. The European Union has actually missed an opportunity in the last few years when there has been, I think it is fair to say, an American administration that has been less interested perhaps in pushing forward some of these agendas. I think China might have responded during that time, at least in some way, to a more active engagement on the EU side with that agenda. That having been said, we may now be in a fortunate confluence where three major actors—China, the EU and the United States—share some consensus about moving that agenda forward. One of the problems will be the continuing influence of that historical problem that we have referred to over and over again, which is the West coming along and telling China what to do in terms that sound as if they are for the greater good of humanity but, in fact, are economically or in other ways more advantageous to the West than they are to China. It boils down to that old question that China asked: “Well, you ruined your environment to get rich, why can’t we do the same?” Unless the European Union can come up with a good answer to that question then the Chinese will always find that talk somewhat hollow. Engagement on those terms is very important.

Chairman: I want to move on to foreign and security policy because we have only got about 15 minutes left. Lord Inge, you wanted to ask a general question and perhaps I could ask you to combine that with your specific question.

Q167 Lord Inge: I was terribly struck when I did a visit to China by how their armed forces were pretty ordinary, a hell of a lot of them but pretty ordinary, but equally geared to the internal problems of China, and then suddenly this switch where there is not only major investment in defence but wanting a capability to project power. What do you think was behind that change in thinking?

Professor Mitter: I think Lord Inge’s assessment of the Chinese military in terms of the actual troops and the equipment they have is absolutely right. Particularly David Shambaugh, who is based in Washington DC, who is perhaps the major Western expert on Chinese military, makes a positive but in some ways quite moderate assessment of what the Chinese military forces are capable of doing. They are certainly an awful lot better than they were, but they are still ten, 15, X number of years—take your pick—behind, say, the state of the art in the United States. Also, it is worth remembering and I think this is an important thing, that as much as anything the armed services in China are a major employer. It is a very good deal to get into the Chinese Army because you have a guaranteed income and you will almost certainly not have to do any fighting which, as armies go, is something—

Q168 Lord Inge: That sounds very good.

Professor Mitter: I think we would not be unsympathetic to the idea of keeping it that way. In other words, when people are being recruited for the army in terms of the troops the considerations in their minds might be rather different from, say, British forces who realistically could be expected to be sent to a combat area very shortly. In terms of what has brought about the change, I think the Chinese have become aware of the latest—there are various terms bandied around—military revolution, military warfare is one of the things we have heard, asymmetric warfare, the idea that the conflicts that are going to emerge in the early 21st century may not look very much like any of the conflicts that shaped the armies of the world, including the Chinese Army, in the 20th century. In other words, the possibility of a large land based invading army from China heading to any other parts of the Asian subcontinent or elsewhere is an extremely unlikely one. There is, of course, the specific question of Taiwan but, as the noble Members here will know, there is a rather specific set of historical circumstances relating to Taiwan that does not necessarily generalise to China’s relationship with the rest of its region.

Q169 Lord Inge: It does require the ability to project power?

Professor Mitter: It does require the ability to project power. Some of the areas that are worth paying attention to relate less to the question of troop numbers and more to issues such as cyber war, for instance, the idea that by using new technologies you could essentially cause any troublesome opponents to come to their knees before you ever had to deploy
Q170 Lord Inge: Could I now ask my specific question. Have not the foreign or defence policies of the other Asian countries and their relationships affected the relationship with the European Union and China? I am particularly thinking of the relationship the European Union has with India, Japan and Russia.

Professor Callahan: China’s relations with Russia, India and Japan really blow hot and cold and shift very quickly. They are generally strong economically but they can go from being very close and happy politically to being confrontational politically very quickly. It has fragile political relations. It actually has boundary issues. Even though they are trying to settle the boundary issue with diplomacy there are still boundary issues with Japan and India and they just finished the boundary issues with Russia, I am pretty sure. The way the European Union fits into this is as a corner in a strategic triangle again and the EU should try to avoid being put into this role of being seen in terms of triangular diplomacy as much as possible.

Professor Mitter: If I could briefly mention something that Professor Callahan has mentioned before, which is the Shanghai Cooperation Organisation, this rather odd and ramshackle structure officially set up in 2001 which is supposedly a security alliance led by Russia and China with various Central Asian states as members and, interestingly, as observer members, on the outside but invited to meetings, India and Iran. That is a very interesting and parallel sort of regional grouping as compared to the ones we are used to. It is interesting not because, as some people in a slightly alarmist way have billed it as being an Asian NATO, I do not think it is anything of the sort, not least because I do not think the two countries at the top co-operate with each other more than at quite a superficial level in some ways, but because it is an example of the way in which China, which I think was very much in the driving seat of the SCO, is trying to think of new ways in which it can create that set of regional relationships which can play against each other, not necessarily in an overtly hostile way, simply on the grounds that all powers and all nation states like to have a variety of options rather than locking themselves down to any one or other. I suspect that any growing role that the European Union will have will fit into that particular matrix of Chinese alliances. In other words, the Chinese are always going to be cautious and make sure that they do not tie themselves down into any one set of alliances however attractive it may seem at the time. In other words if, as is often said, there is a special relationship between the UK and the United States, I think it is very unlikely that there will be a special relationship between China and any other one entity or body. I think that is an opportunity as well as a problem for the European Union.

Q171 Lord Inge: Professor Mitter made reference to asymmetric warfare, by which we normally mean internal acts of terrorism. What sort of handle has China got on this sort of thing? How good are their security services?

Professor Callahan: I think in terms of cyber warfare China has a lot of strengths in large part because it is seen as an internal issue and has the so-called “Great Firewall of China” to keep foreign websites out. It is quite successful. It is permeable, you can get around it, but you have to work to get around it. I think the expertise that they have developed on the internet to have their own internal cyber boundary has also helped them to do cyber warfare in the sense of attacking sites outside China. It is done in an asymmetric way in the sense that it is probably not the People’s Liberation Army officially doing this but it is different groups that are independent or semi-independent doing it, trying out various ways of attacking foreign websites. We have not seen any evidence of China promoting terrorism in the sense that we think that now as international terrorism, small groups planning to attack.

Q172 Lord Inge: You are talking about a group within China?

Professor Callahan: Yes.

Professor Mitter: There has been quite a lot of recent news coverage of the development of what are sometimes called SWAT teams, people in black uniforms with gas masks and this sort of thing, who are designed to deal with a biological, chemical or, indeed, potentially nuclear incident in a Chinese city.
A certain amount of this is also meant to be demonstrating that China has the capability to do something about this even if the threat at the moment is not particularly real. I think it is fair to say that because of the nature of Chinese society there is much more surveillance, it is much more locked-down in many ways than a liberal democracy and control over internal dissident groups is much greater. The Chinese Government also has an interest in lumping together entirely non-violent dissident groups with groups that genuinely want to use violence to change the political situation and claim that they are all essentially aspects of the same thing. That being said, it is true that there are groups—and they are quite small. I do not think they are particularly likely to have a major influence in China—which do use violent tactics, particularly in the western part of the country, and, therefore, the Chinese Government’s concerns about anti-terror measures are not wholly out a fantasy, they are based on reality, a reality which sometimes can be expanded beyond what the current knowledge can bear.

**Q173 Lord Selkirk of Douglas:** The EU is strongly focused on effective multilateralism at the regional level and under the United Nations system. What are the prospects for East Asia to develop regional institutions that can act as a partner for the European Union? You talked about the importance of reading and speaking Chinese, and I imagine you were referring to Mandarin. Can you give some indication of what percentage of the Chinese people can actually speak and read Mandarin?

**Professor Callahan:** The literacy rate in China is very high. I am not sure what it is, but I would say 80% or higher.

**Professor Mitter:** Could I just add one point of fact? Mandarin is not a read language but a spoken one. Modern standard Chinese is written in exactly the same form regardless where you go, but the way in which you pronounce it, the dialectal form, Mandarin, Cantonese, Hokkien and so forth, is mutually incomprehensible. It is a shared written language but different spoken dialects.

**Professor Callahan:** I was going to point that out. They are unified by a written language that most people can read. Most of the media is done in the spoken Mandarin dialect, although people speak their own local dialects as well. I am sorry, I forgot the question, I was sidetracked.

**Q174 Lord Hamilton of Epsom:** Multilateral organisations.

**Professor Callahan:** There are regional organisations developing in East Asia, multilateral organisations, that the European Union can work with definitely. There has been a progressive development, especially over the past 35 years. They are not going to be organisations like the European Union, so it can be a partner but it is not going to be a partner in the same way. There will not be as much shared sovereignty, that will take decades to happen. Yes, there will be someone for the EU to work with but it will not be the same sort of organisation.

**Professor Mitter:** If there is an argument that there is a set of shared values that ultimately unites the European Union to do with the sharing of market, pooling a certain amount of sovereignty, the sharing of certain liberal democratic civic values, there is no one set of states in South East Asia and East Asia that can reproduce all of those. I think all sides essentially have a shared interested in a stable and peaceful regional order, but beyond that in a sense they agree to disagree that specific political systems will not be pressured into changing. Regional democracies will not be forced into becoming Communist dictatorships and authoritarian states will not be forced into becoming democracies, and that makes it harder to find a fixed centre with which the European Union can engage, even if the European Union has worked out what it is that it wants to engage with them about, which is still something of a moot question.

**Q175 Lord Hamilton of Epsom:** That was writ large with Burma.

**Professor Mitter:** Absolutely.

**Q176 Lord Chidgey:** Gentlemen, we have, I think, certainly touched on this particular aspect and maybe overlapped on it a little bit. This is a question on foreign, security and defence policy. What I would ask you to do if you could is to try and summarise the aspects we have already covered and put them into succinct points for us to absorb. We are talking here about how the foreign, security and defence policy of the US impacts on EU-China relations, what is divergent and convergent about the US and European approaches to China, and what accounts for such differences in perception and approach.

**Professor Callahan:** It is very common to talk about how the US has a very different approach to China than the EU, the US is more conservative or more suspicious of China and sees China as a threat. I think that is exaggerated a lot. I think the US and European approaches to China are quite similar. Maybe Rana will disagree. The way the US affects the relationship is as the big elephant in the room in the sense that whenever groups come together to talk about EU-China relations they are also talking about America, whether they say it or not. You can see this in a lot of the think-tank reports, that they are not just about the EU getting close to China but the EU trying to distinguish itself from America, being independent of America or something along that line. The main differences are about specific situations,
that the US for historical reasons has commitments to Taiwan whereas the European Union does not. That is a strategic issue between the US and China that can lead to problems. One of the ways people talked about a strategic partnership between the EU and China five years ago was by saying that there were no strategic problems between the EU and China, no issues, but one of my Chinese colleagues said, “Well, maybe that’s not such a good thing. Maybe it’s good to have an issue or a problem because that means you have to talk, you have to engage, there is something substantive to talk about”.

Professor Mitter: The last point that Professor Callahan made gives me a nice entry point just to repeat the point that sometimes there can be an over-emphasis on the consensus of what Europe and China have in common and that consensus is not necessarily always the best way to move things forward. There are some areas in which the European and American engagement with China can be differentiated. The obvious one people bring up, but it is worth bringing up, is the question of human rights. I think it is fair to say that overall there probably is a more consensual approach on the European side to engaging China on the human rights issue. It does not tend to get brought up in national parliaments or European Parliament in quite the same confrontational way that it is done in the US Congress. Of course, many of you will be aware that for the last few years China has replied to congressional criticism of its human rights record by producing a White Paper of its own about human rights abuses in the United States which have more to do with socio-economic issues, homelessness and so forth. They are definitely engaging in that argument. Having said that, I think it is still very much the case, as Bill Callahan has said, that the European Union’s relationship with China is always defined by the Chinese as part of a more important engagement with the United States and it will take some time for that to change. It will take effort on the part of the EU to make that change.

Q177 Lord Chidgey: From the EU. You said that is one of their ambitions.

Professor Callahan: Right.

Q179 Lord Chidgey: So how would they try to achieve that?

Professor Callahan: As Professor Mitter said, it was very easy to do that last year with George W Bush in the White House because it was very clear that his foreign policy was very different from the EU’s and a lot of European countries’ foreign policies. I think a lot of people in China are nostalgic for George W Bush. The US and China actually had a very productive relationship under Bush and that is not understood very well in Europe, I have to say, not always for good reasons. What is going on in China right now is people are trying to think of the new situation: what does it mean now that the US is more actively involved in climate change discussions; what does it mean now that the US is withdrawing from hot button issues like torture and promoting human rights in a more progressive way; what does it mean for China? They have not quite come to a consensus about how to get Europe to separate itself from the US. The way the think-tank reports in China talk about it, as well as people in the media and Chinese leaders, is right now the problems between the EU and China are all Europe’s fault, are all France’s fault, are all Sarkozy’s fault, so they are waiting for Europe to change, to do something. This is where I said before it is not clear to me how there can be the same sort of close relationship between the EU and China that there was five years ago, or was developing five years ago and how we can ever get back to that point or develop even closer relations in the future as long as there is this sense of not just disagreement, because it is fine to disagree, we disagree all the time, but there is real disappointment in China about Europe, that Europe, as I said before, does not understand China the way they want to be understood.

Professor Mitter: I think Professor Callahan has put it very well. There is a problem with the issue that the Chinese feel disappointed by Europe because, of course, some of the things which they would wish Europe to do are things which Europe might not wish to do, for instance to keep far less of a focus on the issue of human rights even in that more consensual way that I mentioned earlier. That is where it comes back to the question of deciding what the bottom line is from the point of view of the EU about its engagement with China as well.

Chairman: Professor Callahan, Professor Mitter, thank you very much indeed. We have had a very long session and I appreciate very much the time you have given us and the in-depth analysis. Thank you very much indeed.
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excess of 40 per cent of GDP. It grew last year by 25
place in China within the next two or three years at
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Whatever it is, it certainly will be very low, and the
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immediate and, in a sense, most dramatic impact of
by exports and by investment. Of course, now, the
record in recent years has pretty clearly been driven
in which the Chinese Government was moving. Let
me explain what I mean by that. China’s growth
sloped very significantly and growth is clearly going
to continue to slow. In terms of shaping thinking on
China’s growth strategy, I would say that thinking on
thinking of the Chinese leadership or the people they
have to take into account? Will that change the
economic model that has been pursued in recent
decades? What effect might this have politically?
Most importantly from this inquiry’s point of view,
how should the EU react to these changed
circumstances?
Professor Ash: First of all, the impact of the global
strategy was already underway before last
September, but that there is no doubt that the events
since then have really underscored the new direction
in which the Chinese Government was moving. Let
me explain what I mean by that. China’s growth
record in recent years has pretty clearly been driven
by exports and by investment. Of course, now, the
immediate and, in a sense, most dramatic impact of
the global crisis has been on exports, which have
fallen very dramatically. Some people are suggesting
that export growth this year will be negative.
Whatever it is, it certainly will be very low, and the
global environment is such that it is, I think,
impossible to conceive of export recovery taking place
in China within the next two or three years at
least. Fixed investment has been another driver and
that already is at an extraordinarily high level—in
excess of 40 per cent of GDP. It grew last year by 25
per cent. That sort of trend is surely unsustainable
because, in the wake of falling exports, firms have of
course been left with excess capacity, to which an
obvious response will be cut-backs in investment. So
the prospects for investment—at least industrial
investment—as a driver, of economic growth, do not
look very propitious. This is where we come to the
thinking and the change in thinking on a growth
strategy. For such circumstances leave the
government seeking and hoping—and I think it is
hope rather than expectation, and my own view is
that it is a hope that it will be difficult to fulfil—for
domestic consumption to become a new driver of
growth. I have some doubts about that. We are in an
environment in which per capita income growth is
slowing, unemployment is rising, consumer
confidence is likely to be weakening (or, at least, will
be uncertain) all of which make the prospects for
consumption, as it were, suddenly to become a major
driver of growth somewhat unlikely. The other
possibility, and of course the direction in which the
Chinese government has been moving, is to try to
increase non industrial, infrastructural investment.
The government, for example, is pouring a lot of
money into the health sector—and that is a very good
thing, it is much needed—and other forms of social
insurance in the hope that this will divert resources
from savings, which have been remarkably high into
consumption. My view is that the outlook is quite
grim. That is where, of course, people start to wonder
about threats not merely to the legitimacy, but to the
authority, of the Chinese Communist Party. There
have been widespread reports that the effects of the
global economic downturn are going to precipitate
widespread social unrest. I would be a bit cautious in
going along with those predictions, but there is no
doubt, given that social discontent is already at a high
level and has been rising in recent years, that such
discontent will continue to increase in the wake of,
for example, high rises in unemployment. We read
these reports of 20 million migrant job losses having
occurred in recent months, although, I do not know
what credence one can give to those.

Q181 Lord Hamilton of Epsom: The Chinese
government I think are on record as saying that their
growth rate would drop but it had to be 8 per cent to
stabilise the situation within their country. You are indicating it is going to be much, much lower than that. Surely if you have social unrest now, then that is going to something writ large, is it not? If there is a large number of riots now, will they not have many more people in them and be much more difficult to control?

Professor Ash: Quite likely. That is certainly not an implausible scenario. I do no not know how plausible it is but it is not an implausible scenario. There are two things I would add to that. One is that the government, or the Party in the last 20 or 30 years faced some very serious crises. 1989 was a particular kind of crisis and there was a particular kind of reaction to that—one which I do not think we will see again. But it has weathered some very serious crises. In economic terms, after all, it did accommodate extraordinarily high job losses associated with the restructuring of the state and enterprise sector. Millions, tens of millions of jobs were lost as a result of that. That had its social impact, of course, but it was a social impact which the government was able to control. The second observation is that I think it is quite possible, given the very formidable power, after all, of the Party and the formidable military and police powers that it commands, that it will be able to do so in the future. So I would disassociate myself from what seem to me to be rather alarmist projections and predictions.

Q182 Chairman: Could I ask either or both of you to tell us concisely, in a couple of bullet points, how you think the EU should react to this potential big change in China.

Professor Breslin: I think we just have to be very much aware that there is a domestic agenda in China and that is going to dominate all their interactions over the next 12 months and beyond. I think they will get 8 per cent because they need to get 8 per cent, the next 12 months and beyond. I think they will get that is going to dominate all their interactions over a period of time. That had its social impact, of course, but it was a social impact which the government was able to control. The second observation is that I think it is quite possible, given the very formidable power, after all, of the Party and the formidable military and police powers that it commands, that it will be able to do so in the future. So I would disassociate myself from what seem to me to be rather alarmist projections and predictions.

Professor Ash: I do not think it matters. I think we must not be seduced by numbers here.

Professor Breslin: This is very clearly a year in which not just economically but in terms of the number 9 there is quite considerable significance. 2009 means that there are anniversaries of the foundation of the British Republic of China, of May 4 and of what happened on June 4, and everybody is very much aware of this. The government is. In some respects, I do not think this year is the problem year because everybody is so tuned in to the potential economic problems and the social problems for this year that they are very well prepared for it. I think it could be next year. But coming back for the EU, I think we have to accept that when it comes to G20s, when it comes to WTO, when it comes to any international environment negotiations/discussions, the Chinese will be very much focusing on what they need to do because of these domestic problems, whether that is with the EU, driven bilaterally with the United States, or with anybody else.
Q184 Chairman: That is obvious: it is always the French! 
Professor Breslin: That is simply an example—we could have chosen any of these countries. I think there is some concern within China to the extent to which EU-level policy, if you like, represents some form of trade off between the producers of Southern and Eastern Europe and consumers/distributors of Northern Europe. I think there is still some lack of clarity there in terms of what role does the EU play? Obviously when it comes to the WTO the EU is acting with one voice but particularly when it comes to investment into Europe and Chinese activities over here, I think there is still some lack of clarity over who does what—and perhaps understandably so at times. 
Professor Ash: That is a very interesting, I think, and valuable comment. One might turn the coin over and just remind ourselves that the EU—through its dialogues, through its summits and other meetings, its various mechanisms—is talking to the central government in China and to agents of the central government of China. That poses a big problem, because I think there is a pretty strong consensus that the system of governance in China is really quite dysfunctional and that there are really very serious tensions between central government and local government. One of the consequences of that is that there is no guarantee—it is a fundamental weakness in the system—that the policies, often very rational policies, that are formulated at the top, in the central government, are implemented when they reach the local levels (provincial governments and, indeed, sub-provincial, municipal governments).

Q185 Chairman: If that is the case, should there be a specific EU response to that? If that is an issue, should there be a specific response? Is it possible to have a specific EU response to that? 
Professor Ash: I think that is the question: Is it possible to? Yes, there should be. In an ideal world there would be, but I think it would be very difficult. 
Professor Breslin: Relating this back, first of all, to the first question, we should bear in mind that when we are talking about the financial crisis in China it is geographically uneven. 
Professor Ash: Absolutely. 
Professor Breslin: Zhejiang province has basically closed down. I think it has just put the For Sales sign up. Guangdong, the Pearl River Delta, has had huge problems. It is not an even problem. If we are thinking about how does Europe respond to China’s problems, it is which part of China? First of all, we have to retain in our minds the idea that this is some form of de facto federalism or fragmented authoritarianism and remember that anything that is done will be, shall we say, influenced by this fragmentation. Also, we can take a leaf from individual nations—and not always national governments—and see what they are doing. If you look at the activities of the China-Britain Business Council, they have offices now in six or seven different cities within China and have very different regional activities. The activities of the European Union Delegation in China are relatively concentrated on the political centres. Maybe it is an issue of funding, maybe it is an issue of political will, but it certainly would do no harm, I think, to spread the representation to different parts of China, either in formal offices or in some other way, so that there is a more even representation in those parts of China that people often forget about when they visit China. We go to Beijing and we go to Shanghai and often we do not go much further.

Q186 Lord Hamilton of Epsom: We have the G20 Conference coming up. Where do you think China will be coming from at that conference in terms of the economic and financial crisis we now have? To what extent do China and the EU share a common
Professor Breslin: I have just come back from three weeks at Beijing University and one of the professors there said, “Do you know, the problem with the global system is that it thinks it is still the end of 1944”—and of course he did not mention the United Nations which benefits China from being trapped in 1944. The major financial institutions still have power structures that are based on balance of power from a very different age and there is now, of course, a growing demand within China for a fundamental reform of not just the voting power in places like the IMF and the World Bank but also, as we have seen recently in the dominance of the dollar as a global reserve currency. There is a very strong desire to see not just reform but I think the rules of the game fundamentally changed and altered to reflect the growing significance of Chinese financial power. We have this sort of odd dilemma that China domestically is suffering from the global crisis but in some ways globally its power is enhanced because of the increasing significance of its foreign reserve holdings and its overseas currency accounts. It wants to buy IMF bonds, if they are issued. It wants to replace the dollar with a more variegated basket of currencies on the global system. There was a lot of talk in China over the last couple of weeks of: “Why are countries like China being expected to pay money to the IMF so that rich Western countries can be bailed out?” Per capita income in China is still by official figures only something like US $3,000 per annum and yet they think that Chinese money is being demanded so that the West can bail out their own economic system. I think there is reluctance to be seen to be bailing out the West, but at the same time they want the West to grow because of the importance of the Western economies as consumers for markets. It is not an antithetical position to the basic need, desire if you like, for growth and stimulated economies in Europe and the West, but if China is going to participate, it feels that it needs to be respected—“respect” is a word you hear quite a lot in China—but also given full weight for its financial interests and its financial power. Of course if the dollar declines, and you have perhaps a trillion dollars worth of dollars and that value of those dollar reserves declines as well, there is a lot of self-interest involved here as well of course.

Professor Breslin: The extent of it I am really not sure about.

Professor Breslin: Let me take a step back. When the China Investment Corporation was first founded, I think a lot of people thought the Chinese would go and invest overseas, which they did, but of course some of the original investments lost a lot of money in the United States. There was an outcry: “Why are we spending money overseas when we do not have a health service back home that we can really count on?” There are voices within China that think that if money is going to be spent on bail-outs, it should be bailing out Chinese pensioners, the Chinese medical system, and so on and so forth. This is not a political system that is immune from the demands of the population. Wen Jiabao has been criticised quite heavily in some quarters recently for his economic policies. I do not think there are any guarantees. If you stood back and looked objectively at the voting power, for example, in the IMF and then looked at the countries that have the money that we would want to be invested in the global system, there is a bit of a mismatch. You do not have to be Chinese to see that, I do not think.

Lord Anderson of Swansea: A counterbalance. Professor Breslin: A counterbalance to the dollar. There was concern, obviously, that it might be unstable and people wanted to see the stability of it. At the moment Chinese academics are debating whether the euro can hold, given the different economic situations in a number of the different euro zone countries. But there is a diversification into different currencies—the yen as well, obviously—in an attempt to reduce that reliance on the United States.
States, and also, now, to reduce the amount of dollar holdings and American debt, effectively because they have been caught out. They are holding a lot of toxic money that they have basically used, to some extent, to keep the American economy running for the last two or three years in the way that it has been running.

Q191 Chairman: Could I bring you back to the beginning of Lord Hamilton’s question about the G20. I want to ask not so much about this meeting in April but what does China want out of G20?
Professor Breslin: The Chinese will, of course, attend the G20 and of course they will make their points very clear there, but I am not sure that the G20 is necessarily the preferred long-term forum for multilateral dialogue.

Q192 Chairman: What is?
Professor Breslin: Some form of Chinese participation in the expanded G8, G9, G10, whatever we are going to call it. The G20 I think appears to be too big and too diverse. I think they see it as too big and too diverse to be able to make the decisions that will affect them.
Professor Ash: But not the G2.
Professor Breslin: Not the G2, no.
Professor Ash: One of the questions that was asked related to a common approach specifically in the face of a global crisis. It is a very obvious thing to say but, since it is proving very difficult to get a common approach within Europe, let alone within the Western world more broadly, it does seem a little bit premature to be asking whether China and the EU can identify a common approach to the crisis. What we have heard so far have, essentially, I think, been fine words. When Wen Jiabao was in Brussels a couple of months ago, he and Barroso pledged both sides to the promotion of further growth of trade and investment, and to strengthen, I think the term was, “practical co-operation”; but what form this practical co-operation was going to take remains to be seen. Even more fundamentally, whether such co-operation really will be possible, also remains to be seen. We do not actually know what the full ramifications of the crisis are. At least that is my view. There is a lot of floundering around still. I am not sure that we can say that the crisis has played itself out. One of the questions, for example—an intriguing question—is what would happen if China’s surplus continued to grow vis-à-vis the EU in the context of recessionary conditions developing—as they are already developing—in Europe. Would that prompt—I am sure it would do so from some constituencies—protectionist tendencies? There are so many uncertainties that I think it is simply premature to be addressing such issues. It is almost a redundant question to ask that.
Chairman: We will take it as that.

Q193 Lord Jones: Thank you, my Lord Chairman. We have already heard the phrase in passing “the significance of Chinese financial power”. Formally, what is your assessment of the role of Chinese capital in the current international system? Is the EU concerned by the role of Chinese sovereign wealth funds or acquisitions by Chinese companies in strategically important sectors? If so, what do you think the European Union should do to address these concerns?
Professor Ash: China’s emergence as a supplier of capital is a fairly recent phenomenon but one that has developed very fast. Clearly China is now one of the top global investors. There is no question of that. If you are talking, for example, of outward FDI from China, the drivers of such flows have been big Chinese companies, some of which now have very sizeable overseas holdings. If you mean by “role” what are the motivations of such investment, they are the fulfilment of one or more of a number of goals: of course, to secure resources—that is very evident in Africa, but also elsewhere; to access markets; to obtain know-how—and I mean managerial and organisational know-how as well as technology in order to enhance efficiency; and to acquire strategic assets. In a European context, if one is trying to define the role in those terms, the most important motivations would be regarded as trying to access markets—that is important, particularly for goods that are in excess supply in China, for example, and where the profitability of domestic operations has been falling; to acquire managerial know-how and to acquire high level technology, and perhaps, also, to extend brand imaging. I think that this last is also important. The sovereign wealth issue is also a recent phenomenon and you have asked about concern about this. I think there is concern. There certainly is concern within EU Member States, and my understanding is that, for example, last year the German government introduced new legislation precisely to give it the power to block acquisitions and some have seen that as very much aimed at the potential activities of China’s sovereign wealth fund. Professor Breslin: In some respects I think there has perhaps been a little bit too much of an emphasis on the China Investment Corporation as a sovereign wealth fund—I think partly because it came along and it was new and people got quite excited about it. In fact the China Investment Corporation is a political compromise: it is a fudge that came about because different agencies at the centre in China were arguing over who should have control over financial resources and so they established this as something that would satisfy or not dissatisfy the different ministries, the People’s Bank of China and the Ministry of Finance. The China Development Bank has also been a major player. It is the China Development Bank that provides much of the loans...
for these major state-owned enterprises to go overseas, and that is politically directed lending. The State Administration of Foreign Exchange is probably the most significant supplier of outward capital, and I suspect will become even more significant in the future, particularly in terms of getting rid of some of these dollars and perhaps creating a more balanced portfolio of holdings. I think they are going to be more significant. We also see the Import-Export-Bank of China operating quite significantly. So there are different agencies and I think it is important that we do not become too myopic and do not focus in too much on this sovereign wealth fund and bear in mind the whole range of different agencies that are sometimes competing with each other. I think it was at Citibank in New York there were at least two Chinese agencies that were looking to take holdings at the same time. Also, in terms of smaller medium enterprises from China coming to Europe, often with the support of local government and local branches of the China Development Bank, they are looking increasingly for know-how, technology, expertise. I think the European response should accept or be based on this reality of a multiple set of players and multiple sets of ambitions and objectives of the different actors involved. Clearly some of these issues are going to be more politically sensitive and strategic than others and, of course, we cannot get away from mentioning the United States because there are clearly going to be problems between Europe and the United States if Europe or European countries allow China to buy assets in areas that the United States would deem to be military-related and therefore contravening the arms embargo. So I think the trilateral relationship needs to be taken into account here as well. Personally, I think the more co-ordinated this response can be, the better, because otherwise there might be a case of countries playing against each other in terms of their openness to Chinese investment, which could have long-term significance. Professor Breslin: Meanwhile one might just add that it is incumbent on all those concerned to try to keep an eye on the sovereign wealth fund, the activities of other institutions that Professor Breslin has mentioned, to try to identify to what extent, for example, the China Investment Corporation is seeking to diversify its portfolio. That is going to be an important indicator of, in a sense, the goals of China’s sovereign wealth fund. Professor Breslin: But it is not always clear, because a lot of the activities of the state, in particular, are carried out through third parties in other countries. Professor Ash: Sure. Professor Breslin: So it is not even always very clear that it is a Chinese investment.

Q194 Lord Hamilton of Epsom: We do not seem to have a question here on Africa. Do you see the deals that have been done in Africa being maintained or do you think they will go more slowly because of the economic situation? Professor Breslin: I think they will be maintained. China is now helping—that is an interesting word—a number of African countries set up special economic zones. Whereas the Chinese special economic zones were intended to maintain some form of Chinese sovereignty as it engaged with the global economy, so the African special economic zones are there to allow Chinese interests to be maintained in Africa. Resources are clearly important. I would just like to add one thing that I sometimes think gets missed off, and that is food security. The Chinese are very concerned at the long-term access to enough food to feed the population. Within the energy security debates and actually within the journals produced by the military a number of people have been saying that in the long-term food security is more important. Feeding people and having a sufficient amount of relatively cheap food is the basic starting point for most governments. It is noticeable, if we track back 12 months, that the big debate in China at the time was high prices and particularly high food prices. I think China is now going back into the global markets of investment after a little bit of a hiatus—after the crisis really came to light there was a bit of a slowdown—but they are going back and I think we can expect to see continued acquisitions in Africa in terms of resources but I also think we need to think in terms of long-term access to food as being an additional objective of some of these overseas operations. Professor Ash: I think with an emphasis on long run. Professor Breslin: Long run, yes. Chairman: We will have a specific evidence session on Africa in a few weeks time.

Q195 Lord Anderson of Swansea: In terms of those investments, can one discern some central direction, some wish to invest in not just the food matter but strategically in terms of things which we in Europe should be concerned about? Think of Kuwait Investment Organisation, relatively small investments in many firms, no fear that they would be used for political ends. Should there be any such concerns in respect of what China is doing? Professor Breslin: In terms of political ends? I guess I want to say the emphasis is more on, first of all, the price and distribution of global resources rather than on them being used for some sort of political purpose. But if you are taking evidence on Africa I will just mention the idea that China provides an “alternative”. The political objectives of the West, not just in Africa but in Latin America and other parts of the world, are being undermined, I think, because China presents this financial ideational alternative to the Western way of doing things. I
I would like to come back to some of the commercial issues we were talking about a little earlier, in particular the extent to which you think that the EU have made progress towards persuading China to open its markets to European goods, services and investment, and what the main obstacles are to market access, really, for large companies and SMEs. Clearly there are quite a few European companies, including British companies, which have done very well. On the other hand, there are those and, indeed, others who find the regulatory burdens and the shifting regulatory burdens quite a constraint. I just wondered what your views were on the trends really. Do you sense that there is a European company view or a corporate view? Does it really depend on what sector you are in, whether you are large, whether you are small?

**Professor Ash:** Yes, progress has been made, I think. I was interested in the way you framed your question, which asked to what extent the EU had "persuaded" China to open markets. I would say that it is perhaps not so much the EU that has done so. I think the impact of China’s accession to the WTO was a rather more important watershed because, since then, it has become very, very clear that China has not only reduced its tariffs but it has opened up a growing number of industries—not as many as we could have hoped for, but a growing number of industries—to overseas investors and to traders. Are there positive signs? Allowing the currency to rise has been one encouraging aspect. There have also been some important institutional initiatives. I note that at a number of points this morning reference has been made to small and medium-scale enterprises and the difficulties they have faced. We wait, of course, to see what the impact will be but there is now a new EU centre in Beijing that has been set up and I believe that its remit is very much geared towards helping facilitate the activities of SMEs in China. There is also the high level economic and trade dialogue mechanism that has recently been set up. I think a number of promising and potentially important—alas, we still talk in terms of potential rather than in terms of reality—point to progress having been made. That having been said, of course, as has been stated there are many qualifications to be made, which would include the continuing maintenance of tariffs in some industries—including a number that would be regarded as key industries, I suppose, from an EU perspective—and the use of other barriers to imports of certain goods: price controls, discriminatory licensing requirements, discriminatory registration requirements, restrictions on investment in particular regions of China. And there are other barriers: discrimination against investments in particular sectors—not that I am particularly surprised that that should have been the case, but of course it runs contrary to the rules of the WTO—and investment restrictions that prevent European investors setting up wholly European-owned, wholly foreign-owned enterprises (in other words, insisting upon joint venture arrangements). An EU corporate view? I do not know, although I do recall a very interesting survey of a couple of years ago that was conducted, I think, by the Hay Group, which revealed very, very clearly that these values were real and that they were very serious. I remember the finding that a significant proportion—maybe half, maybe more than half of the respondents—said that they expected that their operations would be affected by violations, for example, of IPR in the coming five-year period. So those barriers I think are serious.

**Professor Breslin:** Yes, and they are incredibly detailed regulations. You really have to go down to an industry-by-industry case to see what they are and then accept that the local government will probably act in a different way anyway. In terms of a European response, I really get the feeling that when it comes to China coming to Europe obviously then the European level is hugely significant, but when it comes to Europe going to China the national level still is much more significant. A lot of these companies are self-identified or identified as being a British company, a French company, a German company rather than a European company. I do think there is a much stronger emphasis here on national governments being seen to support national companies and the companies in some ways a representative of that nation rather than as a wider European identity and effort.

Would you say there is a case of both? I agree with you about the importance of national action and national lobbying, but are there particular areas in the regulatory area, for example, where you think a coherent, sustained EU approach over time might have an effect? Rather as a few years ago we were doing the same sort of thing with Japan, trying to get them to change taxes, to open out, and it took a long time, are there areas there where you think the EU/qua EU could have an impact?

**Professor Breslin:** I think on intellectual property, for example, counterfeiting and the things we are going to come on to later with labour legislation. I think it is very important there for it to be at the European level because I think that contains much more power and also prevents individual European countries being discriminated against for acting in a certain way. I do think there is. But as Lord Anderson will know, when the Foreign Affairs Select Committee had its investigation into relations with China, in 2000 I
think it was, one of the messages that came across very strongly from the British companies which gave evidence was that the British Government should be doing something because if they do not then French and German companies will get the contracts. I agree, it is at both levels, and I think there is more perhaps that could be done at the European level but when it comes to lobbying within China and lobbying governments to have a good political relationship to ease economic and commercial processes in China the national level will still probably dominate.

Q198 Lord Jones: Have either of you monitored the attempts by a European company, EAS that makes the Airbus? Do you know of any difficulties they are having or any successes? I understand they are setting out a process to build in China a product that they make. Are you able to give an instance of an industry or of a company going into China and succeeding?

Professor Breslin: A number of companies have gone in. The bluntest way to look at it is if a company goes into China and there is no domestic producer to compete with, then people have often done extraordinarily well. A lot of the major retailers. Carrefour is the local supermarket for Beijing University, for example. B&Q have done very well.

The interesting case about Airbus, of course, is that this is a case where the Americans got very unhappy because Airbus made their big breakthrough in China during an American embargo on China related to nuclear technology in Pakistan. In a period when Boeing could not, Airbus stepped in and took up the slack, as it were. So there are lots of areas, but it is where you are competing with existing producers that it becomes very difficult. You will find that often it is the local level protection as well. It is where you are adding something and not competing with the existing strong interests that there are the easiest possibilities for doing well.

Professor Ash: Going back to an earlier point, when we were discussing the EU response and what the EU can do, I would certainly endorse all the things that Shaun has said but I would just add that resolving and making further progress on these issues in the end requires—and it is a truism but it is an important truth—further reform to take place within China and to be undertaken by the Chinese themselves. That is going to be a long-run task. What can the EU do? Of course, it is always articulating its desire to facilitate reform but, in practice, helping the reforms along I think is an enormously challenging task.

Q199 Lord Anderson of Swansea: On the agenda of the EU-China dialogue, let us assume that you are in a non-sensitive sector, again a Carrefour in an area where there is not much competition within China, let us assume perhaps that you have a joint venture, is there then the rule of law in resolving disputes? I certainly have not heard of an equivalent to the Russian dispute on BP and TNK. I have not heard of an equivalent of the Shell problems in Sakhalin. Would a British company, a European company be confident that there were proper procedures for the protection of minority shareholders, for example—in short, that the rule of law persists? What about the position in respect of intellectual property rights and counterfeiting? Can you say a little more about the EU using trade defence instruments and anti-dumping mechanisms? Is there the rule of law? How effective, if at all, are representations made by the EU in terms of questions of the rights of companies and arbitration procedures?

Professor Breslin: The simplest way to put it is that it is much improved but there is still quite a long way to go. The Chinese model, if we can call it a model, is something that has tended to move through experimentation. There are a number of experimentations that they can place in different legal forms; for example, the labour courts in Shenzhen and places like that. It is better than it was, and in some places it is better than in other places within China as well. I think the biggest difficulties come when you come up against local governments with a strong vested interest within the companies that perhaps you have a case against. Treaties do work, yes. There are important byelaws that take place. Do you have confidence? I would say you have more confidence. Do you have absolute confidence? No, probably not. Even private economic activity in China, when it exists, exists because of the relationship that that private economic activity has with the state. The hand of the state is never totally absent from private economic activity, so there will always be some relationship there with the state. So better, but certainly not total.

Q200 Lord Anderson of Swansea: The fact of corruption?

Professor Breslin: Corruption is extremely significant. Can one say it is endemic? Perhaps that is taking it too far, but even if you look at the documents of the Chinese leadership themselves, they point to the overwhelming state of corruption. Particularly you have a coalescence of power at the local level, where you often have political actors acting as regulators of the local economy and also overseeing the judicial process that might be used to bring them to account. The more that you get into local politics I think, the harder it becomes and the more you come up against, if you like, the vested interests of the local state, as it were.

Q201 Lord Anderson of Swansea: Are there success stories in respect of intellectual property rights?
Professor Breslin: Yes, there are cases—that have been taken by Chinese companies as well. I think the Chinese companies perhaps find it easier in cases.

Professor Ash: That is an interesting point, I think, because in looking for improvements in the protection of intellectual property rights, one might be looking again not only at what the EU and other countries can do, but at what is happening within China itself. One of the things that is happening in China is that there has been a very significant rise, a sharp rise I think, in the number of patents filed and registered by Chinese companies in China. Implicit in that, clearly, is a desire for IPR protection and that suggests that perhaps further improvements in IPR protection are likely to come from within the country, as much, if not more than from outside.

Professor Breslin: I think so. One of the big areas is lawyers training in this area, so that there is legal protection for Chinese companies against counterfeiting. One of the interesting things that happened in Beijing was that rather than try to sue the individual sellers, retailers, they decided—and I cannot remember who it was—to sue the whole market and the owners of the market and that worked. Having said that, there is still something called a silk market in Beijing and, if you want it, you can find it there and I would have a guess that it is not authentic.

Q202 Lord Hamilton of Epsom: A lot of foreign companies have registered in Hong Kong and so they have the protection of the Hong Kong judicial system. I never quite know what that means. Can you then sue, from Hong Kong, a Chinese company on IPR and have it processed by the Hong Kong system? I never quite know what that means. Can you then sue, from Hong Kong, a Chinese company on IPR and have it processed by the Hong Kong judicial system?

Professor Breslin: I would have thought so. The big case was Lacoste and that was done through Singapore, so presumably, I do not know the answer but I am assuming that if it is done through Singapore then the same would be true of Hong Kong.

Q203 Lord Hamilton of Epsom: Are the registrations in Hong Kong still happening and growing or do people find that degree of protection less important?

Professor Breslin: Hong Kong still remains a very important conduit for a lot of foreign investment that goes into China. If we look at the figures for the major sources of investment into China, the British Virgin Islands and the Cayman Islands are quite high—and we can work out why they are there—but a lot of the Japanese companies, for example, still operate in China through their subsidiaries in Hong Kong, so it is not just a European phenomenon. Something like 80 per cent of the Japanese money that is invested into Hong Kong then ends up in the Pearl River Delta, so Hong Kong has retained its place as this financial/legal conduit between the global economy and China to some extent—perhaps more than people expect.

Professor Ash: And from China.

Professor Breslin: And from China.

Q204 Chairman: To conclude on this question, could I come back to Lord Anderson’s part on anti-dumping. Does China fear anti-dumping?

Professor Breslin: Yes. Very much so. It is depicted as being a political tool to block Chinese exports in sensitive areas. Just after China entered the WTO there were a number of issues over rabbit meat, shellfish and cigarette lighters that were brought on safety grounds. There is a very strong discourse in China that the European Union and other places use health and safety—and will increasingly, in their view—as an “excuse” for that.

Professor Ash: And China says, “Why not us?” If we are talking about market economy status, for example, which this clearly relates to, China’s view is “You give it to Russia and the Ukraine and they are not on the WTO. We are in the WTO, why not us?” I think there is a lot of bitterness.

Q205 Lord Swinfen: Gentlemen, what social and human rights issues arise with regard to the EU-China trade? In particular, is compliance with international labour organisation standards, including child and penal labour, an issue?

Professor Ash: I think it must be seen as an enormous issue. This is not an area in which I have any specialism, but anecdotal evidence suggests that it is still a very significant problem. In a sense, given the nature of China and given the considerable weakness of its legal framework, and given, not least, the fact that so much economic and trade activity in the end is driven by migrants, of whom there are 200 million—

Q206 Lord Swinfen: Are you talking about migrants within China?

Professor Ash: Yes, I am talking about internal migrants. I am talking overwhelmingly of rural migrants who move into cities. Of course, often they go on their own as men, but they also go these days with their families. The problem of child labour I think is still an enormous problem. Is non compliance with ILO standards in relation to child labour an issue? Yes, overwhelmingly so. I have little doubt that much the same can be said of the use of penal labour and forced labour exports. The evidence that has been made, for example, to congressional committees
in the United States provides overwhelming evidence of the large scale of this problem. I think compliance issues are a real, real problem.

Professor Breslin: In some cases it is simply not possible to produce to the contracts that Chinese companies have signed without breaking even Chinese law on working times. Foreign companies know this. In some respects, as consumers who have consumed goods from China, we are all slightly consumers of such goods. I am obviously not going to mention any names but there are companies which are known for driving deals and bargains with Chinese producers that are impossible for them to keep to without breaking their own labour laws, particularly the working hour laws that have come into place over the last few years. Chinese labour laws are getting better and they are more often being applied and they are more often being challenged through the courts, but it is something that, with the global economy and the outsourcing of production, if it does not happen in China will probably happen in other parts of the world.

Q207 Lord Swinfen: Is there any sort of trade union movement?

Professor Breslin: There is no formal autonomous trade union movement. Trade unions in China are official agencies. The All China Federation of Trade Unions would be what Lenin would have called a “transmission belt” to provide information downwards and also back upwards, but of course primarily it works in a one-way fashion. To be fair, these trade unions are now more often, again, representing problems. We have this problem, health, safety, injury, so they are beginning to become more representative of the problems facing their members. But you would not consider them to be an independent trade union as we would recognise them in Europe anyway.

Professor Ash: I think it deserves to be added, in fairness, that legislation has recently been passed and it is clear to me that improving conditions for migrants is a genuinely high priority for the government. It remains to be seen what impact this is going to have. The other thing I would say in relation to child labour—I seem to keep coming back to looking through the Chinese prism as much as through the European or the EU prism—is that there is a significant problem relating to the way in which China’s educational system works and the provision of education at even a very basic primary and early secondary level. The cost of such education is still beyond the means of many, many Chinese families. They say, “We can’t afford to educate our children” and they send them to work instead. There was a very interesting case I heard recently of a headmaster of a primary school who was hauled up because he had employed the students, the very young children that he was supposedly educating. His claim was, “Yes, but I am educating them. They would not be educated unless they could be provided with more money and the way in which I am trying to help is by employing them”—no doubt not in very good circumstances—“to provide them, through their parents, with the money to educate them.” This is a very complex situation.

Professor Breslin: It is very difficult to pick on China, because if you ask questions like this the answer is always going to be, “Yes, there are issues,” but we always need to keep in mind what we are comparing China with. If we are comparing China today with Europe today or our expectations today then it is never going to appear particularly great, but if we compare China today with China 10/15 years ago then a lot of our understanding is different. For example, for a worker in a factory in China, the legal protection that he or she now gets is much greater than it was 10/15 years ago. From 1997 the ability to litigate even against the local government. Okay it is difficult, but it is there and it is used sometimes. We always have to think of the trajectory and where we have come from rather than just looking at things as they are now.

Q208 Lord Selkirk of Douglas: To what extent do the policies of the EU and the United States towards China over trade and economic issues converge or conflict? Could we be moving towards a G2 arrangement in which China and the United States will be the main actors in global economic performance?

Professor Breslin: Certainly when it came to negotiating China’s entry into the World Trade Organisation, the American negotiators did not think that the European and American position converged much at all. The American negotiators complained quite bitterly about the European Union, and that they thought they would arrange something and then they would find that it had been unarranged because of this peculiar way that the WTO, as a multilateral agency, works through multiple sets of bilateral interactions and negotiations when it comes to country criteria. So there is that element there. I know there is still some feeling in the United States that Europe lets the United States do all the heavy lifting, deal with all the hard issues, and then Europe not just maintains economic relationships but in the case of Airbus, as we have already mentioned, sneaks in the back door...
in a time of trouble to establish itself at the expense of the United States. There is that feeling and clearly amongst some people in Chinese policy-making circles, who, if you like, go back to the old idea of triangles and triangular relationships and playing off the EU and the United States, it is always good to have counterweights and balances that can be played off against each other within the global system. Could we be moving towards a G2? I suppose we could. I do not see it personally. I think the level of the residual tensions between China and the US over economic issues are still too strong and there is real concern in China at the moment about the United States taking a turn inwards and that this would be massively damaging to the prospects of China exporting itself out of its own current problems. I think there they are really very wary about the way that the United States is acting and we saw only this week this call to get rid of the dollar as a global reserve currency. I do not see a G2. Chinese strategic thinking when it comes to military or diplomacy or economics prefers triangles and threes, always, to twos.

Professor Ash: The remarks I would make would be largely those of Shaun. I also do not think that there will be any move towards G2. I came across an interesting quote, not by a Chinese government official but by a senior person working in CASS, the Chinese Academy of Social Sciences, to the effect that G7 is too old, G20 is good, but G2 is not the right direction to be going in. Notwithstanding your earlier comments about G20, this seems to me to capture the Chinese position quite well.

Q209 Lord Jay of Ewelme: That is the point I was going to come back to because I was slightly surprised earlier on that you seemed to be suggesting that China would feel more comfortable with an expanded G8 rather than G20. My own experience has been that China has not wanted to join the G8 because there is a residual feeling that China is a representative of the developing countries and that would be swallowed up in the G8 and therefore might be more comfortable in the G20.

Professor Breslin: All I can tell you is that in discussions at Beijing University last week, the comment that was made by one of the professors which they all agreed to was that the G20 was too big and too diverse. Perhaps they do not like any G number.

Q210 Chairman: What is likely to be the US-China-EU relationship after the current recession? I do not know, you said it would be very difficult to look forward to that, but do you think Europe will be more important in trade investments and technology than the US at some point? Is that ever possible? On this balance, does China really see Europe at all on the same level as the United States or is this really something that will never be achieved?

Professor Breslin: I think that in some respects the period of Chinese perception of the role of the EU as an actor in international relations peaked a few years ago. I think there was a very strong hope, even, that the EU would become a key actor in the international system, and some of the messages that were being given to China seemed to suggest this because this would then be a very interesting counterweight to what was perceived to be American hegemony in the unipolar global order. But then with, in particular, the failure to lift the arms embargo there was what is often called a capability-expectation gap: there was an expectation that the EU could act, its capability to act did not fit that and a gap emerged, and then perceptions of the EU’s “actorness”, if we can use that horrible word, began to dip down again. In some respects, I think it has stabilised now at perhaps a more realistic understanding of the EU as one of the sites of governance in Europe but not the only site of governance, and international relation states still are fairly important.

Q211 Lord Swinfen: Does China have a strategy for greater trade and economic integration with other Asian and Pacific countries? What are the implications of this if they do have such a strategy for the EU? As a side question from that, does it agree with regional economic blocs?

Professor Breslin: China has signed a free trade agreement with the Association of South East Asian Nations, which should be complete by 2010 I think. Everything about China is astonishing. You cannot get away from words like “astonishing and “remarkable” when it comes to talking about China, but actually the change in policy towards the region really does deserve to be called astonishing because not that long ago China did not have diplomatic relations with quite a few of the states in South East Asia. It thought that the Association of South East Asian Nations was an automatic ally of the United States, hostile to Chinese interests, and China really was not very interested at all in engaging in regional multilateral arrangements. Yet today we see China as one of the major drivers of regional integration—a vision of regional integration that is not shared by all. You said Asia and Pacific, well one of the ongoing problems is what is the region? Where is East Asia? China has a very clear idea now, I think, that East Asia is the ASEAN countries plus China, Japan and Korea. The ASEAN plus three format.

Professor Ash: Taiwan.

Professor Breslin: China is a province of China. That format formally came into being in December 1997 after the financial crisis and helped establish the Chiang Mai initiative of currency supports. This vision of Asia is challenged, because when we had the
East Asia summit, East Asia was now defined as including India and New Zealand and Australia, and this occurred because, according to officials in Japan, some ASEAN states and, in particular, the Japanese, were not happy about the idea of the emergence of a Sino-centric dominated East Asia. So China has a strategy, it has an understanding, but as much as China matters, we should not forget that Japan matters too—I think that Japan often gets forgotten in a lot of these discourses—and of course the United States matters too. Japan has been trying to push to counter the Chinese influence in Latin America and Africa as well. It has its own development trajectories there. I think perhaps these historical challenges for supremacy within the region are going to be played out also in competing visions of what the region is and the competing regional initiative put forward by Japan and China at the moment and over the next few years.

Professor Ash: I would add that, in many ways, when one looks at what has been happening in terms of trade and economic relations, what is very noticeable is really the process of regionalisation. China’s involvement in South East and East Asia is part of this dominant feature. We think of how important now the EU has now become as a trading partner and how important the United States is as a trading partner, but if you add up China’s trade with ASEAN and Japan and South Korea and, indeed, Taiwan, it is bigger than its trade with the United States—about twice as big, I think. It is bigger, not quite twice as big but 80 per cent bigger, than its trade with Europe. So it is a very important dimension. In terms of the implications for the EU, I remember that there was a piece that Fred Bergsten at the Peterson Institute in Washington wrote in 2007, in which he estimated that the immediate impact of certain pan-Asian or pan-Asia-Pacific trade configurations was such that the United States stood to lose something like $25 billion a year as a result of tariffs discrimination resulting from genuine free trade within this region. Those figures suggest that the implications for the EU could really be quite significant.

Professor Breslin: Again we are talking about the future. At the moment much of the trade that China does with Asia is in terms of producing goods that are then exported on to other markets: the United States, Europe, Japan. China runs a trade deficit with most of the ASEAN countries because they are supplying components. The idea at the moment of this being a closed bloc which is oppositional to global free trade does not quite work, therefore, because it is a result of globalisation, if you like, rather than an opposition to globalisation. As China becomes more of a genuine market in its own right for these imports from other countries and these other countries become more of a market in their own right for the Chinese goods and Chinese investments, that is, I think, when the danger becomes more pronounced for a regional bloc. At the moment much of this regionalisation is contingent on, driven by, part of a wider process of globalisation and needs to be open to the global economy. People have been talking about the emergence of the Chinese markets since the McCartney mission—which I think was in 1793, was it not?—but when it really does happen I think we are in a very different geo-strategic and geo-economic world order.

Q212 Lord Anderson of Swansea: However one defines Asia, whether it is narrowly around China, whether it is Australia and New Zealand, whether it is the Shanghai Corporation Council, clearly there are moves towards a greater integration. You say that the US is expressing concern about this. Is it something that we in the EU should be concerned about? Is China building up trade balances with that area, however defined?

Professor Breslin: Should we be concerned about it? Yes, but not yet, I think would be my answer to that, because I really do think it does depend on this transition. Chinese domestic consumption at the moment is . . . What is it, half that of the United Kingdom? I cannot remember what it is, but it is at a low level. We have been worried about China and people have been seeing China rising and people have been talking about Chinese power and economic power for quite a long time. I am wary of it because I think, “What are we going to call it when we really see it?” It is that market power of China in the future that will be, if you like, the centre of some sort of regional bloc, whatever it is, or even just on its own, that will give China the sort of power that we seem to think it has today. In some respects, some of the policies towards China from Europe, East Asia and wherever else is because people are treating China now because of what they expect it to become in the future. It is almost as if we have discounted its future rise and we are treating it now as the power that it will be.

Professor Ash: It is not going to get to that point for a very long time if you are looking at consumption. Really it is a very, very distant prospect. The other thing I would add is, yes, there has been the extraordinary proliferation of Asian regional institutions—ASEAN, ASEAN plus one, ASEAN plus three, the regional forum, the Shanghai Corporation, APEC and so forth and so on—but one might just observe that not one of these yet has sufficient power to be able to mobilise the region, to get all those countries to act in concert.

Q213 Lord Anderson of Swansea: Can one discount the reluctance of some of those other countries to dance to the tune of Big Brother?
Professor Ash: You bet. Absolutely.
Professor Breslin: I think 1997 was quite important. The response to the crisis and the response to the response of the crisis made a lot of people in Asia think that the West was being arrogant and pushing them around and trying to impose Western solutions on Asian problems. Now, in 2008-09, the West has its crisis, and I think there is a little bit of private glee in some parts of Asia.

Q214 Chairman: Should Europe, which is the ultimate in regional and economic blocs, encourage other parts, particularly in East Asia, to follow that lead? Or is that just not possible?
Professor Breslin: I would say no. Because of the peculiar unique circumstances in which the European project emerged in the 1950s and 1960s, it is a million miles away, I think, from the context and the conditions that we are in. I do not think in Europe you can push Asia to replicate the European style integration. Any integration that occurs in other parts of the world will reflect the conditions of those parts of the world and not the conditions that were in Europe in 1950, 1957, 1975, to be quite frank.

Q215 Chairman: The last question stays at geopolitics, to a degree. The question in many ways is saying we have a new development model in China, very different from much of the rest of the world, and does it see itself as a model no longer exporting Marxist-Leninism but as its own new model? Is that a way that it is proud of, that it would see? What are the prospects for this? One of the areas that is not in here is Doha, which is potentially very important, though very slow and maybe impossible, but I would be interested to understand from you what you feel about China’s contribution to that agreement not happening in the past or its prospects of happening in the future, and how did it practically work with the EU within that forum?
Professor Breslin: I simply do not know the answer to the last part of the question at all, so I will stick to the first one. The Chinese official position is that the Chinese model is based on China’s unique circumstances: you must seek truth from facts, each country must decide its own way of doing things. So this is not a model that will be exported, other than “Do things your own way.” Having said that, the very idea of: “Do things your own way, work out your development model based on your circumstances” is depicted as standing in stark contrast to what is perceived or depicted as the hectoring Washington Consensus approach, where people in the West try to enforce development models. Not having a model to impose becomes, in some respects, a model in itself, if that makes sense. It becomes an anti-model. It is defined as what it is not: “We are not telling you to do anything. Do what you want.” This I think, given the antipathy towards Washington Consensus in large parts of the developing world, has been very attractive. In many respects I think the Chinese model simply becomes a metaphor for the fact that there is an alternative: “You do not have to do what they tell you to do. You can do it a different way. We have shown that you can do it a different way, and, what is more, we will trade with you and we will deal with you irrespective of your domestic, political, economic situation. We provide an ideation or alternative. We also provide a practical economic alternative.” If you try to dig what the model is—and we could debate it—I do not think that is important. I think that “Go off and do what you want to do, we don’t care. You don’t have to listen to the United States” has become a very powerful message for a lot of people in large parts of the world, and I think, by definition, the no model becomes a model.
Professor Ash: As an economist I think about development models. But I cannot identify a Chinese development model. I can identify various features of what has happened in China in the last 30 years and acknowledge that those offer useful lessons for other countries, but in terms of trying to identify a Chinese development model I am at a loss. Taking a slightly different tack from what Shaun has said, it seems to me that the Chinese development model from an economic perspective is very close to what was once described as the East Asia development model, a model of development that was based on high rates of investment, high rates of savings, competitive labour markets, significant government intervention, all of which were such important ingredients in the success of post-War Japan and Taiwan and South Korea. Of course what has happened in China is also a product of its unique circumstances.
Professor Breslin: I do not disagree with that at all. I think that is dead right. What is interesting is that it has been called a Chinese model and people in places like Africa are looking at it and calling it that. I think the content is in some ways not important; it is just the idea that there is an alternative that I think presents the bigger significance.
Professor Ash: The other thing about a model is that it is of no real interest unless it is replicable, and I agree absolutely with what Shaun has said, that the Chinese experience, not least because it is the product of its long historical legacy—but also, in particular, of the legacy of the previous 30 years, the Mao Era—quite clearly it is not replicable.
Professor Breslin: Neither of us has answered the Doha question.
Chairman: Professors, thank you very much indeed for the evidence you have given us. You will receive a copy of the transcript and I am sure we will be delighted to send you a copy of the final report in the autumn. Thank you very much indeed.
THURSDAY 23 APRIL 2009

Examination of Witness

Witness: Mr John Ashton, Foreign Secretary’s Special Representative on Climate Change, Foreign and Commonwealth Office, examined.

Q216 Chairman: Mr Ashton, may I welcome you to the Committee and thank you for attending. If I could just go through the House warnings. First of all, this meeting is clearly being recorded and on the web as well. You will be sent a copy of the transcript and if there is anything that you think has been recorded wrongly then clearly you have an opportunity to put that right. I would expect to finish this part of the session before 12 o’clock so hopefully that gives us plenty of time for the questions. I understand that you would like to make a short statement to begin with and then we will go into the questions which I think you have seen, if you would like to do that?

Mr Ashton: That is very kind of you and thank you very much for the opportunity to contribute to your inquiry. My role as the Foreign Secretary’s Special Representative for Climate Change is to support David Miliband, his team at the Foreign Office and his colleagues across the Government in establishing the political conditions internationally for a successful response to climate change, including of course for a strong and ambitious agreement at Copenhagen at the end of the year. In other words, how in all the major economies do we not only do as much as we can within the current limits but how, even more importantly, do we expand the limits of the possible so that we can get the much faster progress we need towards a low carbon global economy? That is the core focus of my work. The European Union, the world’s largest single market, and China, still the world’s fastest growing large economy, are absolutely critical to this, as is the engagement between them.

China is at a crossroads. It is finding a new sense of identity and purpose as a shaping force in an inter-dependent, resource-limited globalised economy only an open global system based on agreed rules, shared interests and what Henry Kissinger has called “compatibility of purpose” can provide a reliable basis for its own prosperity and stability. We need a China that is continuing to benefit from the globalisation of opportunity but is at the same time contributing to, and comfortable about, contributing to the globalisation of responsibility. At present, both tendencies are visible in the choices that China is making, but the fulcrum on which the balance will tip one way or the other is the question of resource security in its four tightly inter-related aspects of food security, water security, energy security and climate security. It is here, in the face of stresses that are already very serious for China, that the temptation to adopt a competitive approach and a scramble for resources will be strongest but so will the benefits from co-operation. There is a deep alignment between China’s interests here and Europe’s. For example on energy, we are both consumer economies worried about our growing dependence on imported oil and gas. We both have strong programmes to use energy more efficiently to expand the application of renewable energy and so on. We are both coming to understand that the consequences of climate change, which probably contributed significantly to last year’s food price spike, pose a real and present strategic danger to our prosperity and security. The obvious strategic question is how can we harness together our two economies to make it easier for each of us to achieve these common objectives, to build an economic recovery that gives us low carbon, energy secure economies and, in doing so, helps drive a low carbon recovery globally. A quick final point: this is not about Europe’s climate diplomacy or even Europe’s diplomacy more generally. It is about Europe’s sense of its own vocation because if we want to engage major partners like China in the kind of
transformational way that will accelerate real change in the real Chinese economy at the rate that we need it to happen, then we need to have a much firmer political foundation in Europe from which to do it. That is what I think is only partially constructed, to put it as optimistically as possible. At the moment that is the core of the challenge. This may sound idealistic and perhaps even unrealistic in the midst of our current difficulties, but if we want to get out of those difficulties it is what we will have to do. A powerful lesson of the last few months is that in a crisis the limits of the possible can change very quickly. There is no longer any such thing as “business as usual”. We have to build the new “usual” if we want it to be something that we like.

Q217 Chairman: Thank you, Mr Ashton. What has been useful particularly is the stress on the EU, which is clearly the focus of this inquiry. Following on very well from your statement, what are the strategic interests of the UK, and particularly of the EU, in cooperating with China on climate change? To what extent—and I think this is one of the things that we want to look at particularly as a Committee, has there been effectiveness of this so far and could you maybe even give us any lessons that we can learn over the short track record so far for the future?

Mr Ashton: The strategic interest is that China sees it as essential for its own security and prosperity to move much faster than it has been doing so far in the direction of building a very low carbon, very resource efficient economy. They are moving in that direction, as I have said, they have already got some ambitious targets, but if we want a successful global response to climate change then it will be essential for China to move faster than it is. Incidentally, the same applies to Europe and we need to make that a mutually reinforcing dynamic. There has been rapidly growing engagement and over the last few years both at the European level and at Member State level. At Member State level the UK has been very much one of the leading players. There has been more engagement with China on the question of climate change than on any other area, possibly with the exception of trade, and it has been a very valuable engagement in building a shared understanding of key issues, in building networks of trust between people and institutions, but it has been useful at the margin, it has not been transformational. That is partly because we have not yet invested sufficient effort at the European level and partly because the effort that we have invested has not always been as coherent as it would need to be to have a more transformational impact.

Q218 Chairman: You put a very optimistic take on it in terms of the Chinese Government but if I asked you where climate change was on a list of priorities in terms of China’s internal policies, what would you put in front of it and where would it be? Is it one of these ones where it is on wish list number one but practical list number 49?

Mr Ashton: I think that is true to some extent, but I think there is another dimension of the problem which is actually the key to it. I have been very struck in the last few years by the way in which Chinese leaders have come to understand intellectually that they need a successful global response to climate change. China’s sense of its vulnerability to climate change is much higher now than it was even a year or two ago. However, what is harder from a Chinese perspective is to see what is the pathway for them and how can they construct the contribution they would need to make to a successful global response without adding to what feel to them like quite significant risks that already exist to their own stability and prosperity, to jobs and growth. Can they combine high growth and low carbon, because if you cannot combine them, and this is the same problem that we all face but it is just more intense in some ways in China because the pace has been faster, then the political choices are much harder to make because how do you say we are going to put up energy prices, and we are going to risk even higher unemployment at a time when people are losing their jobs?

Q219 Chairman: Do you think in their own mind they can combine them or is that already lost in terms of the need for growth and pulling up the rural economy?

Mr Ashton: I believe they can be combined, including in China, but that at the moment from the point of view of Chinese leaders and Chinese policymakers, the way to do that is not clear across the board. There are one or two examples which I think are worth studying because they have a wider significance. For example, in the Chinese automotive industry there is certainly a growing sense that consumers in America, Europe and Japan will want to be buying very low carbon cars, not high emission vehicles. They believe that if China gets its act together then they can be the ones who put affordable, attractive, low-emission vehicles into our forecourts before anybody else does. That is a very encouraging sign because what you really want to do is to strengthen the forces of high ambition in China, the people who see this as an opportunity, or as more of an opportunity than as a threat and, again, that is what we need to do everywhere.

Q220 Lord Jones: Ambassador, a brief question: is it realistic for the European Union to have one position in relation to China with regards to climate change?

Mr Ashton: If I may say so, it is the core question, is it not? Maybe it is one engagement rather than one position. There will always be a network of
conversations. There will be the conversations at European level and the conversations that Member States have, but it is whether you can make them coherent and you can give them a kind of strategic and transformational impulse. I would say that it is not happening at the moment. If one made a judgment simply on the basis of what we have achieved so far, one would be bound to be fairly pessimistic but actually we have to do better than that otherwise we will not secure our own strategic interests. Our security and our prosperity depend on building a more transformational engagement with China. It is interesting as we address that to look at other examples. One of the most significant developments on this front, and it is covered in another of your questions I think, is the way in which the new administration in the United States has said very clearly, “We are going to build a really strong strategic economic relationship with China. It is a theme, it has been a constant theme for 25 years. To take another example, it was characteristic when in a previous role I was working for your colleague Lord Patten, who was then Governor of Hong Kong, and there was a common European interest in strengthening the foundations of the rule of law in Hong Kong. The European record in engaging China in ways that would support that was very heavily drowned out by a race against each other for short term. I would say, rather illusory commercial advantage. It is a theme; it has been a theme; and we need to overcome it because our real strategic economic interest is to operate in a way which is coherent one among the others rather than in a way where we are competing with each other.

Q221 Lord Anderson of Swansea: You said that it is not happening so far. Since you mentioned the bilateral relationship, to what extent is the possibility of a coherent EU response drowned out by individual countries seeking in terms of commercial rivalry to sell their clean technologies to China?

Mr Ashton: I think to quite a high extent and not just in relation to selling clean technologies but in relation to jockeying for short-term commercial advantage one against the other more generally. That has been a very characteristic feature of engagement ever since I have been involved in dealing with China over the last 25 to 30 years. To take another example, it was characteristic when in a previous role I was working for your colleague Lord Patten, who was then Governor of Hong Kong, and there was a common European interest in strengthening the foundations of the rule of law in Hong Kong. The European record in engaging China in ways that would support that was very heavily drowned out by a race against each other for short term, I would say, rather illusory commercial advantage. It is a theme; it has been a theme; and we need to overcome it because our real strategic economic interest is to operate in a way which is coherent one among the others rather than in a way where we are competing with each other.

Q222 Lord Anderson of Swansea: We will perhaps come on to this in a later question. Certainly it is claimed by a number of commentators that the Chinese take the EU seriously on the commercial level but not on the political level, and therefore, presumably, if the commercial aspects are likely to be paramount, it is there where the EU countries are in competition one with another?

Mr Ashton: I think the question of Chinese perceptions of the European Union is critical in its own right. At times in recent years there have been moments when it has been very tangible, certainly in Beijing, that there has been more confidence and belief in the European project than there has perhaps been in Europe itself. That may have been amplified by a sense that a strong Europe might be quite a good thing to have around if you have a strong US as well. Nevertheless, I think the famous Henry Kissinger question, “Who do I call if I want to talk to Europe?” has been a frustration on the Chinese side, and I think the Chinese authorities spotted a long time ago that there was often scope for playing one European government off against another.

Q223 Lord Anderson of Swansea: Have you been reading the same article as I have in the FT this morning, Tony Barber’s one from Brussels?

Mr Ashton: It has been a constant theme for 25 years ever since China’s opening began. It is a challenge to us and we need to get better at it. May I give a very practical personal example, I had to buy a new refrigerator not long ago. I had never actually bought a refrigerator before funnily enough. I went to my local branch of a well-known electrical appliance wholesaler and I discovered something very interesting, that there were more fridges there made in China than there were fridges made by other manufacturers. I had no idea, I did not know what to expect, even though I knew that actually the world’s largest fridge manufacturer is a Chinese company. What kind of fridges were they? They tended to be the cheaper fridges but they were also the least energy efficient fridges, so a really interesting question is why don’t we see at a European level, which is responsible for our economic and trade and investment relationship, whether we can build a framework that will, if China is going to sell fridges to Europe, incentivise them to sell energy efficient fridges to us rather than energy inefficient ones?

Q224 Lord Anderson of Swansea: By definition those would be more expensive.

Mr Ashton: If you talk to people in that industry they say that if you can grow the market quickly then you will get economies of scale that will drive the price down. I am perhaps over-using the word transformational but if you can do that at sufficient pace and scale then that will have a transformational impact because it would make energy efficient appliances cheaper both in Europe and in China.

Chairman: Perhaps we can move on to the very important subject of Copenhagen. Lord Chidgey?

Q225 Lord Chidgey: Mr Ashton, there is planned a UN climate change conference in Copenhagen in December of this year. Can you give us your views on
what the prospects are of China committing to ambitious and binding targets for reductions in its greenhouse gas emissions at that UN conference? Could you also tell us what you think about the opportunities for the European Union having a strategy to persuade China to support an ambitious global deal in that forum?

Mr Ashton: That conference will be one of the most significant multilateral events that has ever taken place. We will not have another opportunity to build a robust, ambitious framework for collective action on climate going beyond 2012. It is clear already that China is considering taking on commitments that go significantly beyond the commitments that they have already made internationally. There were some press reports last week that quoted a senior Chinese official thinking aloud about whether China might take on commitments about its carbon intensity, in effect, the carbon efficiency of its economy, as part of its contribution to Copenhagen, so I am reasonably confident that China will offer significant commitments. The question is how significant? Will they be commitments that, in effect, reflect a pace of change in the Chinese economy which is commensurate with the pace of change that we need? A hard reality of this problem is that because China has been deploying capital and building infrastructure faster than any society ever has, in a sense, China needs to make a bigger and faster shift in its economic direction than any other economy does if we want to have a successful global response. I do not think that you need a complete blueprint for that at Copenhagen. Copenhagen will offer a partial window on that, but it will have to convey the sense that China is now changing direction and it is embarking on a much faster progress towards a low carbon economy. As for Europe’s strategy, Copenhagen is eight months away and on that timescale the forces that determine what China will offer will be primarily domestic forces. They will be based on an assessment about how strong the political foundation domestically is for this, what does it mean for jobs, for growth, for competitiveness. But that is not to say that Europe is impotent in that regard. I think the single most important thing that we can do—and this may sound like a slightly paradoxical response to the question and I am happy to come back to it—is we need to show over the next eight months that we really believe in the destiny that we have chosen for our economy. We have established legally binding targets in Europe which if we meet them will trigger a very dramatic and rapid transformation to a low carbon economy. If we are doing that, if we are saying to China that we actually have the confidence to do ourselves what we are asking you to do, that will be powerful and that will be even more powerful if that is what China also sees when it looks at the United States, and that is what they are beginning to see, I think.

Q226 Lord Chidgey: I just want to pick up on one point. As you rightly say, we talk in terms of the vital, hugely important climate change conference in Copenhagen being this great chance and we talk in terms of a global deal. My point really is that from what I understand of China’s approach to international affairs it cuts across all particular issues and boundaries. Issues with Taiwan and the Dalai Lama cut across. There is no compartmentalisation of those issues on their own. We talk in terms of a global deal. My question is what will China expect as their reward for striking a deal? We talk in terms of signing up for agreements, recognising their global responsibilities, but it seems to me that the Chinese psyche is that they will want something back from the international community for signing up to this major commitment. Do you have any views on that?

Mr Ashton: I do but they rather reinforce the direction in which I was going. I think if we conceive of this as a zero sum diplomatic negotiation where we will give each other things and reach a compromise, and that is the dominant dynamic, then I think we will fail if we see it primarily in those terms. Of course the whole Copenhagen conversation is constructed in those terms so there is a dimension to it where that is important and questions arise, for example, over the extent to which Europe and other developed economies will be willing to mobilise finance of one kind or another to catalyse faster progress in China. That will be the kind of thing where they will be looking for, as you put it, us to give them something, but actually I do not myself believe that they will be willing to make commitments that are ambitious enough to support an agreement on a scale that we need unless they have decided that this is in their domestic interest, that their own competitiveness, their own economic interests and ultimately security interests depend on much faster progress from high carbon to low carbon. That is a much more powerful driver. There is an example in the region in the case of South Korea, which over the last year or two seems to have concluded that whatever happens in Copenhagen and whatever happens in the other international conversations, it is in South Korea’s interests to be a very early mover in the low carbon transition. I was in Seoul a few weeks ago and a legislator there said to me, “America is going to build a smart electricity grid and do you know what, we are going to make the smart appliances that will communicate with the smart grid. That is where our jobs and our growth are going to come from.” I think that is the driver that will really determine whether China does or does not do what we need, even though within that there will be embedded a more classical zero sum negotiation.

Q227 Lord Crickhowell: My son, Rupert Edwards, is a Director of Climate Change Capital and he has advised committees of both Houses and is in fact
advising the heart of government on these issues. He is a very frequent visitor to China and I have some notes that he has given me. He observes that there is a gap of expectations between the EU and China about the extent of financial and technological support versus autonomous actions by the developing countries themselves. These are not mere negotiating positions. China is focused on economic development and GDP per capita emissions and the historic responsibility for atmospheric greenhouse gas concentrations; the EU view the fact that domestic emissions reduction is pointless without other countries also making appropriate efforts. Then moving on he picks out as the areas where the EU and China could co-operate. “Two particularly stand out: first the form of and financing of the international carbon market; and, secondly, carbon capture and storage.” We can come back to carbon capture and storage later, but the central issue at Copenhagen is going to be about the Clean Development Mechanism and the first steps towards the development of a carbon market. Do you have any comment on my son’s observations on the subject?

Mr Ashton: Perhaps I should confess at the beginning that I am very much an admirer of Climate Change Capital and I was on the advisory board that it established when it was founded, so although I do not have current formal links I had formal links at that time. It is very interesting that they and other companies like them who are looking to use the new carbon finance opportunities to create jobs and wealth have been very active and very much welcomed in China. It is a sign of China’s interest in the carbon market that companies like Climate Change Capital are able to do business and able to go through so many doors in China. I completely agree with your son’s observations. I think that China is still considering in a fairly preliminary way how it wants to engage with carbon markets. It has been an avid participant in the Clean Development Mechanism. No other country has signed up to such a high volume of Clean Development Mechanism projects, but at the same time their volume has not been significant in terms of the entire Chinese energy economy. They have said publicly that they want a Copenhagen agreement to include a mechanism which in a sense is scaled up from the current Clean Development Mechanism. They want to encourage external carbon finance to come in and incentivise low carbon technology and infrastructure choices in China, and part of the challenge we have at Copenhagen is to construct that in a way that will build on the good aspects of the Clean Development Mechanism but perhaps avoid some of the pitfalls that we have learned from. Not all of the projects have been genuinely offering real carbon savings so far.

Q228 Chairman: We also have a question later on on the Clean Development Mechanism and we can expand those thoughts then as well maybe.

Mr Ashton: Just to finish the answer, I think that one of the critical issues at Copenhagen will be the volume of external carbon finance flows that can be mobilised in an attempt to make the difference between high carbon investment and low carbon investment in China and also in other developing economies, but particularly the large emerging economies. That will be part of that subset of the problem that we were talking about before, but, at the same time, I think in terms of the real economy, it will be a secondary part. If China really does make this transition quickly that will be financed more by Chinese domestic capital than it will by external carbon finance. China’s own estimate (or at least it was recently) of the investment that they expected to be made in their energy infrastructure over the next 11 or 12 years was something like $2 trillion. I find it hard to see international carbon finance making the major impact on the direction of flow of that investment. We need that river of capital to be flowing towards low carbon rather than high carbon. It can make a useful impact but perhaps not the critical impact that would come from China’s own choices about its economic direction. I do not know whether that fully answers the question.

Lord Crickhowell: I do not want to spend more time on this. The whole question of the development of a full price for carbon is crucial and the development of a market, which I have a fairly detailed and complex paper about in front of me, is a difficult and complex one, and I think what was interesting was your observation that at the moment the funding in China is going to come substantially from China rather than from outside.

Chairman: If we could then move on to the last part of this question and to Lord Hamilton.

Lord Hamilton of Epsom: Can I return to Copenhagen; is there not a risk that this is going to be another grandstanding exercise like we had at Kyoto and there will be a whole lot of unobtainable targets being set by everybody which nobody reaches. We are now moving into a period of extremely low growth in the world economy, not just over the next 12 months, as the Chancellor has suggested, but probably over the next ten years. Is it really likely that anybody is going to involve themselves in the massive expense that is involved in cleaning up electricity generation and so forth when the real world is something entirely different?

Q229 Chairman: It you could make it less than half an hour for that particular reply!

Mr Ashton: I would like to answer the question but without necessarily accepting all the premises on which it is based. My very short answer is two points:
one is it is becoming very clear that the cost of doing this will be substantially less than the cost of not doing it. Look at the costs that the spike in food prices imposed on most of the economies around the world last year. There was much debate at the time about what caused that food price spike, but it is pretty clear that a significant factor was climatic disruption to harvests that looked very much like the kind of disruption you would expect from climate change. By the way, that is something that the Chinese leadership noticed explicitly. Secondly, it is also becoming clear that the costs are affordable if you have the right policies that allow you to move efficiently. That applies in China and it applies in Europe. I do not think the Koreans would be moving in the direction that they have chosen to go in if they had not made the same calculation.

Q230 Lord Hamilton of Epsom: What about the Kyoto targets, we have not achieved them?  
Mr Ashton: Again, I am not sure I accept the premise. I think that Kyoto had a bigger political impact, particularly in the European Union. We would not be embarked on the path that we are now embarked on if it had not been for Kyoto, so it has had a bigger political impact than perhaps it will have an arithmetical impact on the immediate emissions of the major signatories of Kyoto. Again, in the EU we will meet our Kyoto targets and the UK will outperform its Kyoto targets, and I think the fact of Kyoto’s existence has helped create the political foundation to allow that to happen. By a rather more indirect route, the existence of Kyoto and the position that the previous US administration took towards Kyoto had a very significant impact on the debate about climate change in the United States and contributed to the arrival of a new administration with a much more ambitious prospectus on climate change and to the emergence of initiatives, for example in California, the world’s tenth or 11th largest economy in its own right, which were certainly very much consistent with the Kyoto level of ambition.

Q231 Lord Anderson of Swansea: Would you agree that one of the many temptations of the European Union is the delusion that we are bigger hitters in a field like climate change in respect of China than in fact we are? What I would value from you is some realistic appraisal of our weight in respect of China and climate change compared, for example, with that of the United States. Yes, there is a new administration with a more positive policy on climate change. Yes, the new administration is committed to multi-lateralism, but would not China see the G2, the relationship with the US, as infinitely more important than any role which the European Union could play?  
Mr Ashton: If this were going to be decided simply by conversations between diplomats I think that might well be true, but I think, as I have tried to express, it will be decided more by what happens in each of our real economies. Looked at from that direction, in a sense we have a tendency in the European Union both to exaggerate and to under-estimate our impact. We exaggerate it because we do not always walk our talk in the most coherent way and we have these competitive tendencies one between the other. At the same time we under-estimate it by under-estimating the potency that arises simply from being the world’s largest single market. China has been going through a very intensive period of legislating technology standards and in many cases what China has chosen to do is not to invent its own technology standards from scratch but to ask its people in Brussels to find out what Europe has done and to copy those standards, or at least adapt them to fit Chinese needs. China’s standards for emissions from vehicles for example are based on European standards. It is an influence that we have without even trying. There has been no strategic effort by Europe to encourage others to adopt our technology standards and yet if they do it creates an alignment of interest and to some extent an integration between our markets. I think that gives you enormous influence, and even more if we focus on and ask ourselves how we can use to greatest effect. I would say that is the real economy that matters most and if we can define our own strategy about our own real economy in a way that engages China in a transformational way then I think we can overcome the delusion that you have quite rightly warned about.
if we build the right pattern of engagements the three of us can operate in a mutually reinforcing manner. It is worth pausing actually and noting that although the US intent has clearly changed dramatically, they are starting from a much lower point than the one that we have reached already. Despite the criticisms that I have made, there are some areas in which Europe has done some quite significant things with China. We have the first partnership with China to construct a commercial-scale carbon capture and storage demonstration plant, the so-called near-zero emissions coal plant. We are working very closely with China on the concept of low carbon economic development zones which potentially could have a transformational impact. They have just established one in one of their major cities, Jilin City. What is interesting is that representatives of the US administration are now starting to ask us to share our experience with them, which is welcome and something we are delighted to do.

**Q233** Chairman: In terms of the United States and Europe, clearly China, and indeed what we have called in the past under Kyoto the developing countries have always seen Europe and the United States as the people who put up all the carbons in the atmosphere and now through leakage get China to do most of the dirty manufacturing for Western consumers. Is that psychology still very much in the mind of China? Is that history going to stay there and are they going to demand a very high price for moving ahead, apart from self-interest? Will that history always remain in their minds or is that something now that we can get around and we can just move forward?

*Mr Ashton:* It is a very significant issue. It is one from which we have to move forward. It is sometimes a fallacy in diplomacy to treat countries as if they were a single brain, a single coherent set of impulses. Of course, the reality is that that is never true and in a country as large and complex as China going through such a dynamic transition, it is particularly untrue. What you really see is a very dynamic contention between a lot of different tendencies, some of which are looking more to the past and some of which are looking to the future, the question then is which will win out. It is what I was trying to convey in my opening statement. This is a very fluid period in China’s sense of its own identity.

**Q234** Chairman: What is your view on that, yes or no?

*Mr Ashton:* My view is it depends on how we engage them. It is not something over which we have no influence at all but it needs smart, coherent, strategic engagement.

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**Q235** Lord Selkirk of Douglas: I think you have in part answered the question which I wished ask but I will still ask it in case there is anything you wish to add. What is your assessment of the progress made so far under the EU-China Partnership on Climate Change, agreed in 2005? What progress has been made in the EU-China “Near-Zero Emissions Coal Initiative”? What are the main challenges that it faces and how can the EU address these? May I just mention that we have in former evidence had a good deal of information to the effect that the Chinese engage in very long-term planning. Could you give your assessment of progress past, present and future?

*Mr Ashton:* On the first part of that, as you say I have covered the Climate Change Partnership in broad terms. There has been valuable progress but it is not yet transformational. What it has helped us to do is to identify the next stage if we want to make it transformational. In a sense that is not about the Climate Partnership per se, it is about the broader economic partnership. On the second question, before the economic slowdown in China, China was building this famously quoted figure of two new coal-fired power stations a week, and the reality is that you do not have a global solution to the climate problem unless you have a solution to the global coal problem, but particularly the Chinese coal problem, and the only solution is to accelerate the bringing forward of carbon capture and storage, so the EU-China partnership on that particular demonstration plant is of enormous significance. It is a transformational project. Having updated myself the other day, I think projects of this kind are complex and they need to go through stages, from feasibility to planning to implementation. We have done the feasibility. We are well into the planning, the so-called phase two of the project, but where the rubber will hit the road will be implementation because it will be the implementation that costs money. If you build a carbon capture and storage plant at commercial scale, you are talking about an additional cost at this current demonstration phase of the order of hundreds of millions of euros, and the question is where is that additional cost going to come from? China will say, appealing very much to the argument that you put, that actually we have had the benefit of unabated coal firing our economies for all this time, so why should they pay the additional costs of doing this demonstration that we want them to do? There will be a question that we need to address quite soon about the extent to which European taxpayers in the end will be willing to pay. It is part of building the political foundation for this more ambitious engagement that I was talking about. We have not answered that question yet. If you were to ask me how the implementation stage will be paid for, I do not have an answer to it. It is a question that is bothering me a lot.
Q236 Lord Hamilton of Epsom: Do you think they are still building one coal-fired power station every four days? If they are, they will be putting more Chinese coal into them. They were initially importing much cleaner Australian coal: the Chinese coal comes out full of sulphur and is disgusting. What is the timescale for carbon capture? We are at very early stages. It is a gleam in the scientists’ eyes at the moment. When are we actually going to have carbon capture power stations being built? In my opinion, this is way out into the future and in the meantime we are going to still have very large numbers of new power stations being built in China pumping out sulphurous fumes into the world, and where do all these targets stand against that background?

Mr Ashton: Carbon capture and storage is actually a combination of technologies: to capture the carbon emissions from the combustion; to then move them from the point of combustion to where they are going to be disposed of in pipelines; and then to bury them safely in the storage part. Each of those technologies is well-known and well-understood and commercialised in different contexts. What is not proven is the combination together and that is why there has been so much emphasis on a demonstration phase of carbon capture and storage. When the European Union sat down to work out the rate at which it should be trying to deploy carbon capture and storage in Europe, it brought together a consortium of commercial interests that had the technologies and the expertise on the various parts of CCS and underwent a three-year exercise to work out what was the fastest feasible (not unfeasible) timetable in which they could participate without having their boards thrown out by their shareholders. The result that they came up with was that before 2020 we could envisage a future in Europe where all new coal and gas was built with full carbon capture and storage. So I would take issue with the notion that this is a gleam in scientists’ eyes. We will only get there if we are willing to move ourselves down the cost curve and learning curve as quickly as possible, and that is why we need to do these demonstrations. That will give us cost discovery for doing it at scale. It is true that this is one of the areas where at the moment the cost is significant alongside the opportunity. It is always going to cost more to get electricity by burning coal or gas and doing carbon capture and storage than it is by not doing it, but there is no evidence that it is going to cost unacceptably more, provided we use the right policy instruments to spread the cost. I think that one can be reasonably ambitious about CCS in China. I do not think they will be at the front of the first wave. I think the first wave will be in Europe, in America, in Canada and in Australia, but there are already signs of intensifying commercial interest in China. Some of the Chinese utilities seem to be reaching the conclusion themselves that this is going to be a globally strategic technology and they want to have some of the intellectual property arising from it and profit from it globally. That is another example of a positive force to be encouraged rather like that in the Chinese automotive sector. There is a strong pressure on governments to decide how quickly we want to make this happen and how much we are willing to spend in order to make it happen. Those are difficult political questions.

Q237 Chairman: Just to come back to Lord Hamilton’s question. In terms of the momentum for coal-fired power stations, presumably even with a slightly reduced growth rate that is going to happen and we are not going to get practical implementation of CCS for 15 years or something like that?

Mr Ashton: I think we will see a phase of commercial scale demonstrations at double figures within the next five, six or seven years and I think that we could, if we wanted to, go to universalisation by around 2020 in all the major coal-burning economies, if we choose to do the heavy lifting to do it. It is true, just on the question, that under any scenario the Chinese, as I have said, are investing massively in other forms of energy. They are investing in renewable energy and they have the world’s most ambitious nuclear energy programme. They are trying to reduce their own dependence on coal to diversify their energy system. Yet coal will still be by far the largest part of their energy portfolio well into the future to 2020, 2030 and probably beyond. The question is a very key question, how quickly can you get it in and can you retrofit some of the existing plants so that they have carbon capture and storage sooner rather than later as well. It is a strategic global question.

Q238 Lord Anderson of Swansea: The interim reported by Lord Hamilton is a fairly nightmare-ish scenario. What you said is that for us there will be the prospect of implementation if there is sufficient engagement and financial resources by 2020. You said that China will not be in the first phase so it will be some time after 2020 and in the meantime presumably they will be putting into operation up to two dirty coal stations a week?

Mr Ashton: Can I clarify? I did not quite say that. I think that the first phase will be the demonstrations that happen in the next few years and I think that we will see demonstrations emerging in Europe and America and Japan and Australia before we see more than a handful in China. That does not mean that by 2020 we will not see a step change in the application of carbon capture and storage in China. Incidentally, I would expect to see Chinese commercial interests involved in the demonstrations outside China as well. But there is a big problem of sunk high carbon capital in their power generation arising from all of the coal-fired power stations that are there now and which will be built without carbon capture and storage.
problem can only be addressed either by early retirement of that capital stock or by the fitting of carbon capture and storage at a later date. Both of those will need to be addressed again as part of a global response to climate change. China will determine its own interests there. We have to find ways of encouraging them to determine an interest which is in favour of early application of carbon capture and storage.

Q239 Lord Swinfen: Mr Ashton, what is the EU doing to help China increase its energy efficiency both nationally, provincially and locally? 
Mr Ashton: Energy efficiency covers a multitude of sectors of course but it is the area within which the most economically attractive and quickly accessible steps are available to go from high carbon to low carbon. China itself, as I said earlier, has the world’s most ambitious targets on energy efficiency, and actually it is China’s own determination to meet those targets more than the help it is getting from elsewhere that will primarily determine the pace that they go at. I think in that portfolio of project level co-operation that is taking place between the European Commission and China under the Climate Change Partnership, but also between Member States and China there is a great deal of activity on energy efficient buildings, energy efficient industrial production and energy efficient heating. I do not know what it would look like in terms of millions of euros but if you added it all together you would see a great deal of activity, but again I do not think it would be activity on a transformational level. I think that is an area where there already is a transformational impulse in China. That is not primarily because of China’s worry about climate change. It has been driven historically by China’s energy crunch, the difficulty that they have had in providing the power they need to run the economy and, in the liquid fuels area, the concern that they have about over-dependence on imported oil.

Q240 Lord Anderson of Swansea: And desertification presumably?
Mr Ashton: Well, that is a huge worry in its own right and what is interesting there is that I think that the connection now is being made much more strongly than it was until quite recently with climate change. Climate change is not good news for the desertification which has been happening for a long time in China, hitherto partly as a result of over-intensive use of water in water-scarce regions.

Q241 Lord Swinfen: Is China learning lessons that they will then be teaching to the EU and other parts of the world?

Mr Ashton: I think that is a very good question because it illustrates something I believe. I think we would be wrong to see this in a paternalistic way, that this is all about us helping China. I think if we are able to look back in 20 or 30 years on a mobilisation of effort in the face of climate change and say how did that happen, we will see that there has been as much flow of expertise and technology from China to Europe as there has been in the other direction. A very interesting reality about China is that it is now increasing its capacity to innovate at low cost faster than any other economy has. There has been a lot of publicity for the number of graduates in technology and engineering who are being produced by Chinese universities and that explains why a lot of companies, including European companies, have been moving their research and development efforts to China and forming joint ventures with Chinese partners to innovate in China, taking advantage of that low cost innovative capacity. I think that is a very important dynamic and again one which needs to be encouraged. This is about mutuality and not about a one-way flow.

Chairman: I have just had a copy of today’s business in the House and apparently we have a statement entitled “Carbon Capture and Storage” by Lord Hunt, so maybe some of us will be able to ask some questions on a broader view.

Q242 Lord Crickhowell: It is rather interesting that you made the last comment because question seven, of which you have been given notice is: to what extent are China and the EU co-operating in the area of scientific research on energy efficiency and technologies to mitigate climate change? Should the EU facilitate the transfer of technology to China as a way of helping China mitigate climate change? You have just been telling us that it may not all be one way so I already know the answer to that last question therefore that clearly there should be. Indeed, you have identified areas where it is already taking place and I think you have already answered the suggestion that I made much earlier that probably this whole area of carbon capture and storage is the single area on which the EU and China can co-operate and co-operation will be a critical central area. There has been some suggestion, I think even in your answers, that it is much more going to be a commercial interest issue rather than real recognition of the dangers of climate change. I am not sure that is true. They have got half the world’s glaciers and a large part of China, spreading out into Hong Kong, is now covered by an increasing pall of almost unbreathable smog, and I would have thought the pressure is on from within the country to do something about climate change for all sorts of own interests reasons that are going to be pretty powerful. Are there any other areas? I think we have covered the clean carbon area. Are there any other areas of technical co-operation that you think may be important between
Europe and China or whether there will be opportunities for both?

Mr Ashton: The simple answer is I think that we should be facilitating the flows of low carbon technology in both directions and also with other partners as well of course. A lot of that will be determined by commercial interests. It is companies that own technology that know how to do deals with other companies about where that technology will be deployed. The considerations that shape the deals they make vary sector by sector. There are some areas where it is the proprietary technologies that companies have which are their main source of value and they tend to be very protective about them where perhaps there is more of an opportunity for governments to say, “Is there more we can do to provide enabling conditions, for example to make sure that if there are going to be flows of carbon finance they flow in a way that encourages the sharing of those kinds of technology.” There are other areas where the best thing that governments can do is get out of the way because the companies know how to build the partnerships themselves. I totally agree that if you had to pick one single set of technologies as your only priority for co-operation with China, it would certainly be carbon capture and storage, in my view. On the very interesting next part of your question, the extent to which China’s sense of the threat that it is under will also drive this response, I think, yes, this is important and the sense has been becoming stronger over time. It is why I said at the beginning they know that they need a different kind of growth model. Even if climate change were not a problem, the social and local environmental impacts of the growth model they have been creating enormous stress. They know that they cannot go on on the same path, and climate change will add to that. I think it is also true as a lesson of history, if you like, that if you want to drive a rapid process of political change, a politics of opportunity is more powerful than a politics of threat. But it is not that you should ignore the threat, it is very important too, I think another European interest here is to strengthen the dialogue between European scientists and Chinese scientists about what we think the precise consequences of climate change will be for different parts of China and different parts of the Chinese economy. I do not myself believe that there is yet a sense in the debate among Chinese elites of danger which is remotely commensurate with the problem. If you think that sea level experts nowadays are beginning to think that we might see more than a metre, maybe two metres, of sea level rise within the lifetime of people alive today, how much of China’s economy and productive capacity would be put in jeopardy by two metres of sea level rise? Quite a lot because so much of it is on low-lying land down the east coast, and in the big deltas. That sense of danger is important, it has been a growing dynamic, and I think that should also be part of our Europe-China conversation.

Q243 Lord Crickhowell: A long time ago you referred to the deep alignment of interests and put at the head of your list energy. Europe is facing serious energy problems, quite apart from the ones that we have been debating, not least in its relationships with Russia, on which this Committee has made reports. Is this an area where perhaps Europe can find technological co-operation in energy efficiency or alternative energy?

Mr Ashton: Absolutely I think it is. I hope it does not seem like too long ago that I made that observation! That alignment is as much about energy security in a more traditional sense. It was very painful in China and in Europe to undergo the spike in oil prices that we all underwent. The structural forces that gave rise to that spike are still there. They arose from the rapid emergence of a billion new consumers into the global economy and their energy-consuming footprint, if you like. The Chief Economist of the International Energy Agency has recently been warning that we need to be very careful not to drive our recovery in such a way that one of the first things that happens is a new oil price spike that then derails the recovery. I think in that area, even without the climate factor, there is an enormous mutual interest in co-operation. Energy efficiency, particularly the efficiency within which we are using oil and gas, is part of it, and of course that is not one or two technologies; that is, in a sense, the whole economy because everything you make has an energy footprint of one kind or another on the production side and on the consumption side. In my view, that should be an area where we really are trying to build a strategic consumer-to-consumer dialogue alongside the consumer-to-producer dialogues that we have been having about oil in recent years.

Q244 Lord Crickhowell: If I may go on to question eight, which is the one about co-operation on carbon trading and emissions trading schemes and so on, again, we have just touched on aspects of that and I think you pointed out that Climate Change Capital had been involved in part of the offsets, but there is a considerable recognition in Europe and elsewhere that we cannot rely simply on our efforts in this field by offsetting to the developing countries. Are there any other observations that you care to make about the experience of emissions trading and international co-operation? Is this early days on the way towards some kind of global emissions trading scheme?

Mr Ashton: One major observation if I may, which is I think one thing that we have learned is that important though it is to put a price on carbon, and we have chosen to do that in Europe through emissions trading and that will be part of the Copenhagen conversation, it is certainly not enough. On the whole, it is a marginal signal rather than a transformational signal and what we need is transformation, so we need to be looking much more intensively at other policy levers that we
can put in place not instead of but alongside. There are not very many if you think about it. There is regulation of one kind or another and there is public investment of one kind or another, and the right combination will vary according to sector, but there is an important place for emissions trading and if we can come out of Copenhagen with the rudiments of a global system, or maybe a system of interlinked carbon markets, then that will be a good thing not a bad thing.

**Lord Hamilton of Epsom:** When I volunteered to read out this question I suddenly realised afterwards that I did not know what it meant! What is China’s view of the Clean Development Mechanism? It obviously refers to carbon capture and we have discussed that at some length, but is there anything else that comes under the Clean Development Mechanism?

**Q245 Chairman:** Lord Hamilton, we would probably thank you for asking the question for any Members who have not owned up to not knowing what the question means!

**Mr Ashton:** I take it that does not give me licence to give an unintelligible answer! Should I have a stab at explaining it, would that be helpful?

**Q246 Lord Hamilton of Epsom:** Yes, please.

**Mr Ashton:** The Clean Development Mechanism is part of the Kyoto portfolio and essentially what it says is that if developing countries, and those countries that do not have binding emissions caps of their own, have a technology or industrial project in one of those countries, including China, where there is a choice between doing it in a high emissions way and a low emissions way, and if the low emissions way is more expensive, then you can use carbon credits generated under the emissions trading scheme in Europe under the Kyoto arrangements as a revenue stream or source of finance to cover that gap. In a sense, you get the carrots without the sticks of being part of an emissions trading world. China has been the most avid consumer (by a long way), very much to the benefit of Climate Change Capital and others, of Clean Development Mechanism opportunities. This has been a learning phase. I do not think anybody involved in the Clean Development Mechanism—and I have not been closely involved—would say that it is anywhere near perfection. We have got to do very rapid learning because there can be no room for the use of mechanisms like that of a kind that undermines rather than enhances confidence in the system. It seems to me that creating carbon credits is rather like creating a completely new kind of currency or financial instrument. We have had a lot of lessons recently about confidence in financial instruments and the importance of understanding the risk inherent in different kinds of financial instruments. We would do well to take those lessons into our conversations at Copenhagen. I am not sure if I have answered your question but I hope that is useful.

**Lord Crickhowell:** For those of us who sat on the Joint Committee on the Climate Change Bill this brings back vivid memories of endless analysis and discussion on the subject.

**Chairman:** Indeed and no doubt it will continue. Lord Chidgey?

**Lord Chidgey:** This is the last of the questions that we will put to you, Mr Ashton, and it is a sort of catch-all question, is there anything we have left out. Are there any other aspects of the EU’s co-operation with China on climate, whether we understand them or not, that should be brought to the attention of the Committee?

**Chairman:** Could I intervene, if Lord Chidgey would not mind, just to say that there are three areas that it has struck me that perhaps we have not covered. Firstly, China is still nominally a Communist state so does it have a national plan on climate change? Is there a document that you can pull off Chinese Google and that is the plan for China? Secondly, we have not mentioned adaptation anywhere in this discussion and I wondered whether there was anything to say about adaptation. The other area really follows on from one of Lord Crickhowell’s question about the problem of China’s environment: what is the role of NGOs within China and is there a European dimension to that?

**Q247 Lord Swinfen:** Perhaps I should declare an interest because the energy trust that I run does some work in China but not on this side, on the medical side.

**Mr Ashton:** Perhaps in answer to the first part of that, the European Union, in a sense, has a European plan without being Communist and China has lots of plans and in some ways is less Communist than many other ostensibly more liberal economies. They still have in China the five-year plans which try to set the strategic direction of the economy and then they also have national plans on specific things. They were one of the first developing countries to start publishing a national plan on climate change. There is one which at the moment is at a relatively low level of ambition, if I might put it like that, but there is also talk, and it was covered in some of the media speculation that I mentioned earlier quoting Chinese officials about the kind of commitments that they might put into the next five-year plan, which I think runs from 2011 to 2016, that they might also, as it were, register internationally as part of the Copenhagen agreement. Thus planning is a very important part of their governance culture and it is something which seems to me quite helpful in relation to trying to agree an international framework. There is a place where you can put commitments domestically for which you can also seek international recognition. The question of adaptation links to the discussion earlier about the sense of danger, the sense of threat. I think in the expert conversations that take
place in China there has been for some time a lot of interest in what kind of impacts can China expect from climate change and what can it do to make its economy more resilient against those impacts. For example, in food production what kind of crops do you grow in what places given that rainfall patterns and temperature patterns are likely to change. On the whole, the picture that emerges from that is that any short-term benefits will be heavily outweighed by much larger and longer costs of the impacts of climate change. I think that the three biggest ones are the consequences of the Himalayan glaciers melting because a lot of the agricultural water use depends on melt water from those glaciers; rising sea level, which we have mentioned; and possible changes in the monsoon pattern, which also has a very important impact on Chinese agriculture. There is expert level attention. The national panel on climate change has a lot in it about adaptation and there are policies to build resilience, but I suspect that the intensity and the urgency will increase not decrease in the next stage of this as the realisation grows that some of these impacts might be harsher and more immediate than was expected earlier.

Q248 Chairman: Can there be an EU dimension there or is that unlikely to be the case?
Mr Ashton: Very much so. Some of that conversation that takes place under the Partnership is about adaptation. There are two aspects of that. One is cooperation with China on the domestic adaptation dilemmas that it faces. The UK over the years has done a lot with China on the impacts of climate change on Chinese agriculture. I do not think any other country has as deep an engagement in that area as the UK has, very much as part of the European effort. The other part is adaptation in the context of Copenhagen. What is a Copenhagen agreement going to do to help countries on the frontline of climate change (on the whole poor countries that have done the least to contribute to the problem in the first place) deal with the consequences? That partly is about money. It is partly about the governance of money. That is something where China will be a major player in reaching agreement, perhaps as a consumer of adaptation funds, although there are countries which are much poorer than China which, to my mind, should be first in the queue. Perhaps also, as the Mexican Government has suggested, the large emerging economies might have windows through which they can contribute to the international adaptation effort. You asked about the role of non-governmental organisations and civil society. I think one of the most striking features of China in recent years has been the growth of a civil society conversation specifically about the environment. It is in the area of the environment that civil society has grown more rapidly than in any other (perhaps public health as well, I am not sure) and somehow I think it has been treated as either less politically sensitive or more politically necessary. It is easier to run an NGO which is campaigning for a low carbon economy than one which is campaigning for democratic institutions, for example, in China. I have been part of it during the period that I spent outside government. There is a great deal of dialogue now between non-governmental independent organisations generally. I should perhaps declare an interest myself because I was a co-founder of an organisation called Third Generation Environmentalism, which is a cross between a think-tank and an NGO. We developed a conversation between a set of Chinese independent entities and a set of European counterparts exactly about that alignment of interest on energy and what we might do to build that kind of relationship. The concept of low carbon zones, which I mentioned earlier, came out of that conversation. It was proposed in China by Chinese NGOs and then implemented by government as a consequence of that civil society conversation. What I am trying to convey is that this is hugely important. This cannot be just a conversation between government officials. It needs to be a much broader conversation.

Q249 Lord Anderson of Swansea: One interesting side effect of these pressures which does make China more internationally minded is the purchase of swathes of agricultural land in developing countries, which presumably is likely to develop apace given the pressures developing in China?
Mr Ashton: In my experience of China, there is no issue which is more sensitive, and which has such a deep and historical resonance, than the question of food security, going back over literally thousands of years. There is a strong correlation historically in China between food insecurity, and instability and political turbulence. I think that is a very pertinent issue and it perhaps leads back to the point that I tried to open within my statement. How China deals with this and how we deal with China on this as it affects the four resource pillars of security—food, water, energy and climate—will have, in my view, a decisive influence on the kind of China we have to deal with more broadly. Do we want a co-operative partner which is defining itself through mutuality or do we want a competitive partner engaging in a more exceptionalist scramble for resources? That, in turn, will have an enormous impact on the kind of global system that we have. Can we achieve Henry Kissinger’s compatibility of purpose or not? That is the big diplomatic question and perhaps the only strategic diplomatic question for the next generation.

Q250 Lord Jones: From your expertise and insight into this mighty nation, is there anything in its characteristics nationally that would impel it to cross
its own borders to take without agreement the water or the fuels that it needs?

Mr Ashton: Inter-dependence has put that question into a new context. I am going to answer the question but perhaps I will just remark first that inter-dependence has put that question into a new context because it means that basic resources of that kind, in effect, can cross borders without those kinds of traditional solutions if you like. If Brazil is cutting down more forest in order to grow more soya in order to produce animal feed in order for a rapidly expanding Chinese middle-class to be able to eat more meat, then China’s water stress is being exported by other means. I think that is a reality of inter-dependence and we need somehow to be embracing these questions in the kind of systemic way that they call for. I do not think that there is any threat that China will somehow launch itself using instruments of hard power across its borders to grow food or secure watersheds. I do not see any sign of that. Whenever Chinese leaders are quizzed on it they predictably say that nothing would be further from China’s mind. I think the more serious point is to that extent there is a very deep understanding that we are now in a system where there is a high degree of mutuality, that in the end those kinds of measures, given the inter-dependence that we have, will always be counter-productive. That is a lesson of the 20th century, is it not?

Chairman: Mr Ashton, thank you very much indeed for your evidence today. Can I say that it is first time I have been at a meeting where Henry Kissinger, who is rather unfashionable these days, has been quoted so often.

Lord Anderson of Swansea: He is back from the dead!

Mr Ashton: That phrase about compatibility of purpose is terribly important.

Chairman: Indeed and obviously we will have noted that. Thank you for your views on the subject. It is certainly something that we will come back to in this inquiry.

Mr Ashton: Thank you. It has been a pleasure and I hope useful as well.
THURSDAY 30 APRIL 2009


Q253 Chairman: Good morning, gentlemen, and thank you for coming to give evidence in our inquiry into Europe and China. Again, I would stress, as the questions do, that it is very much the relationship between the European Union as a whole and China. If I could remind you that the session is being transcribed and it is also on webcast. You will get a copy of the transcript and if there is anything else on it which you think does not reflect the proceedings then we will be very pleased to hear that and to make any necessary amendments. This part of the meeting will go on to midday latest, and that should give us plenty of time to go through the questions. I usually ask witnesses if there is anything they want to say as brief introductory remarks; I do not know whether there is anything or whether you would like to move into the questions themselves? Dr Alden?

Dr Alden: I had more or less prepared a very small statement, if you do not mind.

Q254 Chairman: That would be fine. Mr Keeley?

Mr Keeley: I do not have one, no.

Dr Alden: I will resist throughout the academic temptation to rattle on, so I will be brief!

Q255 Chairman: I think you will get on very well with the Committee! Dr Alden, if you would like to do that for us?

Dr Alden: If I just sketch the background to the topic in some sense. China’s role has increased exponentially in Africa over the last decade. It is measured in terms of trade from below $10 billion up to a trade a little over a decade ago and today it is over $100 billion of two-way trade. It has taken up a leading position as an investor in Africa. It does so under a different framework—development cooperation is the preferred word, or economic cooperation as opposed to some of the more classic traditionally OECD understanding of development. I think in that lies some of the frictions that we see between traditional partners, European Union partners and China’s approach. There is also political influence and consequences here. Recently the European Council on Foreign Relations has put forth a view—or François Godement and James Fox put forward a view that there needs to be more assertive engagement between the European Union and China, that Europe is losing out in some way. They have not focused of course on Africa policy per se but this is one area, and I wanted to suggest that the ingredient to that debate that is missing is a clear recognition of the terrain where all of this engagement is taking place, and that is Africa itself. If you do not recognise the context, if you do not give the actors the prominent role that they deserve the possibility of policy failure is considerable. So, reasserting the role that Africans have in setting the agenda and influencing the outcomes of policies taken between the EU towards Africa or EU and China on Africa.

Q256 Chairman: Thank you very much for that and I think that leads in very well to our first question, which is really on the strategic side and asking you what are the strategic interests of China in its relations with Africa. Which African countries are most important strategically for China? Why is that? And, as you started to broach the subject, what is the significance of this for the European Union?

Dr Alden: The strategic interests first and foremost are energy resources; or I should say resources broadly construed—energy, mineral and agriculture. That is not to say that there are not considerable political, diplomatic interests there. One of the more longstanding ones that make the transition from the ideological engagement of the 1960s and 1970s to the present day is that of Taiwan, of course, in this diplomatic competition. So we should not lose sight of that, although it is a much less significant driver as compared to the past. It remains a constant, shall we say? But the real drivers of the current post-1993 period of China’s role have been orientated towards securing resources to fuel their economy.

Mr Keeley: I think a Chinese perspective on this would also be that China is trying to promote a new international economic and political order; this is the Chinese policy and it involves investment in Africa and new patterns of trade with Africa, in order on the basis of the principle of mutual equality to change Africa’s position in the world.
Chairman: In terms of the individual countries, there is a specific national strategy, or is it just who has which of those resources which they need and that self-selects? How do you see that, Dr Alden?

Dr Alden: There are countries where China’s investments and interests in trade are greater than others and these are connected directly to the resource demands and interests—Angola is a key one. DRC is poised to become one of those, although it is more a matter of debate at this stage, given the condition of the investment package that has been negotiated and renegotiated. Nigeria and Sudan, of course, as we all know. So if you look at the top five to six trading partners they are all resource based. South Africa has always been in the African context somewhat different. It is both a resource provider, but, given its leading position in political terms on the continent and in terms of its diplomatic stature, it also holds a special relationship with China; and indeed last year they reconstituted officially as a special strategic engagement reflecting South Africa’s role in the Security Council of a non-permanent position there. So I think that there are resource countries that are particularly significant—Angola, what have you—and then South Africa is both important but also has a political place in the constellation of Chinese interests in Africa.

Lord Anderson of Swansea: Presumably the change in focus from either dissuading countries from recognising Taiwan, persuading them to move from recognition to the PRC has been largely successful. Do any countries still recognise Taiwan in Africa?

Dr Alden: Four countries do at this stage—Swaziland, the Gambia . . . I should have this off the top of my head.

Mr Keeley: São Tomé and Príncipe and Burkina Faso, I think.

Lord Anderson of Swansea: So effectively these are relatively insignificant. They have been successful; therefore in that political element they can shift the focus in other areas.

Dr Alden: Absolutely.

Chairman: Just to come to the last bit of that question around the significance for the European Union. Is this somewhere that China has steamed ahead and Europe is moving further and further back in African nations’ minds; or how does that work its way out?

Mr Keeley: I think it is possible to overstate the extent of China’s engagement. Overall investment and development aid are still small relative to DAC and multilateral aid and broader FDI. However, Chinese engagement is clearly growing and will become a more significant component of overall flows over time. So given that note of caution I would also say that relationships I think are fundamentally changing in that African states now have new sources of development aid, so some of perhaps the good governance agenda, some of the conditionality that has been associated with European aid and development policies may be slightly more difficult to promote when there are alternatives on offer. It is also not just China, there is a range of other donors—India, Malaysia, Brazil and so on—that are also entering this space. So potentially we are at quite an interesting time where some of the traditional relationships are changing and we cannot take them for granted. The European Union needs to think about how to engage effectively with this new reality.

Lord Anderson of Swansea: Can I build on that in terms of the context? Clearly we Europeans, both bilaterally because of our old colonial empires and because of the European Union, are first in the field and we have an established position. To get ideally some comparative figures, what are the numbers, the scale of the individual Chinese who are there, for example? The scale of resources which they are offering in terms of what the EU is doing, so that we can get some sort of perspective on the Chinese role in Africa?

Dr Alden: I do not have the aggregate figures of the EU off the top of my head that makes this comparison.

Lord Anderson of Swansea: No, a general figure. They are obviously not near equality but is it one-fifth or a tenth of what the EU is doing? How significant is it compared to the EU?

Dr Alden: The first point of departure is that the Chinese statistics are basically not available, so it makes it very difficult to do this. They do not publish them; they consider it a national strategic secret. What we do is we cobble together through inference announcements in the press, when a visiting Chinese delegation appears. The World Bank did a recent study looking into this and trying to assess what was the level of Chinese economic cooperation, investment and the like. Having said all of that, $12 billion to $15 billion in 2006 was provided—more than the World Bank—in loans to African governments.

Lord Anderson of Swansea: Billion?

Dr Alden: Yes, billion. That is an established recognised fact, yet at the same time you can see by the variation between 12 and 15 that it tells you the difficulty in pinning down these things.

Lord Anderson of Swansea: What is the trajectory?
Dr Alden: The trajectory has been up. In terms of investment it has been at peaks and troughs, sort of thing; but measured in terms of overall trade, as I said it has increased exponentially. In 1990 there was just under $1 billion worth of two-way trade and today it is over $110 billion, so it is moving rather rapidly.

Q265 Lord Anderson of Swansea: And the comparative figures for the EU?
Dr Alden: I am sorry; I am not an expert on the EU side of this equation, so I cannot give that figure to you off the top of my head.

Q266 Lord Anderson of Swansea: The criticism sometimes made is that because of their lack of conditionality that recipient countries build up debts and we Europeans have to bail them out through budgetary support and so on. Is that a significant danger in your view? That the Chinese are, if not reckless, less worried about the build-up of debts and it is the Europeans and the IFIs who have to bail out the African countries?
Dr Alden: Whether it is historical coincidence or otherwise the debt reduction programmes came into being in the last few years, just at the time that the Chinese began to introduce new loans. Not all of them, but they are relatively low cost loans; they have also forgiven themselves. But I think there is that danger and it is a danger that has been pointed out to African governments, particularly the Zambian Government and the DRC, that they may be in a position of taking out new debt and who is going to address this in ten, 20 years’ time? Is it going to be, as you suggested, IFIs or bilateral donors ultimately to run another set of debt write-offs or not.

Q267 Chairman: Mr Keeley, did you want to make a comment on that?
Mr Keeley: Only to say in relation to the DRC that I think Chinese loans of $9 billion were promised and this raised the issue of, I think, $11 billion of outstanding debt to DAC donors, and from that there was a subsequent process that led the DRC to revise its position on taking some of those loans.

Q268 Lord Anderson of Swansea: Are we expected to pick up the bill ultimately?
Mr Keeley: They may not take those loans, I think, because basically DAC say that DRC would need to repay some of these other loans more quickly.

Q269 Lord Selkirk of Douglas: My Lord Chairman, I have a general interest as I have a son working in Africa, currently in the Ivory Coast, as a geologist. The questions I would like to ask are: what is the Chinese view of development in Africa and how far does this correspond to that of the United Kingdom and the EU? And from an EU perspective what are the main development issues that arise with regard to China’s approach to Africa? What practical cooperation is currently taking place between China and the EU on development in Africa? Could this be developed or increased? So the question really is about development and cooperation.

Mr Keeley: I could start on that. China has a longstanding programme of development aid and technical support with African countries; it predates the recent re-engagement with Africa. Following the Forum on China-Africa Cooperation Summit in 2006 China announced that it would build ten agricultural demonstration centres across the African continent. There is also a programme of training of agricultural technicians and experts and scholarships for African students. There is also support in the medical field for malaria centres, construction of hospitals and also rural schools and so on. So there is a range of development activity that China is supporting. It is very difficult to get information on it, as Chris Alden mentioned, on the breakdown by country and the overall volumes of this development aid and one of the reasons for this is that development aid is often bundled up in packages of loans and infrastructure investments and it is seen in the context of an economic partnership as one component of that, rather than being a donor-recipient arrangement, in the traditional DAC language. I think this is a really important point actually; that we have to understand how China views this, this question of bundling, and not necessarily see it as something that is inimical to African development interests or inherently problematic. So that is one point. Another issue where I think the EU can work with China is in helping to support China as it tells its own stories about its own development successes. I think that part of the reason that China is often slightly suspicious of attempts to pull it into the mainstream donor discourse on aid is a sense—and you will certainly hear some in China say that European aid has not been successful—that China actually has had the most successful developmental policy—it has reduced poverty from 650 million to 130 million since 1978—and that it should really be given a chance to share some of those lessons in a way that allows a certain level of Chinese control over the distinctiveness of some of those things. So in agriculture you could find a range of interesting technologies in soil and water conservation, irrigation and so on that might be relevant to different African settings, but there are concerns with this in that Africa is different to China. There is a danger of a lot of Chinese aid being very supply-driven, so I think there is room for EU dialogue to think about how to limit this—and there is a lot of experience, particularly in agencies like DFID on participatory approaches and ownership and so on; so trying to share some of those perspectives through
discussions with Chinese partners would I think be a useful way forward. Including, in relation to issues like agriculture, thinking about the particular sustainability challenges facing African farming systems is an area where there is considerable expertise in the EU that we might usefully share with China.

Lord Inge: Can I ask a supplementary on that? You give a very significant statistic there about the reduction in poverty and how Chinese aid has helped. What is different from the way that the Chinese deliver that aid and the way that the European Union delivers that aid?

Lord Jay of Ewelme: Or was your question about the reduction of poverty in China?

Q270 Lord Inge: Sorry, I thought you were talking about Africa?

Mr Keeley: No, in China.

Q271 Lord Crickhowell: We have a paper in front of us, the Global Witness, looking at the agreement with the Congolese Republic and it gives this comment: “Once the agreement with China was signed, President Kabila was quick to voice his frustration at the conditionalities of Western aid and the slow release of promised funds. The Chinese deal offered a welcome ‘no strings attached’ alternative to traditional aid packages. This sentiment concords with China’s policy of ‘mutual respect for sovereignty and territorial integrity’. Both Congolese and Chinese government representatives have emphasised that the relationship between partners is not based on a colonial past and that there is mutual understanding.” Clearly there is a difference of approach here; would you like to elaborate on this difference? Your approach does seem to be in terms of aid packages with conditions; the Chinese seem to be going down the route of commercial deals for commercial purposes with rather different terms. Is that right?

Mr Keeley: Yes, it is part of the package that is agreed often as part of the high level diplomatic missions. It is hard to see what the priorities are, other than the broad sectoral priorities for aid, i.e. what China might be trying to do within the agricultural sector and how that might relate to the Millennium Development Goals and international agreements.

Dr Alden: One thing to recognise is that Chinese cooperation—there is a component in most of these package deals, which is granted, and is explicitly characterised as grant aid and that we can recognise as something equivalent to what the EU or DFID generally provide in terms of assistance. However, as James was saying, it is wrapped into a larger commercial setting and mutual benefit in this sense is from the Chinese perspective seen to be the sustainable factor in this. They have an interest in the resources: they have financial capacity, proven development experience and African governments lack some of these dimensions, or not getting what they want from the West—too many conditionalities, what have you, being imposed. So that commercial core is what is driving the relationship in those five or six lead countries within China’s Africa arrangements.

Q272 Lord Crickhowell: As I understand it, in the Congolese case the Chinese are building infrastructure—railways and so on—very specifically because they want to get the mineral side, and there you have an absolutely direct relationship between construction on infrastructure and so on helps them to get what they want out and helps a very, very poor country. That does seem to be rather different from the traditional approach of the European Union and other countries in the provision of aid.

Mr Keeley: That is a very important point. The Chinese aid tends to emphasise hardware over software. Large scale investment in infrastructure has been a key part of China’s own development model and that is clearly something that is being extended to Africa and is one of the major transformations that is happening on the continent at the moment. Yes, it relates to mineral extraction but it also brings with it potential environmental impact risks and so on, but also great benefits and I think many African stakeholders see this, given that there has really been a dearth of decent investment in infrastructure for several decades.

Chairman: Perhaps I could bring in Lord Jay because it starts to move into this area.

Q273 Lord Jay of Ewelme: We are into the question I wanted to ask really. It was to focus a little bit more on the impact rather than the philosophy behind the aid. Even in western aid there has been for the last year or two a move towards seeing infrastructure as rather more important as part of our aid than it was, say, four or five years ago. If you fly over the Congo the one thing you are really conscious of is that it needs roads and railways. So I suppose the question is to what extent is that sort of infrastructure—take the Congo, DRC again, for example, take the Congo as an example and this package, as I understand it, is something like three million for investment and six billion for infrastructure if it goes ahead—likely to be just directed towards getting the minerals out, or to what extent is it likely to be directed towards developing the sort of infrastructure that would help the DRC more broadly by opening up markets and opening up prospects of development? Is that something you can answer?

Mr Keeley: I think it will be a mixture. Clearly the major components will be about accessing resources. The Chinese are also tendering for international
contracts for road building and often win those
because they deliver very well on price; so those
perhaps would be seen as more useful.

*Dr Alden:* This is where I think China’s experience as
a developing country has influenced its development
strategy towards Africa. Putting down the
infrastructure is the prerequisite to any of these other
things. Getting the policy framework was the
obsession of the 1980s and 1990s, but wonderful as it
is that does not deliver a single concrete benefit in
terms of the raised food production, the possibility of
markets opening, the possibility of transport. I think
this is where the Chinese experience is most welcome
because it has reoriented traditional western
approaches towards development assistance and
recognising that you have to have these. In the case of
the specifics of Congo there are 32 hospitals that are
to be built—there are a number of things beyond just
roads that are directed towards them. The Congolese
looked very closely to how the Angolans have
handled the Chinese and with each Angolan deal you
will see this negotiated—there is more effort by the
Angolan Government to get China involved in more
than the narrower resource extraction; so I think part
of the deal is to broaden the focus beyond just getting
that railroad to the mine and return and rehabilitation.

Q274 Lord Jay of Ewelme: If we were having this
discussion with Chinese officials how far would they
see this question of the beneficial impact and the
effect on poverty reduction as a valid and important
part of the conversation; or would they see that as
something which is not really for them?

*Dr Alden:* How they would characterise it depends on
the setting but they would see this as a long term
project; that you are not going to get short term
results in putting down hard infrastructure that
begins the process by which the entrepreneurial
amongst the Africans will be able to use, in
combination with access to loans or various things.
So they would see it over a long term, I think.

Q275 Lord Anderson of Swansea: What is the
reputation of the Chinese for training up an African
workforce and follow up? Do they for the big
infrastructure projects just bring in work teams from
China? Do they seek positively to train African
workers? You know the classic story of Taiwanese
investment in Africa was that the only certain
conclusion was that the Taiwanese can grow rice in
Africa. Is that a valid criticism of the Chinese? Do
they just bring in armies of Chinese workforce or do
they seriously train the locals?

*Dr Alden:* It varies country to country and I think
what this suggests is that African governments,
who are the ones negotiating the deals, have the
major influence over the relative number of Chinese
labourers that are brought into a certain project or
not. So we see in Angola daily—I just came back
from Angola—literally daily, new Chinese workers
fly in for various infrastructure construction projects.
You go to another country, Tanzania, where there has
been a more rigorous effort to include local
components—if I can put it in these words, local
content in terms of the project. So we have one or two
African managers associated with a particular
project and a higher percentage of African workers
hired and that sort of thing. With examples in Sierra
Leone and others we have other cases; so it varies.
But having said that, in so far as you want quick
interventions, the Chinese are able to sell quick
impact infrastructure projects in countries like
Angola. The way to do it—and there is an echo in the
agricultural debate perhaps, and you may allude to
this—is Chinese workers work in Chinese firms that
are a known quantity, so if you want to get the
railroad done quickly let us not bother with training
up local Africans, let us bring our own workers in,
bring our own supplies in and we will finish the job
in 16 months, 12 months, whatever it would be. The
Chinese are under pressure or request from some
African governments and they are introducing on-
the-job training components in some of the
projects—I think in South Africa, in Richards Bay,
for instance, that was one of the things that was asked
of the port rehabilitation deal, that the Chinese firm
actively train up South African blacks, in fact. But
they emphasise these stand-alone training
programmes; that is really what they will say, “We are
training engineers, we are training agricultural
technicians”, but they are not associated with a
general project—it is part of their general
development systems.

Q276 Lord Inge: I still do not get a scale—I can
understand the structural point you are making—for
the Chinese investment and numbers we are talking
about in Africa. How many people are there because
these are some very big projects?

*Dr Alden:* Statistics again become the problem here as
none are kept that are made public. I was speaking to
an academic based in South Africa—she was up here
this past week—and she is doing a study in Chinese
migration and most of the migration outside of South
Africa is directly linked to projects, as opposed to
South Africa which is of its own. There are 200,000 to
600,000 Chinese workers across the areas above
South Africa and these are being brought in for
projects and the like. They are on contracts; they tend
to go back. If interviewed they want to go back. So
that is as far as the manpower/labour side of it goes.
Official Chinese statistics, by the way, say that there
are about 120,000 Chinese—this was 2006, I think—
on labour contracts in Africa. Again, it would seem
that there are more than that based on the population figures in each of the countries.

Q277 Lord Inge: What have they learnt from their last time in Africa?
Dr Alden: It is a question that few people ask but is something that is of concern in Chinese circles. There was a great disappointment—in a sense it is you learn the Taiwanese can grow rice in Africa, sort of thing—that the Tanzam railroad of course was completed and the Chinese were ready to shut down the operation and hand it over, and both the Tanzanian and the Zambian Governments requested the Chinese stay on and stay on, and the Chinese did not want to do this. There was a sense that they had created a dependency in these projects. There is worry that the same trend is beginning to manifest itself.

Q278 Chairman: Just to bring this particular topic to an end, is it true that the Chinese bring in their own military forces to protect their own developments and their own people there? Is that right?
Dr Alden: In the 1990s their most significant investment—indeed their most significant investment overseas ever—was in Sudan in the oil sector and they were building a pipeline, as reported by Human Rights Watch and some of the others, and they said that the Chinese workers that were working on the plant line, some of them carried arms. Were these people who had gone through military training? Were they private Chinese security? Private would be wrong at that time—now it is possible. So what the profile actually is of the Chinese that are involved there. Officially, of course, there is no Chinese security as such. A footnote to that is the gentleman who was leading the push into Chad, a Chadian, to overthrow the government of Idriss Deby in Chad, had in fact worked for ten years for the Chinese as a security consultant, manager or something like that—he is from Chad, though. So there are some sorts of links of a kind but you will have to ask other people.

Q279 Lord Jones: I have three questions that the Chairman has asked me to put. To what extent is China trying to increase its food security through acquisitions of land in Africa? What are the main contours of China’s agricultural aid programme to Africa? And has the growth of Chinese demand for agricultural commodities had a detrimental impact on food security in Africa?
Mr Keeley: This has been quite a lively debate about whether China is investing in land in Africa to support its own food security. There was an internal document produced by the Chinese Ministry of Agriculture, which was circulated last year in Beijing, where the question of acquiring land overseas to meet food security objectives was raised and there was an internal debate among decision-makers in China, we understand from talking to Chinese policy analysts, and a wider discussion around this among researchers. The background to that is that China’s food security has always been a very important concern for China is under some pressure at present. There are two key policies: one is a 95 per cent self-sufficiency policy for grains, which China maintains; and another is maintaining 120 million hectares of arable land. The total arable land area has been coming down over time and it is quite close to that red line. It has also become more difficult to maintain but not impossible to maintain the 95 per cent self-sufficiency and there are a range of challenges affecting food security, from climate change impacts, water scarcity, agricultural pollution, land degradation and so on. So that is the background. Then also in the context of the food price rise running from mid-2007 to mid-2008, there was concern that the growing Chinese middle class and the demand for meat, linked to demand for feed for livestock was one driver of those food price rises. And we are also seeing serious food price rises in China, particularly affecting the poor. Clearly Chinese demand is important. Chinese imports of soy have increased from zero in 1993 to 40 per cent of world trade now; so we can see the potential for greater demand—that is in one commodity, a very dramatic increase. The analysis over the next 20 years is that potentially maize imports might increase somewhat and there may be some drop below that 95 per cent self-sufficiency, particularly for maize. For rice and meat it is perhaps unlikely to change. So that may have some indications for food prices and food imports from countries; but I think many specialists think it will not necessarily be huge. On the land question, one thing to say about that is there was a discussion following the Minister of Agriculture document, and the National Development Reform Commission, which is the key policy making body in China are now producing a 20-year Food Security Strategy. The full plan will come out this year but the initial findings were launched in November 2008 and there were strong statements made at the launch that China has no strategic plan to acquire overseas land to meet its own food security objectives. When you look at the details of this in Africa, some of the media hype about the land grab can be overstated, there clearly is a new trend towards greater acquisition of large scale units of land but very large units do not really seem to be being acquired by Chinese investors. The Gulf States seem to be particularly important here. One exception might be a land deal that is currently being negotiated in Zambia to grow jatropha in the Northern Province. Chris might know the exact figure—I think it is something like 2 million hectares
that is being discussed. There are many Chinese farms throughout the African continent, particularly in countries like Zambia, but they tend not to be particularly large, and significantly they are almost overwhelming producing for the domestic market rather than exporting food back to China.

Q280 Lord Jones: And you are soon publishing Land Grab or Opportunity—Agricultural Investment.

Mr Keeley: Yes. This is a report that IIED are doing for the Food and Agricultural Organisation and the International Fund for Agricultural Development—FAO and IFAD—and that will be coming out in June 2009.

Q281 Lord Jones: Are they targeting?

Mr Keeley: We are trying to take a balanced assessment for what the evidence is, not just in relation to China but across the board on land grabs. It does raise a serious set of issues that the EU might want to engage on in terms of supporting civil society capacity to scrutinise land deals and host governments’ own ability to ensure that investors really do have the capacity to deliver what is promised in particular land and agricultural development deals and to scrutinise some of the issues around water abstraction, impacts on local land rights, the sustainability of agriculture and so on.

Q282 Chairman: Why would China buy farms that just operate normally and sell into their domestic markets anyway? What is the point?

Mr Keeley: Many of these farms are part of the state farm agribusiness corporation, which is part of the Ministry of Agriculture. It is a bureau that used to manage reclaimed land which was farmed as state farms, many in the northeast of China. There are State Farm Bureaus; there is a national one in China and then each province has one—some of them have now disbanded. Most of them now have to generate their own revenue so going overseas to farm has been one strategy to do this and they typically contract out the farm to Chinese farmers agricultural technicians who have to meet an income target and then they are essentially farming for profit. I think it is also a way of demonstrating a Chinese model. The other point is that China has a “Going Out” strategy as well, to encourage Chinese firms.

Q283 Lord Anderson of Swansea: You have talked about China general. Are we talking about the Chinese National Government; are we talking about provinces; are we talking about semi-state institutions? What is the profile of the investment overall by China into Africa?

Dr Alden: Things have moved very quickly over the last decade within China itself—the introduction officially of private property, for instance, and the official ending, closing down tens of thousands of state-owned enterprises and privatising them and the like. If we were discussing this ten years ago or even five years ago the answer to that question differs. The going out strategy is a government strategy; it has targeted a select number of state-owned enterprises in particular sectors that they are encouraging to invest overseas, the initial ones that Africa’s experience resolved with the energy firms. They provide a less directive way of encouraging this sort of investment through China XIAMEN Bank, China Development Bank, which provide financial incentives for Chinese actors, be they state-owned enterprises, be they provincial actors, to look into exploring new markets, to broaden the economic outreach of the Chinese economy and Chinese actors. The thing that we have to capture here is that we talk often about China but in fact there are many Chinas we refer to. We refer to increasingly, in the African context in the last five years or so, private actors. I was thinking of some of these Chinese farms—some of them were just Chinese farmers who have taken up positions within the African context to serve—what do they call it?—the truck farm; you are in the periphery of the city and you are providing vegetables and what have you. So they are very different to the local market; there are different scales of who China is. I think the growth area would be to look at the provinces as actors in this thing. The Chinese Government remains significant in key sectors—energy sector with a state-owned company; but even the mineral sector is much more played at a provincial or even private level.

Q284 Lord Anderson of Swansea: One of your publications was Chinese Multinational Corporations in Africa. Do they have an identity?

Dr Alden: Some of them are bone fide recognised multinationals, others are parastatal and others have listings on the Hong Kong Stock Exchange and what have you, and they have been encouraged to do so; yet the state retains the bulk of the shares and control within these organisations. So that is at the high end, the big firms, but again we have small or medium enterprises which may have evolved from this privatisation of state-owned or provincial enterprises which are increasingly behaving as private actors.

Q285 Lord Anderson of Swansea: And enterprising people who seize the opportunity.

Dr Alden: Absolutely.

Q286 Lord Crickhowell: We now have the notion for the point I was about to put to Mr Keeley. I was struck by his reference to the produce going to the local markets and he then cited Zambia. On the
couple of visits that I have made in the recent past to Zambia I was struck by the scale of the farming enterprise around Lusaka and some of that is China, but a great deal of the produce is of course going to the European and British markets—the vegetable markets and so on. So presumably these Chinese farms are actually not as private and trading with the local market but they are actually trading in the supermarkets of this country as well. Presumably they tend to be privately owned enterprises, or not? Mr Keeley: I do not have good information on whether they are actually trading with Europe. The farms I visited—and these were some of the largest Friendship Farms—were only selling in the regional markets.

Lord Crickhowell: But some of the Zambian trade is into the British market.

Chairman: I suspect that Tesco has more land grab in Africa than China does but maybe that is another inquiry! Lord Inge.

Q287 Lord Inge: We have touched to a certain extent on peace and security but I am still not clear what China’s approach now is to peace and security in Africa, in peacekeeping. Is it on a country by country basis or is it country specific? Actually we talk about the European Union approach to Africa but in terms of security a lot of that is done on individual nations dealing with African nations. Does that also mean that some of the regimes they are supporting are regimes that we would consider undemocratic, repressive and dictatorial? It is quite an easy question to answer, is it not!

Dr Alden: Generally a yes or no question! Peace and security, there is an official position always in favour of it, etcetera, etcetera. I think their interest in Africa is stability, first and foremost. As they become more deeply involved and their investments are more exposed to the African environment, it could be said more generally that they are beginning to recognise some of the insights and experiences of longstanding actors, hence their change of position on questions of intervention, but with some key caveats—the intervention has to be accepted by the host government and obviously has to pass through African scrutiny, be it probably the African Union but also the UN Security Council if it is brought to the Security Council. I think they are looking currently—and in a way it comes to your question about Chinese security for its own interests and investments—at emphasising multilateral means of sustaining their interests and promoting stability. They see that as the avenue in Africa for doing that, as opposed to intervention, of course, which they would not favour. So that is their general policy. It is country by country. Sudan has experienced a very different change from, say, 2003—the position of the Chinese to the contemporary position. De facto they do support—this non-intervention policy does support repressive and dictatorial regimes. The western interventionalist policy none the less manages in certain instances to happily work alongside the same sorts of regimes. I am not an apologist for the Chinese in this but I do recognise that there are some hypocrisies at play in this.

Q288 Lord Inge: Does that also affect arms sales and things like that?

Dr Alden: Chinese arms’ sales?

Q289 Lord Inge: Yes.

Dr Alden: SPRI—the Swedish Peace and Research Institute—has put together some work on this recently but the bulk of Chinese arms’ sales have been small arms. They have gone to primarily the Horn of Africa. They have found their way into the DRC. Again, how much of this is state policy or how much of this is the policy of the arms producing industry, which is increasingly active in seeking out new markets itself. The arms to Zimbabwe that came around the period of the election, looking at that closely these were deals that were done with perhaps a nod and a wink on the part of the government, but certainly between Chinese firms and the Zimbabwean counterparts the Chinese diplomats, once this hit the press, were as upset about it because it went against their own interests. This is about this diversity of interests.

Q290 Lord Inge: Are you saying that the Chinese Government has no control over its companies?

Dr Alden: No, I am saying that as far as I know that China is seeking to gain market share in the arms industry in Africa; that it is a very, very minor player with a few exceptions that I have mentioned; that probably Norinco and other companies would like to take up a larger position in that. I know in South Africa they have been unable to do so, probably the South Africans are in the same business themselves, and the degree of which that is conform to as a closeness to Chinese policy generally, I cannot answer that particular question.

Q291 Lord Inge: There seems to be a conflict between what we think the European Union and the UK should be doing about Darfur and what China is doing. Do you think that the European Union therefore ought to engage in a more robust discussion with China about what is happening in Darfur?

Dr Alden: I do not think China is the key any longer to solving the Darfur problem; I think China is actually on side. The current debate of course is around al-Bashir and the International Criminal Court. They have a different position which they draw from their own outlook but also they draw from the African governments which, on the whole, have
been critical of this. I think that engagement is already there.

**Q292 Lord Inge:** Are you saying therefore that the European Union and China, as far as that is concerned, are on the same path?

*Dr Alden:* No. I am saying that on most areas they are; they still have some debates around things such as the question of al-Bashir and the criminal court, but coming to my very first comment on this set of questions the Chinese recognise that stability is a prerequisite to securing their interests and in general terms they would like a stable Africa and for those reasons they have changed their viewpoint on the Darfur question.

**Q293 Lord Jay of Ewelme:** I was very interested in what you were saying at the beginning of your answers to this set of questions about the degree of some flexibility and the Chinese approach and the extent to which as they get more involved they listen to perhaps or learn a little bit from others and that may open up some questions of how we negotiate or how we talk to them, which we are coming to in a moment. You also said, I think, that they preferred a multilateral approach; could you say a bit more about that? With whom and over what?

*Dr Alden:* I think at this stage in so far as there are conflicts, as they become more exposed to the African environment, and particularly that their biggest investment is in resources and the resources are in countries where political instability is either current or just completed a phase and they have moved out of that, they are looking to multilateral institutions—in Somalia, into multilateral initiatives. They do not want to be taking action as the Chinese State in these things; they want in a sense the cover, if you like, of having international support. African support for any actions that would be directed towards gaining stability and resolving problems of conflict and the like.

**Q294 Lord Jay of Ewelme:** Let us take Somalia, for example. Who would they be looking for in that case as the cover? Are we talking about the African Union; are we talking about some kind of UN organisation? Who are we talking about?

*Dr Alden:* They took the lead when they were President of the UN Security Council to authorise action on the Somalia case. They look to the United Nations and/or the African Union, since it happens to be in Africa—there is the Peace and Security Council and the like. I think they are quite careful and systematic about making sure that they subscribe to the recognised political institutions that go to their bias for governments as opposed to civil society and other forms of actors.

**Lord Jay of Ewelme:** It seems to me this is a rather interesting set of issues because we started off by talking about China being rather exceptionalist in its approach and we are coming round to China actually wanting to work with others in finding solutions to some of these issues, so it has nuanced as the discussion has developed.

**Q295 Chairman:** Do you think that is a trend that will continue—that engaging more in that sort of structure is going to be something that China will do?

*Dr Alden:* I think it is almost inevitable. It is a process of taking an observer status on the DAC and participating or discussing extractive industries, the transparency initiative. All these are debates within the Chinese Government, the degree to which they should conform to and subscribe to. I think there are certain red lines though. I have heard the Chinese say more than once, quite emphatically, “We are not going to join the DAC committees; we do not want to be seen in a committee of ex-colonial donor states; that is a step too far. But what we will do selectively on certain policy areas, we will change and play along,” particularly if they get African pressure. I think the key that we often forget is African governments can set the agenda for China and Africa. We under emphasise that, maybe because it is a difficult terrain; but they respond to Africa and they have said it very explicitly.

*Chairman:* It is an important point.

**Q296 Lord Jay of Ewelme:** I have heard it said that the Chinese have said that they would not wish to join any multilateral organisation in which they did not have a veto. Do you think that is true?

*Dr Alden:* I think that they make lots of statements and they then weigh each particular case individually.

**Lord Anderson of Swansea:** You have mentioned the tentative moves towards a political dialogue; are there any examples where China has involved itself in international financial or industrial competition? Are there examples where Chinese are main contractors or subcontractors along with western firms, or do they put a totally Chinese project before the applicants?

*Chairman:* I think we come on to that quite strongly in question 8; so if I could leave that to then, Lord Anderson, and maybe add into that? Perhaps we could move logically to Chinese corporations and Lord Crickhowell.

**Q297 Lord Crickhowell:** We have already touched on the question of how far the Chinese Government has control or influence over Chinese corporations in Africa. Do Chinese corporations in Africa respect human rights and environmental standards? Is there scope for dialogue with the EU on these questions? I am aware that China is not always very responsive to
the EU telling them how to conduct human rights questions and so on, but there are doubts. We referred to the paper on the Congolese situation and there are fears expressed in that paper about the lack of transparency about some of the conditions and the reports of poor treatment of workers and so on. How do you see these issues and the Chinese relationship, particularly with Europe? This is a European Committee; is this area where Europe can talk profitably or is it just going to be normal?

Mr Keeley: I think we can but we probably need the right starting point, which is to recognise that there have been issues around labour and Chinese contracts, and that there are projects where there appear to be negative environmental impacts, where there are ongoing environmental problems—damn projects are ones that are commonly cited. But notwithstanding these issues China is making serious efforts to develop environmental guidelines. The Ex-Im Bank has a set of guidelines which are published. The State-Owned Assets Supervision and Administration Commission, which is an extremely important body which is basically in charge of the state-owned enterprises has its own set of regulations as well; also the Ministry of Commerce, and some of those regulations I think encourage the use of local labour in construction projects and so on. So it is important to recognise that there is a positive trend towards trying to promote better impact assessment and more environmental responsibility amongst Chinese firms; and Chinese firms themselves, the large ones, are promoting CSR and publishing their own statements on CSR and so on. Yes, there is plenty of scope for dialogue, and one of the issues is whether China would really accept some of the OECD and World Bank standards on environmental governance. There seems to be some sort of sensitivity around that question.

Dr Alden: I would just echo this. I think this is a constructive area for engagements actually. I think the background to this in some sense is that the state-owned enterprises aspire to be world class multinational firms and they recognise—and you can see it on their websites—they dipped a toe in the CSR process and the like. They look to western, European firms as the world class standard to which they hope to aspire. What worries me is another set of business actors—the small and medium enterprises. They are much more of the smash and grab variety and they are the ones in fact who have been withdrawing from Congo with the collapsed commodity prices. It is a classic that the juniors, if you like, in the mining industry, who come in, whose margins are much narrower, they flaunt labour standards, environmental standards and the like and they are the ones that are problem not just for—and I think here the Chinese I think would listen to Europe—the Africans and the like but they are a problem for the Chinese Government. The Chinese Government is being held accountable for private actors who break the standards and they are very worried about it; every embassy that has an economic council, you talk to them and they will tell you, “These guys do not register with us; we read about them in the press; we only hear about it when African labourers are killed or rights are violated,” or whatever. So the Chinese Government, I think, would be quite responsive in this area.

Lord Crickhowell: On the environmental issue, the growing interest of China and the whole question of the environment and so on, it is an obvious area where I think we would expect to talk. I get a sense which I find interesting. It is obviously much easier to talk to the Chinese about the human rights issues in the context of Africa than it is about the context of China. If we talk about it in the context of China that is too close to home, but they may be quite happy to talk about these issues in the international context where they want, as you say, to measure up to world class standards. It is an interesting observation; thank you.

Q298 Chairman: Mr Keeley, were you trying to come in at the end there?

Mr Keeley: There is a human rights dialogue with China on Chinese human rights, and China would also have a perspective which emphasises a wide range of social and economic rights rather than just political rights. On the question of environmental impacts, forestry is another case, in Mozambique, particularly, where it has been very difficult for the Chinese Government to control some of these small operators who have been very seriously involved in the stripping out of tropical hardwoods. In fact the Ministry of Commerce invited the International Institute for Sustainable Development and IIED to develop some recommendations on how China might deal with some of these issues and promote a more sustainable forestry strategy, and there are a range of issues in there and the recommendations from that study which provide ground for taking these things forward.

Q299 Chairman: Can I just clarify one thing? In the UK when we talk about small and medium sized enterprises we very specifically mean enterprises with less than 250 people unless it is covered by other definitions. Are we really talking about businesses in China that are as small as that and their interventions within Africa, or are we talking relatively?

Dr Alden: When I used the term I was thinking of not China, not the leading firms. I did not put a break as to a particular definition. Can I just bring back the arms issue for a second? The thing that surprises me—and I continually talk about this in African cities—the FOCAC meeting, the very first one, the
Forum for Chinese-African Cooperation, which we saw in Beijing in 2006, China signed on to a commitment to reduce small arms sales. Nobody ever talks about it any more but it was one of their first commitments in their very first meeting and it seems to me that this is an area that should be pursued. I would have thought; that the African Union and the like would have pursued this more readily—they have committed themselves to publishing what they trade and reducing that. That is just one observation. On the control of Chinese firms, the fact of the matter is that China does not control the behaviour of these smaller firms, however defined, in its own backyard. The flouting of regulations, the reasons there is so much flouting of regulations in local settings is one of the reason for the peasant uprisings. The township ventures are actually selling land that they do not have the right to sell under the feet of the peasantry and the government does not seem able to stop that. So one has to ask the question: the degree to which they would be able to control the same in a foreign country, a foreign setting.

Q300 Lord Jay of Ewelme: It has been a very interesting discussion and out of it has come a number of areas in which there clearly either is or I think we probably agree needs to be consultation or discussions between the EU and the Chinese in order to try to influence, help develop—whichever way you want to call it—their role in Africa. I just wondered what fora you thought would be the right ones to use for this? Where can the EU most effectively engage the Chinese? Is that through the EU-China dialogues that it has on human rights and other issues? Is that in the context of the UN; is that in the context of the IMF and the World Bank over development and debt issues and where would you see as the most productive way of the EU engaging with the Chinese on the sorts of issues we have been discussing today?

Dr Alden: I think in so far as the dialogue becomes prisoner to the question of human rights domestically within China it is probably going to be a weak setting. I do not think one should ignore it but I do think that you will continually run into the same set of positions that occupy the Chinese—"We will not talk about anything because you are bringing up a particular issue of our domestic environment." So I think devising sectoral extractive industries, whatever the particulars, do it cumulatively around a particular issue that does not fold it into a larger consideration for Chinese state interests.

Q301 Lord Jay of Ewelme: G20 is a group—which I personally very much welcome and think it is probably here to stay, at least for a while—that the Chinese really think is absolutely fundamental there. Is that a grouping in which you think that these kinds of issue could be addressed? There, one way or another, you have China; you have South Africa and you have African countries, is that a forum in which you think these issues could be raised?

Dr Alden: Although it may sound contrary to what I have said, I think you have to bring it up in every setting but do not expect action to take place within that particular setting. On the question of Darfur, in 2002 I remember talking to the Swiss Government and various European governments about the Darfur issue and the position that seemed to be taken in every one of our bilateral meetings, much less the multilateral, “We are going to talk about Africa”—even though the Chinese do not want to talk about it, they want to talk about EU or bilateral issues. But if they hear it all the time in all settings the pressure to act is greater, so that would be a general point to make.

Q302 Lord Anderson of Swansea: Gentlemen, the conclusion I am drawing so far from your helpful contributions is that Chinese engagement with Africa is increasing; it is positive and using sovereign wealth funds and so on. The question is to what extent should we as the European Union seek a dialogue with African countries in respect of their commitment with Africa? Is there a readiness on their part to enter into such a dialogue in the EU-Africa partnership? And is there any attempt to assist the African countries to strengthen the capacity to dialogue with the Chinese? Also, that might be relevant for us in the Commonwealth context.

Dr Alden: I think that the Chinese are beginning to recognise that sustainable partnerships require effective partners on all sides, so African partners need to be—and it answers your last comment first in a sense—building the capacity of African governments to negotiate around issues that are particular to the Chinese-Africa debate is an important feature and the Chinese, who were less enthusiastic about that, I think are recognising the value in the same way we talk to some of the Chinese officials about this to say that the World Bank needed to put investments into ministries of finance in order to effectively manage the debt question and development question. I think that is one area. Are things being done? Both through DFID China and DFID Africa support capacity building on China-Africa issues.

Q303 Lord Anderson of Swansea: And the EU? Dr Alden: The EU generally; there is an EU dialogue. I have attended some of the meetings and it has been exactly that—a dialogue. I am not sure that it has gone much further than that. One of the problems—if I can call it a problem—is that some of the African partners are deeply concerned about this being an EU-China discussion with a passive African component to it. It is again echoes of previous
relationships where Africa is a sort of prostrate subject and the others are—

Q304 Lord Anderson of Swansea: Carving up Africa. Dr Alden: Exactly. So that to me is the major impediment to this dialogue; it is actually the African partnership side of it now for Africa. Africa can see the rationale for this more broadly and if they can see it fully in the interests, in the way I have just mentioned, effective negotiations, getting more out of the China relationship, getting more out of the EU relationship through this process, then I think the enthusiasm will be greater. The South African Government is very negative about this process, for instance—they see this in the terms you have just mentioned.

Q305 Lord Anderson of Swansea: Are there examples of the industries working together—the Chinese and European—in specific infrastructure consortia, for example, or where a Chinese entrepreneur of Chinese state institution would bring in a western corporation as a subcontractor or vice versa? Is there that degree of cooperation in Africa between China and western companies?
Dr Alden: On some of the controversial projects—the Maridi Dam is a consortium of European and Chinese firms involved in that. The distinction comes with Chinese-financed activities, where the Ministry of Commerce’s tendering process is internal to Chinese firms and so they are the ones that do all the work; they are the only ones available to bid for the contracts. But Chinese firms have bid for and worked in collaboration with any number of European firms on infrastructure projects.
Mr Keeley: Including oil investments in Nigeria as well.
Dr Alden: Here again it is about the expertise. They do not do deep water drilling—they do not have that expertise because of their historical experience, their oil has been land. So they look to that. There is a sideline here, is this about learning technology? I am not sure of the enthusiasm of some of the western firms about the technological gains of the Chinese firms when we then later go on to compete against them. I do not know; that is for the western businesses to decide, as to whether that is a good thing or not.
Mr Keeley: There is another aspect to this, which is Chinese investment in non-Chinese multinationals acquiring equity; and also investment in Chinese firms. As the equity ownership changes, the potential for exchange and dialogue also shifts slightly as well.

Q306 Lord Crickhowell: Apart from passing reference a moment ago to grilling expertise we have not at all touched this morning on a subject which you actually listed as one of the three key resources issue right at the start, which was energy. This Committee a year or so ago completed an inquiry on the EU and Russia and the energy of course was of absolutely central importance for Europe in connection with Russia. Russia is making very vigorous attempts to extend its energy resources into the African continent and I wonder if there is any area here of potential conflict with Russia and potential importance to the EU relationship? What is the principle way in which China is seeking to develop energy resources in Africa? It is not a subject that you have actually talked about at all except in that initial reference.
Dr Alden: It is seeking out positions, leasing agreements and developing unexplored fields, primarily in the Sudanese case, the latter case. Clarify if I get this wrong in terms of your question, but they are bidding alongside the standard annual bids that are made for particular oil leases in the Gulf of Guinea States, West Africa. A colleague of mine has done work, looking very specifically at the role of China in West Africa in the oil sector and his suggestion is that as a whole they are not competing, they are actually complementing. They may be taking up new positions but they are not driving out—the bulk of deals have already been done and have been captured, with the exception of Sudan, hence its importance once the west pulled out—hence the importance of Sudan to China. The competition factor is less there than you would expect. There may be competition around getting a particular lease but it is not a zero sum game where European interests are being driven out by Chinese interests. Your point about Russia?

Q307 Lord Crickhowell: Russia is going very vigorously to try and develop really substantial links with some of the energy resources—gas and other resources—in Africa, and there is a potential for conflict on energy issues elsewhere in the world—a very considerable one—between Russia and China, and I was therefore wondering if there was any spill over into the African situation.
Dr Alden: I have not seen it in the debates within China on the Russian position. Where I have seen it more is in India, as far as the emerging markets are concerned, and India has a much more dire life of energy profile and they have competed directly and lost time and again to Chinese interests, although there are instances of collaboration with Indian firms for instance in Sudan. So it is a mixed picture at this stage.

Q308 Chairman: Coming on to our last question, which is really a capsule and to ask if there is anything else that we have not really covered, particularly from your own experience that you think would be useful to the Committee. We have quite obviously concentrated on Africa and you are both Africa experts but I would be interested in a comment as to whether you think China’s approach to Africa is unique in its own way, or is this replicated elsewhere within the developing world? Mr Keeley, if I could ask you to start?
Mr Keeley: There are aspects that are replicated elsewhere. The interest in securing a long term supply of resources, we can see that very clearly in Latin America. The Chinese Vice Premier recently toured several Latin American countries and announced similar package deals to those in Africa. In Venezuela there is a development fund to which China is contributing there are various long term agreements for supply of oil from in Brazil and Venezuela that have been agreed. So you can see a certain similarity. Also in Southeast Asia there is a similar interest in resources: in Vietnam, Laos, Malaysia and Indonesia and so on. Probably what is different with Africa is some of the institutions that have been set up, like the China-Africa Development Fund, and the high profile Forum on China-Africa Cooperation. So there are similarities but also differences.

Dr Alden: The commercial drivers of the going out policy remain similar across different regions within the developing world and indeed the developed world. In the context of this global crisis China is interestingly looking to invest in another resource country but a developed one—Australia; they have been putting a lot of attention and resources into that. So the pattern of the need is there and the willingness to take up positions in developing and developed countries in resources remains a key driver across the board. I would agree with what James said about the institutional distinctiveness of the African relationship. I would draw it back to that earlier comment about Taiwan. The forum about Chinese-Africa cooperation, it is a Ministry of Foreign Affairs initiative and I think it has evolved into something else. It has highlighted other features but I think at the bottom of it was a way to crowd out the Taiwanese space. Again, I do not think the Chinese would initiate it for just one reason, but that is a thread that runs through this. The other thing I would say that distinguishes China’s relationship with Africa and be, I believe, a source of friction is China migration. China is poised to be the largest trading partner, if not the largest investor, etcetera. They make much about their historical experiences as distinctive; we are all developing countries, etcetera. The thing that actually distinguishes them from Europe and the United States and Canada is that they are sending migrants—and I say “sending”; migrants are going to Africa and you do not see that same pattern coming from Britain, France or what have you. What that is doing is changing the nature of that relationship and where China was welcomed with open arms a few years ago there is some ambivalence, and that is from the ground up, because of this—what are all these Chinese doing here? So that also is one of those areas that need to be flagged in future.

Q309 Chairman: Is some of it permanent migration, an actual settlement?

Dr Alden: We had a meeting at the LSE the day before yesterday by the leading academic, a guy from Singapore, on migration and he uses the term “sojourners”: that is to say, people who migrate but in fact always plan to go back and do often maintain strong links, and of course that has been the Chinese pattern—to maintain links. The answer to that depends on if you are Chinese or you are Zambian or Angolan or South African how you view the activities of the Chinese that you meet.

Q310 Lord Anderson of Swansea: Our focus as a Committee is the European Union and China. Ultimately we will have to make conclusions and recommendations. Given your expertise on China where do you think institutionally or otherwise helpful recommendations could be made?

Dr Alden: I need clarification. What do you mean, helpful recommendations for European policy?

Q311 Lord Anderson of Swansea: In respect of the relationship of the European Union and China, how that can be constructively promoted in what is likely to be an increasing mutuality of interest in respect of Africa?

Dr Alden: For instance the European Commission’s Development Commission has played a role and that is one of the avenues for discussing and opening debates on questions about conformity of development practice; and one can raise the question of poverty reduction as a goal. That is one institution that I think has already taken some initiatives in engaging China on Africa and I think that can be bolstered.

Q312 Lord Anderson of Swansea: Where are we going? Where will we be in five years’ time? How can we, the EU and China constructively develop dialogue in areas where there are mutual concerns—corruption, or whatever? Are there any particular areas which you would like to bring to our attention?

Mr Keeley: Working on the EITI I think is a key one because it is an incredibly important initiative and having a conversation looking at what the obstacles are to China joining the EITI and how it might need to be reframed would be interesting to the Chinese stakeholders and I think is important. Another area of interest is really this question that Chris has mentioned several times, which is this African perspective and I think really supporting the African institutions, so the AU, NEPAD, SADC, the West African institutions and so on, to build their own capacity to engage with China would be valuable. Perhaps one issue that the AU and NEPAD might push for is for the Forum on China-Africa Cooperation to have a more permanent presence with African representation in it, so that some of these recommendations or announcements that come out
can be taken forward in a more constructive and transparent way than perhaps they have been to date, following the pattern of periodic announcements and periodic summits.

**Chairman:** Thank you very much indeed, that has been most helpful. I am very interested in the migration which has not come out at all actually in anything else that we have done and that is perhaps something we might think about more. We think of a monolithic China into Africa—or perhaps some of us do, I cannot speak for everybody here—but what has come over to me is the fragmentation in terms of China in terms of that, whether it is corporations, small and medium size businesses, farmers, provinces or the state itself and which part of the state. So I think that is certainly something that we will take away with us. Thank you both very much indeed for giving your evidence.
WEDNESDAY 6 MAY 2009

Present
Crickhowell, L
Hamilton of Epsom, L
Jay of Ewelme, L
Teverson, L (Chairman)

Examination of Witness

Witness: MR MATTHEW BALDWIN, Barroso Cabinet, European Commission, examined.

Q313 Chairman: Good morning.
Mr Baldwin: I am entirely at your disposal. I am sorry we could not get the Director General from the ECFIN side. I am afraid I cannot pretend to even slightly replicate what he could have offered you, but I am entirely at your disposal.

Q314 Chairman: We very much appreciate you giving us your time. You are the only person we are looking at from a broad Commission point of view as part of Mr Barroso’s Cabinet. We are treating it as a formal session, which we are recording, and, unlike if you were over in the House of Lords, we are not televising you or videoing you. We will take a transcript which we will give you a copy of in case you feel you that agenda is being followed, whether that is now obsolete, and how you see EU-China relations at the moment.

Mr Baldwin: Thank you. I should have reviewed that document before coming to this meeting, but I know you are seeing Jim Moran and others and he will be best-placed to give you a very precise rendition of how we feel we have achieved on that or not. If I may answer your question in a more general way on three possible areas. Firstly to say that China’s extraordinary development and entry into the world economy and world political stage has been overwhelmingly in the UK’s interests, in Europe’s interests and in global interests from almost all angles. You will be aware of many of the arguments and I will not develop them: the hundreds of millions lifted out of poverty; the extraordinary boosts to the world economy. And, I would also argue, the growing sense that China shows that it has a stake in geopolitical stability and a stake in the future. I would evidence the strong role they played in the recent G20 meeting in that respect. Of course, there are the downsides, and you particularly will be very well aware of those, that fear of globalisation has become a proxy for fear of China and vice versa. I think that was particularly true in the US. Unfortunately, Europe has not shown itself to be completely immune from it either. Second, the sense, and this is more a particular US concern, of strategic rivalry between China and the US. I think that is a bad thing for all of us but it has a second knock-on effect that people talk too loosely in my view about a G2, a sort of US-China duopoly, as a solution to this problem. The third element, and, I am sorry, this is not an exhaustive list, China experts would give you much longer ones, the sense of the pressure that extraordinary Chinese growth has placed on raw materials, carbon emissions and so on. I should add, of course, we are not saying that China is in any way responsible for the climate change problem. They are the new arrivals on the emissions stage but they are part of the problem which we are trying to solve. Europe’s reaction to this extraordinary development, of China’s entry onto the world stage, has been a very positive and supportive one. I was very heavily

Q315 Chairman: I do not know if there is anything you want to say as an introduction at all, Mr Baldwin, or whether you would like us to go straight into questions?
Mr Baldwin: Maybe given how much time we have, which is not so long, we should just jump into questions. I would just say I am very happy to try to address questions both about President Barroso’s agenda and looking forward to a possible second term. I am very happy to answer any questions about China. I am not a great specialist in China but I have been following it mainly from a trade policy perspective and then more recently in climate change and energy.

Q316 Chairman: Certainly the climate change side is an area which we are taking a particular interest in in this inquiry, so I am sure that is something members of the Committee would like to come in on. Perhaps I could start off and ask on a very general basis. We have the document EU-China: Closer Partners, Growing Responsibilities, which I think is now three or four years old. I would be interested to know how you feel that agenda is being followed, whether that is now obsolete, and how you see EU-China relations at the moment.

Mr Baldwin: Thank you. I should have reviewed that document before coming to this meeting, but I know you are seeing Jim Moran and others and he will be best-placed to give you a very precise rendition of how we feel we have achieved on that or not. If I may answer your question in a more general way on three possible areas. Firstly to say that China’s extraordinary development and entry into the world economy and world political stage has been overwhelmingly in the UK’s interests, in Europe’s interests and in global interests from almost all angles. You will be aware of many of the arguments and I will not develop them: the hundreds of millions lifted out of poverty; the extraordinary boosts to the world economy. And, I would also argue, the growing sense that China shows that it has a stake in geopolitical stability and a stake in the future. I would evidence the strong role they played in the recent G20 meeting in that respect. Of course, there are the downsides, and you particularly will be very well aware of those, that fear of globalisation has become a proxy for fear of China and vice versa. I think that was particularly true in the US. Unfortunately, Europe has not shown itself to be completely immune from it either. Second, the sense, and this is more a particular US concern, of strategic rivalry between China and the US. I think that is a bad thing for all of us but it has a second knock-on effect that people talk too loosely in my view about a G2, a sort of US-China duopoly, as a solution to this problem. The third element, and, I am sorry, this is not an exhaustive list, China experts would give you much longer ones, the sense of the pressure that extraordinary Chinese growth has placed on raw materials, carbon emissions and so on. I should add, of course, we are not saying that China is in any way responsible for the climate change problem. They are the new arrivals on the emissions stage but they are part of the problem which we are trying to solve. Europe’s reaction to this extraordinary development, of China’s entry onto the world stage, has been a very positive and supportive one. I was very heavily
involved in a previous life in the WTO accession of China and witnessed the extraordinary use by Prime Minister Zhu Roughti of the accession process to drive internal reform in China. This was momentous in the true sense of the word. I think he single-mindedly set out to bring China into the 21st century using the WTO accession process. That is one example. The second example is the myriad soft power co-operations which is set out. I am sure, at great length in the documents you referred to, my Lord Chairman: scientific research, education, energy and environment, particularly the last two growing steadily in importance. I would also add in relation to that that China “gets” the big challenges of globalisation. I will take two examples. You mentioned climate change. I saw and read, because it was so interesting, John Ashton’s testimony to your Committee, which I thought was a very rich and full exposition of the problems. I think Chinese leaders understand more than many others the stakes. They only have to take a flight from Beijing to anywhere in the country to see the problems they have with pollution. They can see the figures with their own eyes for emissions and they have a tremendous problem with coal. I will not dwell on that because John has talked about it with far greater expertise than I can. I do see them playing a constructive role in the run-up to Copenhagen. We had the first meeting of the Major Economies Forum in Washington last week and China, along with other emerging developing countries, is playing a very constructive role and that is important. I would say that the EU can also claim to have played a significant role in working with them on this. Mark Leonard’s recent piece does good justice to that. We have had some very constructive exchanges with the Chinese leadership. We had a meeting in the spring of last year, and I cannot give you the precise dates, when we went with nine or ten Commissioners to Beijing and had a well-structured series of meetings, preparation at each level and then a round-up plenary meetings with Prime Minister Wen Jiabao which were very, very productive. Of course, we have the EU-China summit process and we shall probably have two summits this year.

In those meetings, which were quite tough meetings, the Chinese arrived at the position of agreeing to bind their national action plan in the international negotiations. I need to check that word “bind”, but certainly put on the table, commit, what they were doing nationally in exchange for two things: one being major efforts from the developed countries, the so-called Annex 1 countries, to commit to real and binding reductions; second, some help on technology transfer. This may not seem a tremendous offer but in the context of the negotiations it is very significant, it is the act of coming out of their corner and saying, “This is what we want”. For many developing countries, India as well, putting on the table what you are doing nationally in the context of international negotiations is a big step. The Indian argument has been that what they are doing in relation to migration flows from what they are doing on sustainable development, rather than the other way round, and they do not wish to be put into the position of making targeted commitments. They say that is for us, the historic major emitters, and they have a different path from China in this respect. The Chinese move was a significant development and personally I regard it as significant that they did that in the EU-China context, they were comfortable making that kind of offer. I think they were particularly comfortable because of the major action that the EU proposed in its 2020 targets of last year, and I know you know about those. The second area I would touch on is trade where I think I am right in saying that the Chinese recognise that in order for us to keep our markets open to Chinese goods, as we have done historically and I hope we will continue to do, they need to show real action on their side to address the structural difficulties we have in entering their market. We have a revised market access strategy in the European Union. These various actions have spawned a real dialogue. We overuse the word dialogue in the European Union particularly with the Chinese, but it is a real discussion which Baroness Ashton, who will be very familiar to you, is leading. Indeed, we have the next meeting of the High-Level Economic Dialogue, this week, and Vice Premier Wang is coming over with a large group, I think up to ten ministers, and they will look at all the different problems we have in entering the Chinese markets from standards to procurement and so on. I think President Barroso himself said in a speech in China that we do have an underlying question mark over the whole Chinese growth model, and maybe they do too after this monstrous recession: the pure export driven model, the arguably excessive liquidity, the arguably unsustainable trade surpluses which they have maintained. I think there has been a real sense on the Chinese side that they need to address these two problems—climate change and trade imbalances—to keep their relationship with “the West” on an even keel. The last point is to address this issue about the G2. Commentators have said—and I don’t agree—that we are now in a situation where the classical G7/G8 no longer acts as the informal clearing house or governing board of world government, if it ever did. President Sarkozy has openly called for a G13. Commentators have also said that the G20 now acts as that unofficial board of world government and others have said we are moving towards a G2. The G20 may or may not be that long-term governing structure. Speaking parochially, it -is not yet clear that it satisfactorily provides a role for the European Union which is playing a constructive role on the world stage in all of these areas.
But it is true also that the world has changed. Brazil, India and China have a right to their place at the top table. On the G2 the jury is out, but in terms of the actual proportion of the world economy that the US and China represent, I think most people predict it to be declining as a percentage of the whole over the next 20-30 years, not increasing. Indeed, the Chinese themselves say that a G2 is not their goal and I am not sure it is the Americans’ either. I think the concept may be more a part of journalistic hubris than the reality to which we are moving. Conclusion: state of flux; EU-China relations strong; potential to get stronger; and I think the Barroso Commission has made some big steps forward on EU-China relationships.

Q317 Lord Hamilton of Epsom: I can understand why you are getting a bit paranoid about G2, but I do think it is paranoia. There are inevitably going to be bilaterals between the Americans and the Chinese, but I would have thought you would have had to have more countries involved if you were going to get agreement on a broad range of areas. That is just a comment.

Mr Baldwin: I agree.

Q318 Lord Hamilton of Epsom: What is your view on who is going to pull us out of all this? You must be considering the global economy generally and the role that Europe plays in that. Do you think China is the country we have got to look at now to start the engine of pulling us out of all this, they are certainly growing now when nobody else is, or are we back with the US and the fact that they are the biggest economy? Also, can I ask what are your feelings about threats to free trade as unemployment rises and protectionism becomes an issue? Do you see that being a problem within Europe as well as with our trading partners outside it?

Mr Baldwin: To briefly answer both those very fair questions, I think I said at the start I should not pretend even slightly to be an expert on the international economy in the sense of the international recession. Our view generally on this is that we all have a responsibility to pull ourselves out of this and I think that is one of the reasons why the G20 has been valuable is it has given the chance to look at all areas, including where we can work together in terms of fiscal stimulus. China and the US obviously have a large part of the responsibility, but so does Europe and others and we would say we have acquitted our responsibilities on this, as have others, and we all share this responsibility. If you look at previous recessions there was not in the past the same kind of collective discussion about what needs to be done and I think that is quite significant. On threats to free trade, do I worry about a problem in Europe? Well, I think you should worry about a problem everywhere. Trade as a leading indicator grows more quickly than economic growth in an upturn and it tends to decline more quickly than output in a downturn. Trade is always very vulnerable. Again, I think the G20 can and must play a very significant role in this in terms of trying to get people to commit not to take actions which will restrict trade. We are all vulnerable, we all have to look at it all the time. But I hope that people do not put all trade actions into a basket marked “evil protectionism”. All developed countries have a system of trade defence, of anti-dumping rules, anti-subsidy rules, and it would be a mistake to say any action against anybody on anything is unfair protectionism. The anti-dumping systems have their critics but they are an important part of managing the openness of major economies and it would be a mistake to tar everything with that brush. We must be vigilant in all cases that we respect the letter and spirit of WTO rules.

Q319 Lord Jay of Ewelme: I just want to come back for a moment to the G issues. I think the G8 probably will continue and should continue, but more as a grouping of people who share certain values of liberal market systems and democracy than a group which can pretend to resolve global issues because it is quite difficult to think of a global issue which can be resolved unless you have got China, India, probably Brazil there as well.

Mr Baldwin: I fully agree with that.

Q320 Lord Jay of Ewelme: The G13 would have been a good idea but I think it has been discredited now because of the last few years of people trying to keep India, China and others in the waiting room, just coming in for breakfast at the end of a G8 meeting. It does push towards the G20 probably solidifying for the next few years at least. I do not think there is going to be a G2, open meetings of the US and China trying to drive things forward, but I do think, and I would be interested in your thoughts on this, that we are going to see the US and China getting together, particularly under Obama, talking more frankly than they have in the past, beginning to become something of a rather private steering group but which will nonetheless have quite an impact on the rest of us because if they were to agree on something, say climate change, it would be quite difficult for the rest of us not to fold around the position that they were going to adopt. It brings me back to the question as to whether you do think there is an issue here for the EU as to how it makes certain that it plays a sufficiently important role in influencing what could be a coming together a little bit, even if in private, between the US and China. Also, how do you think the US and China see the EU in this context?
Mr Baldwin: Thank you. I think I have said what I said on the G question specifically. On what you say, it is right to say that the US and China will speak more. I think it is good that they will speak more at the strategic level. Under the Bush Administration and now under the Obama Administration both sides show a great readiness to engage and that is a good thing. How does the EU address this? First, to pick up what Lord Hamilton said, I do not think we should be paranoid about it. If I came across as paranoid, that was a mistake.

Q321 Lord Jay of Ewelme: You did not!

Mr Baldwin: It is natural that big players with considerable military might and large and growing GDPs should talk to each other and try to iron out their problems. Where the US and China quarrel, the world has a problem. I think the EU can play a role where it can to show leadership, with a small ‘I’, as it has on climate change. We are proud of what we have achieved on climate change and energy. We have done it because we think it is the right thing to do and we think it is good for Europe and the European economy and the rest of it. We are not trying to be too sanctimonious about it. The US, China and others have said they are very pleased with what we have done and pleased that we have taken this lead. President Barroso has said several times that he is also very happy, indeed anxious, to share that leadership. He jokes sometimes that it feels a bit lonely on the climate stage banging the drum on 2020 and we would be delighted if the Americans were to become acknowledged as the leaders on this issue, or the Chinese, the Indians or anybody else. As to how they see us, you must ask them. I find myself in a bit impatient, and I think I used the expression in my opening remarks, as a bit impatient, and I think I used the expression in my opening remarks, at this sort of sense of “The EU is united as one would like or others would dislike it to be.

Mr Baldwin: As you say, it is an old, old problem. I think you have to unpack it a little bit. On the one hand, I think countries like China, the US, and you mentioned Russia, are more happy than sometimes the press would have you believe to talk to the European Union qua European Union for the reasons I have given, that I think we have shown we can deliver, including on things like energy. I am not talking in a pure competence sense but a political sense. We act increasingly as a union. There is always going to be, for as long as nation states exist, and they should continue to exist, a parallel set of contacts between big countries and particularly the bigger Member States. I mentioned earlier the High-Level Economic Dialogue. There is a UK dialogue, there is a German dialogue, and I am sure there is a French one. There will always be a temptation for countries when it suits them, and commentators have suggested that the Russians are particularly prone to try to do this, particularly in the case of energy, to play divide and rule. If I could answer your question in a general way, I think there is more awareness of that problem. To use the example of the energy crisis we faced in January, where I would argue the European Union was exemplary in its response, where some Member States were deprived of their energy supplies from Russia coming through Ukraine, we played it rather well. We were very even-handed, we did not say, “It’s Russia’s fault” or “It’s Ukraine’s fault”, partly because it was very difficult to say whose fault it was. We did not play the blame game. We said that Russia and Ukraine were showing themselves to be unreliable partners that, the Russia-Ukraine supply route was showing itself to be an unreliable one, that we insisted on our energy supplies being restored on an unconditional basis and that must happen immediately. All the pressures which you referred to, Lord Crickhowell, that the Germans or whoever that a closer relationship allegedly with the Russians on these issues were not in fact problems in practice. We had Council after Coreper after Council coming out delivering the same message, all Member States agreeing with what we and others had been saying for some time, which was that we need diversity of routes, supplies and origins of our energy. It was a good example.

Q322 Lord Crickhowell: Before I turn to climate change, in which I have a particular interest, can I ask you a general question. We have been talking about Europe so far but one of the things we discovered particularly when we did our inquiry on Russia was that other countries may like to talk to Europe as
Q323  Lord Crickhowell: I diverted you rather on to Russia. Are there any particular issues in the China relationship where individual national interests perhaps separate, or might be inclined to separate, other countries from the general European approach, or is that not a significant problem in China relationships?

Mr Baldwin: I would say on most cases, and let us think about climate change and energy, the national relationships with China—the UK has got a very strong UK-China relationship on low carbon zones and trying to develop near zero carbon emission areas and CCS and all those things—are multiplying and value adding. We are certainly not in the business of saying, “Leave it all to us. Channel it all through the European Union framework”. These are good things to happen and we often see them echoed and multiplied at the European level. I am sorry, I will have to reflect about it a bit and I shall mention your question to colleagues who may come with other examples.

Q324  Lord Crickhowell: Going on to what some might think is the most important single issue between China and Europe, and you put it very high on the list, which is the climate change issue, you appear very optimistic or encouraged by progress on co-operation particularly as we go towards Copenhagen. Incidentally, in the discussion that you had about American involvement, some may feel that if we are really to make progress in getting a world carbon market it is absolutely vital that the US and China talk and make progress in their talks. I should have thought that would be wholly positive in bringing along other possible participants in a world approach. Is there not still a gap in expectations between the EU and China? China is looking for technical and financial aid and so on, but they also have a huge priority in developing their internal market, therefore there are real problems in their making the progress that we would like to see them making in reducing the level of emissions. Is there really a coming together or is there not still a gap in what each is looking to the other to provide?

Mr Baldwin: To answer the second point first, there is of course still a gap and I do not think anyone should expect anything other than a very difficult year ahead of Copenhagen. I was taught many years ago never to be optimistic or pessimistic about these things, you have to play it through to the best of your abilities and hope for what comes out. I would say we are encouraged by various developments, one being the sea change in a number of government attitudes. As the US Secretary of State, Hillary Clinton, said, “We’re back in these discussions. We have been absent for a long time and we are back”. That is hugely welcome and has an effect far greater than the simple act of the US rejoining the discussions and actually being ready to talk about the Kyoto items in the discussions in Bonn. It has an enormous ripple effect. They are not alone. I have just seen the Australians and they are also back in this. This is incalculably important. Of course, we have known that both of these countries would be back for some time but seeing it happen is still having a positive knock-on effect. I absolutely agree it is vital that the US and China should talk and it is vital they make progress. There is a scenario, and I do not believe this is a likely scenario and I do not wish to suggest this is what we think is happening, whereby they cut a lowest common denominator deal, and I think that is what commentators have worried about, that both of them agree that they cannot do very much for different linked reasons and, as you say, make it difficult for the rest of the world to reject a substandard deal. I do not believe for a moment that is what the Chinese and American discussions are about. I hope they are about gently working together, increasing each other’s level of ambition and valuing each other’s contributions, both under classical cap and trade targets in the case of the US and maybe looking outside those areas to see what other things are going to be driving emissions down which will help contribute. I think John Ashton was quite eloquent on these particular points. Does China have an insurmountable problem, a sort of dichotomy between growth and addressing climate? It would be wrong to pretend it is not a problem, but it would equally be wrong to pretend that there is not a narrative and set of political solutions out there. To use the CCS example, if we can find a cheap way to commercialise CCS, and there are lots of different models and problems involved in CCS, we, the European Union, have shown with the actions we took in adopting the package that we are ready to bet on CCS as being an outcome. If we can find a way to commercialise that there is a way for China to continue to burn its huge supplies of coal and cut emissions at the same time. We need to look at all solutions—CCS is just one example—for ways to minimise and reduce that apparent dichotomy. A last comment if I may. One has to be very careful about this “recession as opportunity” rhetoric as people become unemployed and companies go bust and people are plunged into misery, but we have to take the opportunity that the recession presents—I am sorry, you have heard this many times—to come up with a green low carbon recovery and we would be silly not to take that opportunity. The European Union has led with its actions, not just its words, in adopting measures on the five billion unspent funds to look for ways in which we can build a better and more climate friendly infrastructure.

Q325  Chairman: Can I ask some broader questions, but hopefully short ones. We have struggled at certain times during this investigation to really see
what the EU can offer or what China are interested in in the EU in comparison with the larger Member States. If I asked you what does the EU uniquely offer to China that individual Member States do not, what would that be?

Mr Baldwin: That is a good question. I think in a number of areas we can offer additional benefits. One is on trade, where there is unquestionable EU competence and where we, including the Member States large and small, are now used to working within a Community framework. That is in our interests and I think with countries like China and across the world recognise there are benefits to negotiating and dealing with this single entity called the European Union. The other areas where you have competences are less clear: climate change and energy are good examples. There are still benefits to be had. If lying behind your question is the sense that it is in the interests of countries like China, Russia and the US to play divide and rule and get a better deal or a better arrangement because—

Q326 Chairman: I was not particularly looking at it from that point of view, to be honest.

Mr Baldwin: I do not think that is necessarily the case. To the extent that we can play a role as a union in these topics where competence is less clear, and I think we can for various reasons, and make a real contribution as a union, it is in their interests that we can make deals stick in a broader sense and bring more to the table.

Q327 Chairman: Can I just ask it in a different way. If the EU disappeared tomorrow would that be a problem to China or would it be business as usual for China?

Mr Baldwin: I think for the reasons I have given they would manage, I imagine. They would not fold up their tent; they would somehow survive. But I hope they would recognise it would be a loss. I hope all our partners would recognise that it would be a loss. For the reasons I have given, I think we can give them real benefits. We can decide by multiplying our resources to focus on things where the large Member States cannot particularly. Over time, what we can offer as a union, for example, on CCS would be more than any one Member State could. I think there would also be a sense of political loss. I think China has got something out of the richness of its contacts with us as a union and a developing sense of the richness of those contacts as set out in the statement you referred to right at the start. Your question should really be put to the Chinese and I would be interested to see the answer, but I am optimistic that they would answer that question as—

Q328 Lord Crickhowell: The other side of the same question in a way is we keep hearing evidence that makes us say, “Stop talking all the time about China as if China is one centrally directed organisation when increasingly it is very diverse”, particularly in trade and business terms. We very much keep hearing it is a matter for individual businesses or individual parts of China, it is not all just one. Would you agree with that analysis?

Mr Baldwin: Yes. China is more unitary than a number of countries we deal with, like Canada or the US, in the sense that with a reasonable expectation, if you are talking trade, you can talk to China, the central authorities in Beijing, alone. Compared to a lot of countries they are pretty good on the rule of law question in that their writ runs. You are right that it would be a mistake, to regard only contacts between the Commission, or maybe the Commission and Presidency in the context of summits, to be the vital and crucial parts of the discussion, i.e. when we are sitting across the table from Wen Jiabao. You must again ask greater experts, but the philosophy of this is a multiplicity of contacts, parliamentary contacts, business-to-business contacts, NGO contacts: all of these are coming along. One of the things I have been associated with in the past is the development of an EU Chamber of Commerce in Beijing. I am a bit out of touch, I have not seen their recent performance, but until very recently they were adding an enormous number of companies and they have gained, I think considerable interest in being a European chamber rather than a national chamber reflecting, again, that many businesses are not Dutch, British, German or French, but European. The umbrella that the European Union offers for this multiplicity of contacts is of enormous value.

Q329 Lord Jay of Ewelme: Do you think EU contacts, an EU dialogue, does or could have any real impact on two quite important issues which have come up in our inquiry? The first is China in Africa and the second is human rights.

Mr Baldwin: On both of these issues you are seeing people with greater expertise this afternoon. You are seeing Koen Doens from the Michel Cabinet and Patrick Child and others from the Ferrero-Waldner Cabinet. I will give you a general answer. We produced, though I say it myself, an interesting paper on the triangular issues involved in Africa last year.

There was a risk that we would be seen as lecturing China to “keep off our turf” and a risk that the Africans would see it as a sort of neo-colonialist attempt to say, “We know how to deal with you chaps, go away nasty Chinese”, which was not at all our intention. In fact, it is a very fast developing and interesting new set of relationships between China and the Continent of Africa. A number of commentators have criticised these relationships as
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being about a fast-track to taking all African minerals and resources away. The interesting thing is China’s reaction to that accusation. They feel this is misunderstood, that they are developing a much richer set of contacts. This paper is an attempt to provide a stimulus to the debate between the EU, China and Africa. But human rights is not a subject I have followed closely.

Q330 Lord Jay of Ewelme: We could follow that up separately.
Mr Baldwin: I think, given the time, I had better defer on that issue. It is an issue where we need to be fairly precise about what we are talking and I am not an expert on it at all.

Q331 Chairman: Can I follow on from that and ask in relation to the European “soft” agenda, of which I suppose human rights would be one, democracy, all those sorts of things that we espouse as values, the value agenda of the EU, is there any evidence that the EU has any leverage on any of those areas or is it just a ritual that we go through at every meeting?
Mr Baldwin: It must not become a ritual because then it loses any of its importance and value. We have always stood up firmly but fairly on the issue of human rights. Fairly, I would say because at the time when there was a lot of anxiety about human rights in Tibet, when President Barroso was in Beijing it was during his visit that the Chinese announced a dialogue with the Dalai Lama, this was last spring, and in my view this was not a coincidence, this reflected that they had come to recognise this was an important issue for Europe, as we had said time and time again, and it was not a coincidence that the Chinese offered that dialogue while we were there.

Q332 Chairman: Could I ask one last question. You mentioned the French situation with the Dalai Lama.

Q333 Chairman: Hopefully you might be able to say something on the record. In a way, the fact that the summit was cancelled at the time but a tour took place, and Britain and Germany did not stand by France over that decision at all, I would have thought in terms of European solidarity it would have been a question of other Member States saying, “Well, France has the ability to do that and they have the same values, therefore why are we accepting visits when that has been stopped in terms of France?” There was no real solidarity there at all, was there? I do not think China would ever have done that with the United States, which is one of the other points that has been brought up. Did that really do some damage? Did the European Union not allow China to walk over it rather in terms of that reaction to Sarkozy?
Mr Baldwin: My Lord Chairman, I know it is contrary to all parliamentary tradition but I am really going to duck that one.

Q334 Chairman: That is entirely for you.
Chairman: Can I thank you very much indeed for fielding a very broad range of questions. Thank you.
**WEDNESDAY 6 MAY 2009**

**Present**
- Crickhowell, L
- Hamilton of Epsom, L
- Jay of Ewelme, L
- Teverson, L (Chairman)

**Examination of Witnesses**

Witnesses: Mr Patrick Child, Head of Cabinet of Commissioner Benita Ferrero-Waldner, Mr Vincent Guerend, Deputy Head of Cabinet, Mr James Moran, Director—Asia, DG RELEX, Mr Franz Jessen, DG RELEX, and Mr Asad Beg, co-Desk China (Cooperation), DG RELEX, European Commission, examined.

**Q335** **Chairman:** Thank you very much indeed. I know the timetable has been changed around a fair bit, so thank you for being available. If I go through the house notices from our side, which is always a little strange when we are in your house. We will be taking a record of the meeting because it is only recorded responses to our inquiry that we are able to take as evidence. What we will do is send you a copy of the transcript which you are able to amend if you feel it is not clear. If at any point you do specifically want to go off the record, if you let us know that, that is possible, and preferably let us know when we go back on the record. As you know, this is an inquiry into EU-China. It is clear who we are, but perhaps if I could just make sure we have got everybody’s name for the transcript.

**Mr Guerend:** I am Vincent Guerend, the Deputy Head of the Cabinet of Commissioner Ferrero-Waldner.

**Mr Moran:** I am Jim Moran. I am the Director for Asia in DG RELEX.

**Mr Jessen:** Franz Jessen, Head of Unit for China.

**Mr Beg:** Asad Beg, co-desk for China within Franz’s unit.

**Q336** **Chairman:** Thank you very much indeed. Kathryn is the Clerk to the Committee who organises everything for us and Oliver helps us out in terms of the work we do. We have a number of questions which I think you have had both for yourself, Mr Child, and Mr Moran. What I intend to do is go through primarily the ones we have directed toward yourself, but if we have got time we will go through some of the other ones as well. I do not know if there is anything you would like to say to start off in terms of a short opening statement or whether you would like us to move into the main questions.

**Mr Child:** Perhaps I could just welcome the Committee to the Commission on behalf of the Commissioner, Benita Ferrero-Waldner. Today she is in Prague at one of the many summits with the countries that we have this week, so apologises that she is not able to meet the Committee as she would have very much liked to but she hopes that we will be able to provide the answers to your Committee’s questions.

**Q337** **Chairman:** Thank you for that and for hosting us here. Perhaps I could start, which is to ask how you would assess the development of EU-China relations over the last five to ten years, the priorities in relation to China, to what extent have the aspirations set out in the Commission’s Communication, EU-China: Closer Partners, Growing Responsibilities, been fulfilled, where has the EU succeeded in its aims and what have been the areas of greatest difficulties and obstacles in terms of closer ties? It is really an introductory run around the block to look at where we are and perhaps the difficulties of getting towards where we need to be.

**Mr Child:** Thank you very much. Obviously the relationship between the EU and China is extremely important and one which is of growing importance for both sides. This is an excellent opportunity to have this discussion with you on what is one of our most important relationships. I think that we can highlight a number of important areas of progress, in particular the ongoing discussions on the new Partnership Agreement with China which are making good progress as well as the efforts that we are making to strengthen the trade and economic discussions with China through the recently created High-Level Economic and Trade Dialogue with China, which I understand you will be talking to Commissioner Ashton about later today.

**Q338** **Chairman:** Yes.

**Mr Child:** Last year the Commission had a very successful meeting where a large number of Commissioners went to meet the Chinese Government and we have had a number of very high-level visits from the Chinese leadership to Brussels in recent months. There are some encouraging signs of the seriousness that both sides attach to the relationship. There are some very important issues, like dealing with the economic crisis and meeting the challenges of climate change, energy security, which are high on our agenda and which the Commissioner and President Barroso are looking forward to discussing with the Chinese at the summit which will take place on 20 May. Of course, there are also some challenges with the relationship as your question highlighted. We have made less progress than we would like on the dialogue on human rights and
democracy with China and we still have trade disputes in a number of important areas. Though I very much welcomed the strong position that the recent G20 summit took on the need for everybody to avoid protectionist reflexes in response to the economic crisis, I think we have to keep that very much in mind also in our relationship with China. We are also keen to engage with China on meeting some of the bigger global issues. There are some very important regional security issues and recent events with North Korea and the missile test is one example of that. Commissioner Michel, the Development Commissioner, is anxious to make more progress with China in discussions on how we approach Africa and the development challenges in Africa and the sustainable management of natural resources from Africa. I know you are meeting his Head of Cabinet as part of your programme and I am sure he will want to talk to you on that. In answer to your question about how we are getting on with the implementation of our Communication, to some extent it is work in progress and there are some areas of encouraging advance and there are some things that we still need to work on, but it is a very important relationship which is very strongly supported on both sides. If I could make a more philosophical reflection, apart from the obvious challenge of finding a way of having an EU-China relationship alongside the bilateral relationships that Member States individually have with China, we also have two elements of context which are relevant. Firstly, the Chinese Government has a longer time horizon in its planning than is sometimes comfortable for the EU and EU governments. We have a five year institutional cycle and governments change within that time even more often in a number of Member States which tends to force us to look at things in a shorter term perspective than is the case in China. Secondly, I think it is interesting that the EU-China relationship is very focused on economic trade and political issues but is still fairly light on hard security issues, whereas if you look at the US-China relationship in addition to those very important economic considerations there is a much stronger regional security dimension. That is not to say that we in Europe are not interested in the regional security issues but it is less a part of the general conversations about the relationships with China that we have day-to-day. I do not know if Jim Moran would like to add anything?

**Mr Moran:** I have just one thing to add to that because that was quite a comprehensive opening. On the summits, I thought it was significant that after the difficulty we had last November with the postponement of the Lyon summit it was interesting to see that Wen Jiabao, the Chinese Prime Minister, headed off for Brussels within two months of that basically to try to get things back on track as seen from their point of view. We were very welcoming of him and our Commissioner went in March to Beijing and was very warmly received by everybody including the Vice-President Li. It was very rapid movement on the Chinese side to try to put things back together again. We have now agreed on the summit, as Patrick mentioned, on 20 May and quite probably a second one before the end of the year.

**Q339 Lord Hamilton of Epsom:** Over this past benign decade, which has now very much to a halt, we have benefited from incredibly low import prices of Chinese goods and this has been the moment when we have been brought up with a bump against the global market. One does not get the impression that the EU has actually learnt any lessons from this in terms that there still seems to be a grim determination to raise costs and impose more and more costs on employers when we are competing with people who do not worry about these things at all.

**Mr Child:** Thank you for that question which, of course, goes rather wider than the specific EU-China trade relationship, although relevant in that context. I think that the European Union’s collective response to the economic challenges that we faced both before the crisis and subsequently has been going in the direction of trying to introduce more open and liberal markets. The Single Market in itself is an extremely strong project for improving the competitiveness of EU economies and bringing down costs. Of course, we have a certain social model for society which is vital for our populations and important to preserve and challenges to find a pattern of production that plays to the strengths of our competitive industries while taking full advantage of the trading opportunities which the growing economies like China and other emerging economies offer to us. I think that these subjects will continue to be at the centre of the Lisbon Agenda and the EU’s collective attempts to reform our economic system and preserve the competitiveness and productivity of our economies. It is true that the exchange rate can weigh heavily on the competitiveness of any economy and the euro remains relatively strong while other currencies have perhaps not been so strong, including some of the ones which are closer to the eurozone than the Chinese economy, and that does alter the terms of trade at least in the short-term, although creates potential for inflation which will erode that difference in the longer term. I think that the European Commission’s contribution to the economic reform agenda has consistently been ahead of the curve of what the consensus of Member States’ positions have been willing ultimately to embrace and I am confident that will continue to be the case. The Commission will be an agent of encouragement...
and change in trying to take the economic agenda in the right direction.

**Q340 Lord Crickhowell:** In your introduction and your remarks about the longer time horizon and the relative lack of interest in hard security issues you talked of bilateral relations and that prompts one to ask the question how does China really see the EU as an international partner, how strong is the EU’s position when talking and negotiating with China compared with those of the individual major countries within the EU? We discovered very quickly in our look at the Russian relationships that Russia was adept at playing off the individual countries’ interests—energy an obvious one—against those of the EU as a whole. How do you see the situation in that regard as far as China is concerned?

**Mr Child:** I think that China strongly sees benefit in the EU being a strong component in a multipolar system and for that reason is perhaps less tempted to go down the route of divide and rule, picking off differences between national positions of Member States than some of our other large partners. I think Jim’s example of the speed with which the Chinese Prime Minister wanted to come and consolidate the relationship following the cancellation of the planned summit of last year was a very good example of the commitment that the Chinese leadership shows to having a very strong EU-China relationship. I think the Chinese system is sufficiently sophisticated to be able to do that in a way which is complementary and not contradictory also to having good bilateral relations with individual Member States.

**Mr Moran:** If I could just add to that because it relates a little bit to the point made about the long-term thinking of the Chinese. I think if you look back to the accession of Hu and Wen in 2003 and to the White Paper that the Chinese then produced on the European Union, which is still the only White Paper produced by China on anything other than a nation state, you see remarkable consistency in the way that the Chinese have approached Europe throughout that time. What Patrick says has been borne out by the experience.

Another example is the negotiations on a new Partnership and Cooperation Agreement, which we will probably talk about separately. Remember that the original idea to update the 1985 Agreement, at least in print, was put there by the Chinese, the idea being that it would be a way to raise the level and effectiveness of the formal agreements between us. The Chinese well understand the European Union, they know that we are very much an état de droit, as the French say, and I think that played into their calculation. They have been consistent in that regard all the way through since 2003. There are some differences here and there and, of course, if they gain commercial advantage or other types of advantage by playing one Member State off against the other they will consider it, but they will always do so against the background that they do see the EU as a valuable partner as the EU for the reasons that Patrick gave. They see the relationship with the EU as complementary and not competitive to the bilateral relationship with Member States. Their geopolitical calculations are rather different from those of the Russians.

**Q341 Lord Crickhowell:** As they pursue their long-term objectives they must at times find dealing with the EU a fairly odd experience. Here is a year in which there is going to be a period of uncertainty about the arrangements for the Commission, where we are going to go down that road, the Presidency is held by a country which perhaps does not play a major role in their relationships and so on. Is the complexity of the EU set-up something that bewilders and puzzles them, something they seek to exploit, or have they learnt to live with it?

**Mr Moran:** One interesting statistic is the number of Chinese at the Chinese Mission here in Brussels. At the last count I think they had some 70 or 80 of them engaging with virtually every part of the institutional network here. As I said, they really have done their homework on the EU as an institution and what we are about. They might not have reached the same conclusions as we have done in the Commission or you have done in the UK but, nevertheless, they have done some very serious research and work on it and it shows up time and time again. As I said, that negotiation on a Partnership and Cooperation Agreement is very much a case in point. It is very interesting to see how the Chinese calculation has developed over the last five or six years. I am not saying this is necessarily all in our best interests, but I am saying that they work very carefully and seriously on dealing with the EU.

**Q342 Lord Hamilton of Epsom:** What is the current state of the institutional framework for the conduct of EU-China relations? What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?

**Mr Moran:** Taking the second part of this first, the PCA, as I have mentioned before the Commission kicked this off back in January 2007. We have had some eight rounds, the most recent one just a week or two ago, with the Chinese on the political and cooperation part and, of course, there is another track which is basically led by DG Trade when it comes to what the Chinese call the update of the 1985 Trade and Cooperation Agreement, what we call the
economic part of the PCA. On the political and general cooperation since we began, we are at roughly the halfway stage in terms of having agreed clauses and language with the Chinese. Nothing is agreed until everything is agreed, of course, the first principle of any negotiation, but in doing these sorts of negotiations and particularly in doing it with the Chinese you build it up from the ground floor, from the foundation upwards. We have actually managed to reach agreement with the Chinese on a number of areas, some of them more difficult than one would imagine. For example, we are virtually in the same place as regards non-proliferation, which I think is very significant, where we have discovered many common interests, and we are engaging with them on difficult matters like human rights and they in turn, of course, are asking us a number of questions on their side with their demands. The current progress is just about where we think it should be and there is a chance that sometime next year on this part of the Agreement we might come through. Once the Agreement is in place it will be much more comprehensive than the current 1985 Agreement, which is purely trade and development cooperation effectively, that is way out of date. Perhaps with a new institutional arrangement, certainly on our side, it will be possible to engage the Chinese at a higher level than has been the case up to now in terms of operating the Agreement. We are particularly keen, and we always have been, to engage at the level of the State Council on the Chinese side and I think there is a chance we can do that with such an Agreement if and when it comes into being. More difficult has been the trade side where the Chinese have basically more or less stuck to their current WTO commitments and we are looking to go beyond, but I think you will also be discussing that part with our trade colleagues later on. On the PCA, the assessment, but I stand to be corrected by my colleagues as I get involved with this too directly myself, we are just about where we probably should be. On the institutional framework for the conduct of EU-China relations, it is a little bit related to that PCA negotiation as you can see. Much depends on what happens with the Lisbon Treaty, of course, in the short and medium-term as to how that will move on. For the time being, there are dialogues which are conducted on all sides. Most of them are done through the Commission, there are a couple which are run from the Council, for example on non-proliferation, which has been pretty good since the Non-Proliferation Declaration a few years ago and relates a little bit to what I just said about a non-proliferation clause in a PCA. That is a work in progress, as indeed is the Lisbon Treaty.

Q343 Lord Hamilton of Epsom: To what degree does the fact that so much of Chinese government is regional impact on this and that basically the central government cannot deliver on many aspects?

Mr Moran: In this context of the PCA and institutional relationships I do not think it is a big factor in this. It is a big factor, of course, in other areas. On IPR and areas of that sort, naturally provincial governments can vary quite a bit, and enforcement. Franz Jessen knows more about this than I do because he had to follow it on the spot for some years. Enforcement of central government regulations and so forth can be a bit variable as everybody knows, but is in this context not so much.
quite an interesting departure. There has been quite a lot of discussion with China in the context of that particular dialogue on a whole series of issues, including those close to home like transparency in military expenditure and so on, not just on regional matters. That has been happening over the last two or three years and that is the troika format: Presidency, Commission and Council.

Q345 Lord Jay of Ewelme: I had not realised that the Americans had approached you on the Six-Party Talks, that in itself is quite an interesting reflection on how they see the EU as part of these complex of security and economic issues. Can I go on to ask a little bit about how you see the EU and China response to the present financial crisis. I suppose this will become slightly clearer after the summit in Prague. Do you see yourselves as on something of the same page as far as the response to the big issues which the financial crisis has raised on global economic trade and financial governance issues, for example, and in particular perhaps the reform of the IMF and the World Bank? Just as a codicil to that last point, what role might the EU have in trying to implement some of the G20 outcomes given that the EU itself does not have a seat on the Bank and the Fund Board and is there an issue there in following up the G20? I might just have a follow-up about the G2 but I will stop there for now.

Mr Child: I think that the conclusions to the recent G20 summit very well encapsulate the degree of consensus that there is on the response to the global financial crisis and the things that are in those conclusions are where we agree, and in particular where the industrialised world can agree with also the emerging economies, and the things that are not so visible or prominent in those conclusions are the areas where we probably still need to work. The G20 conclusions are an excellent reflection of where the level of consensus is at. Within that, I would say that as well as reform of the international financial architecture, what I mentioned earlier about the shared commitment to resist the temptation to go into protectionism in the face of the economic pressures that we are all confronted with is something that we need to keep hold of very firmly. We have been concerned, I am sure like others, to see the work that the World Bank has been doing in monitoring how different trading actors, including I guess some quite close to home, have actually delivered on that commitment of the G20. Specifically on the reform of the World Bank and the IMF, I think everybody welcomes the increased resources in particular that are now available for the IMF to help countries affected by severe macro-economic imbalances. Going with that, there does need to be continuing reflection on the relative weights in the decision-making of the international financial institutions, of the developed world and the emerging economies. Those countries which are being asked to make big additional contributions to the IMF need to see that reflected in their influence and weight in the governance and decision-making capacities of the IFIs. That is the way the discussion will go in the future, I am sure, which does indeed present some pretty tough questions for the EU and EU Member States in particular. Looking at the composition of the G20, there was a striking number of European representatives of one sort or another sitting round the table and the others were also present. It is not surprising to me that this debate on reform of the IFIs brings to the surface the questions about how the EU is engaging and represents itself in international organisations of this sort. If you ask the Commission, the case for more unified consolidated representation, or steps in that direction, is pretty unanswerable. Of course, we understand that there are many Member States with established positions and relationships in international organisations going beyond the IFIs, also the UN system for example, which politically are very important to them and which they are not going to be moving away from very quickly.

Mr Moran: I think there is a wider Asian point here as well. China has stumped up something for the resourcing of the IMF; I think 40 billion. Some people say it could and should have been a lot more. At the same time, interestingly, there has been a process going on related to what is known as the Chiang Mai initiative, which some of you who know the region may remember is something set up at the time of the Asian banking crisis and is supposed to be there to provide financial succour for the South East Asians and East Asia generally. I understand that they have very recently agreed on a rather significant package. I thought the most interesting thing about that was that the ADB managing director who was part of this felt it necessary to say that this was not at the cost of the IMF efforts that are being made by Asian countries. I think that sort of defensiveness shows you there are dangers there, particularly for the established international financial system if indeed, and this goes back to Patrick’s point, those who are asked to give a stake are not also given the holding that should go with it.

Q346 Lord Jay of Ewelme: Personally, I agree with that. On the question of numbers of seats and voting and so on, have you had any suggestions, informal or otherwise, from the Chinese of, “Wouldn’t it be a good idea if there were a European seat, it would make things so much easier”? Is there a push in that direction at all?
Mr Child: Not from China.

Mr Moran: China hedges on this one, I think.

Mr Child: Not that we are aware of from China.

Q347 Lord Jay of Ewelme: But from?

Mr Child: The question is sometimes raised both in our own internal discussions—

Q348 Lord Jay of Ewelme: That I can imagine.

Mr Child: —and in discussions with some of our other major partners.

Q349 Lord Crickhowell: I am tempted to ask one question following from a question posed by Lord Jay. He asked whether China and the EU shared a common approach to such things as financial governance, but is there not quite a serious problem of finding an agreed approach on what should now be done about financial governance of banking and other institutions? There are those in Europe, I know, who feel that somehow the whole thing was the fault of the so-called “Anglo-Saxons” and there now needs to be tight regulatory control which some of us think might have disastrous and damaging consequences of a quite different kind. There are differences even within Europe about what is the right solution, are there not?

Mr Child: There is a very active and important discussion going on within the European Union on how we should address the challenges and weaknesses in the financial system which have been revealed by the recent crisis. I think the report that was produced recently by—

Chairman: I do not think we will go too far into all of this. It is just the internal European bit of it.

Q350 Lord Crickhowell: The difficulty is that we are trying to get common ground with a country like China when there are actually quite fundamental questions that we have got to ask ourselves about the proper way to approach it and that is a factor that surely we have got to take into account.

Mr Child: I think then the short and simple answer to your question is that the Spring European Council was a very successful opportunity for Europe’s leaders to define a common response to the economic crisis which was then an excellent preparation for the way that the European participants in G20 articulated their view. That does not mean there are not still things we need to discuss internally in working through the details of the positions that were agreed at the European Council and endorsed at the G20, but there was a high degree of consensus among Member States reached at that meeting.

Q351 Chairman: The next question is around the exchange rate and Lord Hamilton has already brought up some of this area and it may be we should ask some of those questions somewhere else. You mentioned the rest of eastern Asia and the various regional set-ups in ASEAN and the South Asian Association for Regional Cooperation, those sorts of areas. Do the EU and China have a similar view on the potential outcome in terms of regional groups elsewhere within Asia?

Mr Moran: If you go through them one-by-one, briefly, ASEM, the Asia-Europe Meeting, is a place where we have found a lot of common ground with China and it relates a bit to the previous discussion. Last October there was a summit of ASEM in Beijing and by most accounts it was the best we have ever had since this process was brought in in 1996. The reason for that was there was an extremely good discussion between principals on the financial crisis which was breaking there and then and to some extent I suppose it was good luck for ASEM that it took place at the right time, just before the G20 process got going, and it was a very good forum for talking about these issues. It was a discussion inspired as much by China as by anybody else, and I think that was an important point. They were not just the host, they were very insistent, notably with their Asian partners, to make sure that this thing was brought front and centre, and it was. That is one example, perhaps the most prominent, but there are many others. China really does engage pretty heavily. ASEM, it is always there, attends all the events, all the conferences, is always pushing forward and is generally very positive. It is a different story elsewhere. If you look at the other fora, the ASEAN Regional Forum, which is the only security architecture that exists regionally in Asia, China tends to be a bit more hedged. It plays the game but it does not get terribly proactive. It is particularly concerned, for example, not to offend the North Koreans because of the Six-Party Talks process and various other things, so they are much more circumspect. We cooperate with them there on some softer security items. ASEM is by far the most advanced regional organisation in Asia but there is still a great deal to do. Our focus in ASEM is continuing to help ASEAN, particularly with its international efforts including developments. Cooperation with China in the ASEAN context does not take place very much, in fact hardly at all, because of our focus which is very much to support ASEAN to develop. More so in SAARC. SAARC is terribly under-developed and faces all sorts of challenges. It is a very under-developed regional organisation which, if you ask me, is in need of development and the focus there again is strengthening in any way we can those efforts for integration in that very dangerous part of the world of South Asia. Again,
China is there but very distant as an observer; as are we, but we are much more engaged with SAARC than China is. It is really in ASEM where we do come closest to them in terms of cooperation.

Q352 Chairman: In terms of the Shanghai Cooperation area, which became headlines a couple of years ago but now seems to have disappeared, is that as dead as it would appear to be? Do we have an interest in the Chinese-Russian relationship?
Mr Moran: We do have an interest in the SCO, we follow it very closely. I do not think anybody for the time being, least not everybody, is talking about being in any way formally associated with it but, for example, just recently in March the SCO in Moscow had a conference on Afghanistan and we attended that. I think it was the first time as the EU that we had got involved with the SCO at their invitation for pretty good reasons because on Afghanistan the more cooperation the better, particularly given the importance of Central Asia for that part of the world.

Other than that, the SCO has really picked up in the last two or three years, not least because of the efforts of China, but that is another story.

Q353 Lord Crickhowell: You mentioned earlier the efforts with rule of law, democracy, human rights and so on, and we know it is an area of limited progress. Is there any way we can make our efforts more effective? What conditions should China fulfil before the EU lifts the arms embargo?
Mr Child: I think that it is indeed one of the more challenging areas of the relationship and it is something which we will certainly want to discuss in the negotiations on the new Partnership and Cooperation Agreement. It is precisely in order to bring together different strands of the relationship, including the more difficult ones, that we always favour a comprehensive approach to agreements with important countries rather than having a whole collection of rather separate sectoral agreements, and we must continue to make efforts in that respect. It is true that the existing human rights dialogue with China has not achieved all that we would like. We have had some general discussions on important things, like the review of the death penalty, but we have not been successful always in bringing up in that context individual cases. The most recent incident in that respect was when almost simultaneously as a meeting of the EU-China Human Rights Dialogue was taking place, when the meeting ended we received the information that a person we had been particularly following had been executed that same day, which was quite a strong and negative signal, we thought, on Chinese commitment to this human rights dialogue, but it is something which is and must remain very important and central to the relationship with China. We cannot ignore the very important human rights agenda because we have very important economic or commercial issues to discuss with China, and certainly that is a point that Commissioner Ferrero-Waldner has always stressed.

Q354 Lord Crickhowell: I understand that, but if you do not achieve very much is there not a tendency perhaps for the Chinese to say, “Okay, we have got to go through this nonsense. They’re going to go on talking to us about this, but we can safely ignore doing anything about it because at the end of the day life goes on as we want it”? Mr Moran: There is a tension here between the desire for process on the Chinese side and desire for substance on the European side all the time. It ebbs and it flows. Patrick mentioned something important in his presentation just now. He talked about the review of the death penalty. I do not think we could ever actually prove it because these things are difficult to quantify but one thing is for sure, that in at least a dozen successive Human Rights Dialogues under 12 different presidencies, we, as the EU, have consistently given the Chinese some very, very sharp and clear messages about what they need to do to reform the system so far as the death penalty is concerned. Of course, we aim for a moratorium and abolition. We are the only party external to China who have been consistently saying this. One or two individual Member States, the UK included, have been giving similar messages but that does tend to be a little less consistent because they are also dealing with a whole bunch of other issues with the Chinese.

I do not think it would be too heroic to say that we did have some influence on the change in Chinese policy which was significant insofar as all death penalty sentences now are reviewed centrally in Beijing and, according to independent assessments, will probably lead to a reduction in the number of executions in that country. It does not solve the problem and it could be said to be marginal, but it is something which is significant in the big picture. I am not here to defend the Human Rights Dialogue as being the wonderful answer to all the problems we have with China but I would say it does require some patience and it does have some results. There is an evaluation being done this year. There is another side to this which is extremely important and is often ignored because it is long, it is arduous, it is involving a lot of process, and that is the importance of the rule of law in China. The importance of the rule of law is something we never, ever fail to press. The opening of the EU-China law school supported by the Commission is a very good illustration of how we want built up capacities in order to promote rule of law.
Q355 Lord Crickhowell: I suggested in a conversation we were having earlier that it also probably has an impact in this increasingly global communications world in which whatever restrictions the Chinese Government may put on people looking at the Internet and so on, they have got to increasingly take account of opinion in China as I am sure it will probably impact on that.

Mr Moran: That is true.

Q356 Lord Hamilton of Epsom: Can I come in on corporate law and company law. It is in Chinese interests really that they should start getting their act together on this because it will then encourage direct investment into China whereas so much goes into Hong Kong now where they are protected by the Hong Kong judicial system. Are you noticing anything happening on that front?

Mr Moran: The WTO, of course, has driven a great deal of change in China since accession, not that they have necessarily done everything they should have done, I do not think one can say that, and you will probably talk about that in your discussions with our Trade colleagues. The law school I just mentioned does have an important component within it for training Chinese lawyers in corporate law, in civil law as well as criminal law, and perhaps eventually will have an impact on human rights-related activity as well. Corporate rule of law is seen as being the number one priority for that operation and I think it is important that the Chinese have recognised that. You are absolutely right, investment in China is pretty impressive, but it could be an awful lot more impressive if they were to make greater advances on that front.

Q357 Chairman: Just to follow up Lord Crickhowell’s question about the arms embargo and what the conditions are that it has lifted. Is it just that America allows us to, is that it?

Mr Moran: The Council conclusions of 2004 specifically mentioned a couple of points there. Just to recall, it was thought that it would be helpful if China was to make progress with its ratification of the International Covenant on Civil and Political Rights. The regional security dimension was also mentioned.

Q358 Chairman: What practically in reality could allow it to happen, I suppose that is what we are trying to understand?

Mr Child: (Off the record)

Mr Moran: (Off the record)

Individual Member States had their own conclusions to bring. As the European Union a lot of important lessons were learnt. Some of these lessons you can see for yourself and anyone can see them because during the British Presidency of 2005 for the first time CFSP policy guidelines for East Asia were developed and were published at the end of 2007. I am sure you have looked at those as part of the record of your inquiry. It is quite interesting if you take a close look at that document because there you will see both in letter and to some extent in spirit some of the lessons that we took on board from that experience.

Lord Hamilton of Epsom: Does the arms embargo work both ways? Is it an embargo on Chinese exports of arms as well? I know they have got a monopoly, for instance, in anti-personnel mines after we banned them.

Q359 Lord Jay of Ewelme: Since we are talking about sensitive technologies this follows on rather naturally from what we were asking about the arms embargo. Is there anything you want to say about the policy on export of sensitive technologies and in particular what kind of mechanisms are there for ensuring compliance by Member States?

Mr Moran: I think the most important thing for us in the Commission is the Dual-Use Regulation, which is extremely significant and, in fact, in some ways for the Chinese more irksome than the arms embargo itself. They never fail to make the connection between high-tech trade and the Dual-Use Regulation in conversations we have with them. It is a very difficult regulation to implement, as indeed it is for the Member States, but it is a significant part of the -if you will excuse the pun—armoury that we have in this regard, in addition to individual sovereign Member State controls of course.

Mr Child: And a fairly high degree of exchange of information between Member States on proposed commercial transactions.

Q360 Chairman: Perhaps we could move on to the more person-to-person, civil society-to-civil society side which we can sometimes forget in our own inquiry in that we are not talking just about a dialogue between a group of Member States and a sovereign nation, it is much more complex than that, and the question of how those cultural relationships and civil society relationships have developed, whether that has really fulfilled expectations and can it move forward in the future rather better?

Mr Jessen: What we have seen there has been a growing of the activities. We have a very large interaction in the development of tourism, for example, which is much faster than we had five years ago, helped very much by our ADS agreement that came into force in 2003 where group visits from China are now accepted into Europe with a fast-track visa procedure. Since 2001 we have seen a very
significant increase in the number of Chinese students coming to Europe. We are talking about very substantial numbers today which are comparable to and sometimes exceed what we see with the US and China. We have seen an increase in European interest in studying in China and the figure we have is something like 20,000 students from Europe studying in China.

Q361 Chairman: What is the figure estimated the other way around?
Mr Jessen: It is about 100,000. Then we have the more formalised EU level dialogues where we have the EU-China Forum that has taken place twice and has a number of activities under it that are taking place on a regular basis. We are trying to make that into a more permanent structured activity. This is bringing partners from different Member States and different parts of China together trying to see how farmers from China talk with farmers from different parts of Europe and so on. We need to do more in that area but it has developed quite a bit since 2006. We have also seen very good development in the think tank cooperation, European think tanks getting together at the level of the EU sharing experiences with, say, UK think tanks and German think tanks and so on, but also where EU think tanks get together and meet Chinese counterparts. That dialogue is also very productive today.

Q362 Chairman: What sort of area of think tanks is that?
Mr Jessen: Many of them are based in universities, of course, China institutes in various universities in Europe. Here in Brussels we have some think tanks that are focused on the EU with a special China interest.

Q363 Chairman: The other thing is the parliamentary links between the European Parliament and the Chinese Parliament. I think those were envisaged in agreements. Has anything happened on that side.
Mr Jessen: There have been regular contacts and meetings on a very regular basis for years now as Parliament-to-Parliament discussions.
Mr Moran: There was a very active MEP, Dirk Sterckx, a Belgian MEP, who is the chairman of the China delegation which is just about the best attended of virtually all the Asian delegations. We are often at hearings there, there are 30 or 40 MEPs participating and they are frequently in China.

Q364 Chairman: I remember that China was the only organisation that ever took any notice of European Parliament urgencies in the early days whereas the rest of the world just let them pass by, which was probably the best thing they did actually. Mr Moran: I think it has changed a bit since then.
Chairman: I am sure it has, and hopefully so.

Q365 Lord Crickhowell: What is the situation on migration and management of the migration legal framework? How effective is that in dealing with the related problems of crime, terrorism, corruption and so on? What is the general picture on that?
Mr Moran: On migration for a long time we have tried to engage the Chinese on a readmission agreement, as we do with a number of partners. That has proven to be difficult, certainly we have been at it now for a number of years, primarily because the Chinese in return wish to have facilitation of legal migration particularly when it comes to dealing with business people, diplomats, and so on and so forth, which is something on which we have to depend on the Member States to get agreement and up to now we have not had a consensus from Member States on being able to provide the sort of facilitation that the Chinese desire. I think so long as we are not able to do it the readmission question will remain on the table, but I would not expect a negotiation to take place until and unless we can offer the Chinese something in return. Migration is among the priorities identified, but it is not at the top of the list. Illegal migration from China is a difficulty for a number of Member States, including the UK from time to time, but, as I say, it is a question of a quid pro quo.
Mr Jessen: You mentioned crime, terrorism, corruption and migration. Interestingly, these are four of the major chapters in the PCA negotiations and on three of them we have made very good progress on crime, terrorism and corruption. We still have to engage in-depth with the Chinese within the PCA context on migration, but that is one where we see progress being possible.

Q366 Lord Crickhowell: Can you give me some idea of the scale of what we are talking about, numbers of Chinese who have come and settled in Europe? Do we know what sort of numbers we are talking about?
Mr Moran: By its very nature illegal migration is always difficult to track, but I think it is fair to say there are significant numbers of Member States who over the years have had difficulties. The trend in recent years has not been alarmingly upwards but it is an ongoing difficulty in some Member States and one that we would certainly be able to deal with more effectively if we had a readmission agreement. As I say, in order to do that we need a quid pro quo and I do not think there is a consensus amongst the Member States yet on visa facilitation.
Mr Patrick Child, Mr Vincent Guerend, Mr James Moran, Mr Franz Jessen and Mr Asad Beg

Q367 Chairman: I know there has been an issue in the UK with dodgy student permits, if you like, but are the routes just purely arriving at airports and getting access or are there routes across Central Asia that are happening now?

Mr Moran: There is an organised crime link in some of this, and it is well known. We have had some incidents in the UK, Morecambe and elsewhere, and that is affecting a number of Member States.

Mr Jessen: Forged documents, of course.

Mr Moran: One last point that is important to put on the record. Franz mentioned the ADS agreement and it is important to recall that in the ADS agreement we do have a readmission clause. This, indeed, was the big sticking point to get it. We got it in the end, so anybody who overstays on an ADS scheme we have in place within that context a readmission mechanism which works for the Chinese.

Q368 Lord Jay of Ewelme: I think you said, Mr Moran, that there was an evaluation taking place later in the year of the Human Rights Dialogue. I just wondered, is that just for China or is that an evaluation of human rights more generally? What is the timing of that?

Mr Moran: I think it is at the end of the year, Franz, is it not?

Mr Jessen: It is just about to start.

Q369 Lord Jay of Ewelme: Is that an evaluation just done internally or with the Chinese? How is it carried out?

Mr Jessen: It is just on the European side.

Q370 Lord Jay of Ewelme: You do not ask the Chinese whether they think it has made an impact?

Mr Moran: We could, I suppose, but it might take a while to get the report finalised.

Lord Jay of Ewelme: Yes, I can see that.

Q371 Chairman: Is there anything that we have missed or anything you would like to put before us? We have not gone through energy security and the environment so much because we are dealing with that in some other areas, but do I not know whether there is anything specific you would like to say on that.

Mr Child: In conclusion I did just want to underline on environment and climate change that engaging with China in preparations for the Copenhagen meeting is likely to be one of the really top line objectives for the summit in a few weeks’ time. Of course, energy security is a somewhat different issue, in fact, which is of shared concern. We are in a slightly different situation, I guess, on energy security in our relations with China than the environment but it is also something that we need to discuss with them very actively. If you are able to find colleagues in this town who know even more about those topics than we do I would urge you to really get into that with them.

Q372 Chairman: If there is one message that you want to give to us from the external relations point of view on Copenhagen we would be very interested to hear it because presumably this must be one of the main areas where if cooperation should work anywhere it has to be this, does it not?

Mr Child: Indeed. I think after the decisions of last December’s European Council on the European strategy on climate change, the big challenge we now face is spreading the word with other major third countries so we are taking the opportunity in all the meetings we are having, the summits and all the other meetings at the level of the Commissioner and elsewhere, to push this agenda extremely strongly.

Q373 Lord Crickhowell: We have been pursuing Copenhagen at other meetings and getting quite a lot of information on it. You are very much laying emphasis now on the energy security point. As a Committee we had a long look at energy security in Russia but I am not sure that we are as well-informed about energy security issues with China. What are the main points of concern on energy security as far as China is concerned?

Mr Child: To a large extent when we are dealing with China we are competing with China for the energy sources and energy opportunities.

Q374 Lord Crickhowell: In Africa, the Middle East and elsewhere?

Mr Child: Yes.

Q375 Lord Crickhowell: Is there a debate going on and in what form? I confess to taking an interest in the climate change issue and I am suddenly rather aware that I am not as well-informed as I should be about Europe’s position on the energy security issue.

Mr Child: One important chapter on energy security is also trying to diminish our needs for energy and energy efficiency and developing the technologies that are conducive to that. Those are the sorts of areas where we can readily cooperate with China and other important economic actors. That is an area that we can take forward with them.

Mr Moran: And we are so doing. The Chinese themselves recognise the importance of energy efficiency, it is in their five-year plan. They have
missed the targets the first year or two but they are getting better now and know it is a top priority for them. On the competition for energy, it exists but it is nowhere near to the same degree as with other parts of the world. For Central Asia, of course, there are some areas where we are both consumers of energy. The other side of it is that one has got to be, of course, always aware of the mercantilist approaches which from time to time mean we do see, including from China, locking up resources in a way which would not allow the market to function as effectively as we would like and that is a message we always give to the Chinese as best we can.

Chairman: Thank you very much indeed to all of you for giving us this time. It has been a very useful dialogue. Thank you very much indeed.
WEDNESDAY 6 MAY 2009

Examination of Witnesses
Witnesses: Mr Koen Doens, Head of Commissioner Louis Michel’s Cabinet, Mr Hervé Delphin, Deputy Head of Cabinet, and Ms Elena Peresso, member of the Cabinet, European Commission, examined.

Q376 Chairman: We have given little time for this, but that does not mean to say we do not think it is important. In fact, this is one of the areas of the inquiry that we have got particularly involved in. Perhaps if we do not have enough time this afternoon we could invite you to submit in writing any other areas that you do not think we have covered sufficiently, if that would be okay.

Mr Doens: Yes.

Chairman: If I could just go through the formal parts of the session in that this is a recorded session and what we will do is send you a transcript of the proceedings which you are very welcome to correct if you do not feel they are accurate. If you want to go off the record at any time then that is fine, as long as you let us know and then let us know when you go back on the record.

Lord Jay of Ewelme: I think for the record I ought to declare an interest in that I chair a medical aid charity that is operating in Africa and receives funds from the European Commission.

Q377 Chairman: Thank you, Lord Jay. Would you like to introduce your colleagues?

Mr Doens: Hervé Delphin is the Deputy Head of Cabinet, more particularly in charge of relations with Africa as such and also the one who is in charge of preparing the Communication on China and Africa. Elena Peresso is a member of the Cabinet who recently joined. Previously she was working on the other side of the road with the Council Secretariat. I think you are having a meeting with Robert Cooper and Elena worked with him. She has now joined the Cabinet and is following relations with emerging economies, including China.

Q378 Chairman: I thought they never let people out of the building in the Council, so that is good! Was there anything you wanted to say as an opening remark or shall we go straight into questions?

Mr Doens: Straight to questions.

Q379 Chairman: We will be careful on time on our side as well. We start off with the very broad question that is, from an EU perspective what are the main development issues that arise with regard to China’s approach to Africa?

Mr Doens: That is a very broad question that would take us through the whole agenda. As a starting point, the main impact of what China does, or the presence of China in Africa, is that it brings in a major new player who comes with an increasing amount of money, with an increasing political presence, hence with an increasing impact on the ground and in the way things are being done. They come with money and a way of doing things. That is in a number of sectors in which we are active too—infrastructure, food security, et cetera—so the increasing presence of a new donor raises a question which is a challenge we have in general as a donor community which is how to co-ordinate our approaches. That is not only an issue we have with China, that is an issue we have within the EU itself between the Commission and the Member States and with other major donors, be it the international financial institutions, the United States, et cetera. You will know of the Accra agenda on aid efficiency. This main challenge is one that is at the centre of our relations with China. The main impact, as I see it, of China’s increased presence in Africa is precisely that one: there is a new major donor bringing in money, investments, with its own way of doing things and we have to find a way of dealing with them in a coherent way. The way in which we do that is by doing an outreach to them and the Africans in line with our general outreach agenda. I think the Communication on EU-China-Africa tries to capture the essence of that outreach by making sure that our African partners themselves do that. In our way of doing development policy, as you know, we try to fully respect as much as possible the issue of ownership, which basically means that we align ourselves with how our African partners see their own development and we try to stimulate the Africans within the country setting themselves in the centre of donor co-ordination. Obviously there is a whole set of particular challenges, challenges which we face in general with other donors, some which are more particular in the case of China. The first one we see is the one on politics. It is obvious that there are divergences on how far you link political dialogue with cooperation and where it is that you put the cursor on this scale of interference in domestic politics and how much scope you leave. It is clear where China puts its cursor. They have a very clear
policy line on non-interference. The EU position in general is less clear and depends very much on the country we are dealing with, on the issue we are dealing with and differentiates between the Commission and some Member States. We have plenty of cases where we can demonstrate precisely how you play the link between development policy and the domestic political situation just as in the EU different cases can demonstrate different positions. This is definitely the first cluster of challenges we face, which is not abnormal, we have the same debates with the United States and other partners on how you link and where exactly you put the cursor on the link between domestic politics and development cooperation. The second issue, or cluster of challenges, is linked to how the Africans themselves perceive this search for coordination between the EU and China. Our Communication has been very well received in general in Africa, but it is clear that some African leaders have some questions about our real intentions and question the fact that we are not trying through trilateral cooperation to bring Chinese policy more in line or put a chapeau on the Chinese way of doing business in Africa and bringing them into our way of doing business. Our contacts with African leaders are ongoing in that respect and Louis Michel has raised the issue on several occasions with several African leaders. It is not easy to convince them that we are basically asking them to coordinate and are not trying to impose anything on them. It is clearly a cluster where there are challenges that we need to continue to address. Thirdly, and this is more concrete, as you have seen, as the Commission we have identified four areas in which we would like to take our cooperation with China and Africa forward. Those are peace and security, infrastructure, natural resources and food security. These areas of cooperation were identified jointly with our Chinese partners and have been prepared long in advance. To translate this into real cooperation in the field is not easy because of the issues of understanding politics, but also because of issues purely related to procedures. The way in which our development policies run involves a long procedural track that is rather complicated within the Commission itself and with Member States based on Cotonou with our African partners. This is not necessarily the ideal procedural setting to try to work out trilateral cooperation with Chinese and African partners who are very prudent and first want to see on a smaller scale what exactly this would mean before stepping into something more grandiose. I know it is a broad introduction but your opening question was broad and I hope this allows us to kick-start the meeting.

Q380 Lord Hamilton of Epsom: Would you not agree that an awful lot of aid has gone into Africa and there is precious little to show for it really, most of sub-Saharan Africa is riddled with corruption and extremely bad governments? Is it not possible that the Chinese actually have a better solution to this than the West does? I have seen what they have been doing with the Democratic Republic of Congo where in return for copper and cobalt concessions they are prepared to build a railway along the south of the country and a road which goes up the east and along the north. If that deal is fulfilled, surely that does more for the Congo than anything anybody else has managed to do over the last 50 years.

Mr Doens: That is a very concrete question. The answer is probably a bit more subtle.

Q381 Chairman: Yes, only things on the record can we take into consideration.

Mr Doens: First of all, I do not think we should necessarily frame the debate about China and Africa as one that is in competition with Europe. If, indeed, the Chinese in the DRC bring money in with the back-to-back mining deals they have got with the Congolese and build roads, as they intend to do, then that is a good thing for the DRC. Does that mean what we are doing in parallel in another setting with another development paradigm is necessarily bad? I do not think so.

Q382 Lord Hamilton of Epsom: One is better than the other.

Mr Doens: The challenges of the DRC are big enough to capture whatever donors may want to put into the country. At first sight it is a very efficient way of doing business: you build a road, you leave it and then the Congolese have a road. Our experience in the Commission on infrastructure, and we have long experience in terms of infrastructure, is that it is not enough to build a road. If you build a road and leave the country then ten years later, not even ten years later, five years later, that road cannot be used any more. We have learnt that when you build a road it is important to help the country to have a transport policy where the building of a road does not only mean putting tarmac between point A and a privileged village, but it means developing a vision of where your priorities in terms of roads are. You need a transport policy that also ensures that you have road maintenance and that you foresee in your budget a road maintenance fund. This is precisely what we are doing in our infrastructure policy, it is not just building roads. When we talk infrastructure, we talk infrastructure policy, not only building roads. The experience we have given the impression maybe that we are slow, that we are not delivering as quickly as the Chinese, that we are being accused by some governments of dragging our feet, overcomplicating
things, not helping them to deliver the goods to their people immediately, which means between the election now and their next election, but our track record and what we are trying to do, even if it takes more time and is more complicated, absolutely makes sense and is defendable and is not in competition with what the Chinese are doing at all. I hope this gives you an answer to your provocative remark.

Q383 Lord Hamilton of Epsom: I am not saying that we are in competition, but I am not sure that the Chinese solution is not more effective. That is all I am saying. I am not saying one is good and one is bad.

Mr Delphin: It depends on what your benchmark is actually.

Lord Hamilton of Epsom: Our track record in sub-Saharan Africa has been appalling and we ought to face up to this. We have ploughed money into the place and there is very, very little to show for it.

Chairman: I will ask Lord Jay if he has a particular question he would like to ask.

Q384 Lord Jay of Ewelme: I would quite like to have a discussion offline about that. I wanted to pick up something you were saying about peace and security and political conditionality. It is quite a difficult issue even for us to know at what point you start saying to governments, “You are going down a political road which we believe is wrong for your country and risks leading to insecurity”, and so on. Is that a discussion that you find you can have with the Chinese at all? Is there any responsiveness at all to discussions, “Look, there is a responsibility for aid donors to be concerned about good governance, about not supporting your oppressive regime, about it being in their interests as well that there should not be a repressive regime which leads to insecurity and conflict”? Is that the kind of dialogue that you can have?

Mr Doens: It is.

Mr Delphin: Maybe I can give you a few examples.

In the first phase of China’s re-engagement with Africa, because we should not be oblivious to what happened in the past, maybe they were engaged in a more predatory-like type of policy of grabbing resources. But they realised for their own good, and it is purely geopolitics on the Chinese side and economically driven, that stability is key for them to secure access to resources. It is by this issue of stability that they are brought into the question of governance. They have a very businesslike approach to dealing with the African regime. I will take Kenya because the Commission and UK have worked together very closely to stave off the risk of the country falling into an abyss. It was interesting to note that the Chinese joined the mainstream of the international community in condemning and distancing themselves from the regime because they could see that their business would be at stake potentially. You could take the opposite example, which is Zimbabwe, where they have secured deals with the regime and if they can benefit from this situation for them the issue of governance is a non-issue. Nevertheless, on the issue of peace and security in Africa one of the most promising topics of discussion with them is indeed about building up an African peace and security architecture. China has more than 1,000 peacekeepers in Africa under the UN hat. This shows that they are interested in this issue, but in terms of their bilateral relations it is a matter of whether it is good for the business or not. I could have taken the case of the Sudan even which is interesting in terms of access to oil. Now because of the international pressure they have tried to draw bridges. But at the same time in essence we know they are very sympathetic to the regime of Bashir because of their economic interests in Sudan. It is a very, very difficult area for them to engage in.

Q385 Lord Crickhowell: I want to pursue a slightly different line. We had a very good and clear account of what EU policy is seeking to do and how to do it, but Chinese development aid to Africa does not seem to be aimed primarily at poverty reduction and economic progress, it seems to be much more political and economic in the sense of access to resources. I am quoting from the Commissioner’s book which you have so wisely put in front of us: “China, the US, Australia and India, but also Malaysia, are increasingly competing for control of Africa’s mining oil and gas deposits.” He also points to some of the dangers, “the risk to the beneficiary countries of massive redevelopment and dependence”, so there is political fallout. Given that the Chinese objective does seem to be primarily with those economic and resource objectives in view, does that create a problem for the EU in any sense because we are competing for the same resources? Is it an obstacle for the ability to cooperate in the common interest?

Mr Doens: On the first point you made, which is indeed taken up in Louis Michel’s book, it is enough to look at where development cooperation in the institutional framework of China is located and which people you should talk to if you really want to talk development cooperation with Africa to see by which ideas and objectives the policy is driven. It is very much with MOFCOM that you have to talk. Also with foreign affairs, of course. But the link between the Chinese need for natural resources as a driver of their presence in Africa and as a main issue that shapes their policy, the choice of countries where they are active, the choice of countries where they make visits, is very obvious. The second reason is political and driven more by foreign affairs that has to do with creating alliances on a number of issues that are quoted in their foreign
policy agenda, like Taiwan. Once they are there and making investments, from our development point of view we have not come across their issues as being in competition with us. Indeed, European companies may be in competition with the Chinese but European companies do not come to us as the development policy department to get our interference in their contracts. The main objective we have in terms of influencing or helping European companies is precisely our governance agenda. It is creating a level playing field by at least making sure that the way in which our African partners manage their awarding contracts is done in an appropriate way, which is not the case, or at least not always the case, in most countries now. It is trying to influence the governance agenda, the awarding of contracts, that is our way of influencing it. The example was given of the DRC. If you look at the way in which the DRC awarded the mining contracts one can question the objective way of handling that, and, by the way, one of the issues with the international financial institutions is the concessionality of the loans given by the Chinese precisely because it is a back-to-back issue with the delivery of mining resources.

Q386 Lord Crickhowell: One of the things I think we learnt when we asked questions at a meeting we had in London about the Congo and so on was the discovery that it is not so much a great Chinese Government central operation, it is mainly the Chinese commercial mining organisations, separate businesses all running it on a large scale themselves, so it is rather different from the European aid and NGO directed, “Let’s improve the welfare of the people”.
Mr Doens: Yes.

Q387 Lord Crickhowell: There does seem to be a fundamentally different approach.
Mr Doens: Absolutely, it is.

Q388 Lord Crickhowell: Having got that fundamentally different approach, how far are Europe and China able to mutually cooperate for general benefit on these issues?
Mr Doens: Let us go off the record for a moment. (Off the record)
Mr Delphin: You could clearly argue that there is a distinction between the policies pursued at the level of Member States, which is a mix of development policy but also national foreign interests, and what is done at the EU level where we have a policy framework which is geared towards poverty alleviation and where the vested interests of Member States are somehow put on the back seat. They are present but they are not at the forefront of the definition of our policy. On the EU side you have this dimension. You could argue whether at the EU level we should not develop more political clout to play and compete at a collective EU level against other powers active in Africa or elsewhere in the world. This distinction is very important to see how Europeans interact with the Chinese. The Chinese know this reality perfectly well. They are very good at playing ‘divide and rule’ between the Europeans, which member States they have to play with, what is the EU able to do or what is its competence. They know this by heart. For us, this is a challenge in the way we engage with the Chinese. You could question why would they be interested in engaging at the EU level and the answer probably lies in the respectability issues. For example, one of the areas we will advance with China in terms of cooperation is about FLEG, the illegal logging of timber. They are now dragging a bad reputation in Africa. In Zambia there was a protest at minefields and in some countries they had started to react angrily to the way the predatory approach of China developed. Now they are looking at being more sustainable, not just for respectability but for their own good of preserving the resources. This is a way to catch and drag the Chinese into more mainstream development policy as we see it from a European perspective. But we should not be too naïve on where China’s interests are, it is always hard currency and hard interests behind it. I do not think we can fool ourselves on how far we can bring them in, it will always be a matter of calculation on their side. As Koen explained, if we can put the African countries together in developing an interest in having this sort of trilateral cooperation we will make some good headway in working together with China.
Chairman: We are going to have to end it there. Those are really interesting comments. If I could have two dinners this evening, I am sure we would try to invite you to come along to the second to continue this subject, which is an excellent one. If I could ask a favour of you. You have seen some of the other questions and if it is possible for you or your staff to submit any written answers to those, we would be very grateful indeed. It has been a short session but a fascinating one. Thank you very much indeed.
WEDNESDAY 6 MAY 2009

Present

Crickhowell, L
Hamilton of Epsom, L

Jay of Ewelme, L
Teverson, L (Chairman)

Examination of Witness

Witness: Mr ROBERT COOPER, Director General for External and Politico-Military Affairs, Council of the EU, examined.

Q389 Chairman: Thank you very much for your time. I have never sat across from anybody with the words “Politico-Military” in their job title before. It sounds dangerous!

Mr Cooper: It is only the beginning of the job title. The job title was negotiated by a committee and has got another line to it.

Q390 Chairman: Perhaps I can go through the way this works, a bit like a health warning or whatever. As you know, the meeting will be recorded and transcribed. We will send you a copy of that and if there is anything you feel is not right then you will have an opportunity to change it. If there is anything during the session where you would rather go off the record and give more detail then that is fine, as long as you tell us when you are back on the record again. The trouble with being off the record is we cannot use it as evidence, although sometimes it is obviously useful background to us. As you know, this is part of an inquiry on EU-China and we hope that will be published in the autumn, so we have some other witnesses to see yet.

Mr Cooper: I take it that you are seeing other people in Brussels as well?

Q391 Chairman: Yes. We have seen people in the Commission on external affairs and the development side. After this we are seeing Commissioner Ashton and a number of people tomorrow. I think you have seen copies of the sorts of questions we intend to ask and there will be supplementary to those. Is there any short statement you would like to make beforehand or go straight into questions?

Mr Cooper: I think I had better wait for the questions.

Q392 Chairman: Starting off on a broader point, it is really asking what you see as the opportunities and challenges of cooperation with China on foreign and security policy and the idea of a “responsible international stakeholder”. What is the evidence to suggest it is moving in that direction and what are the implications for the European Union?

Mr Cooper: I will answer the second part first because, in a way, it is easier. The general behaviour of China as an international actor historically has been striking for its responsibility. If you look at the history of rising powers, Britain in the, I do not know, 16th, 17th century, the Netherlands, France later on, Germany at the beginning of the 20th century, Japan, the USA as well at different times, on the whole they have been aggressive and difficult and the Chinese seem to have made a studied attempt to reassure. What they will do when they have become larger and stronger we do not know, but by the standards of history they are a remarkably responsible power. It may be part of the reason for that is that they find themselves in the advantageous position of being a permanent member of the Security Council, so whereas others have had to kind of fight their way into the international community, they are already at the top table. We have also been intelligent in our dealing with China in that being a member of the WTO has been of a lot of advantage to China and they have discovered that the multilateral system can work rather well for them. What is striking in general is the efforts the Chinese have made particularly to reassure their neighbours in Asia. I do not think they have succeeded completely but it is remarkable that they try at all, as I say, compared with behaviour of what people normally do when they think that they are returning to the international stage in a big way. As a matter of fact, I believe, and there are others who know this better than me, the Politburo had a two-day session with historians lecturing them on the rise of great powers and this was such a success that they then made this into a TV series on Chinese television. Of course, it was all about China and they are very interested in that.

Q393 Chairman: The opportunities and challenges of cooperation with China on foreign policy?

Mr Cooper: This is a long-term story, the Chinese are still rather cautious. Cooperating with them is quite hard work. The Chinese are very focused on what are China’s interests. They begin through the Security Council—this is my impression—sometimes to see things in a wider perspective but they do what countries have always done, which is to focus first of all on what matters to China. Speaking as a European, but I could also do the same as a British citizen, over time I think we have developed a wider view of what our interests are. The Chinese view of their interests tends to be more narrow, but it shows signs of developing. Development is rather rapid in China, things change rather quickly. The debates in
China go on very quickly. Again, by historical standards their attitudes to foreign affairs have changed quite a lot. On the whole, speaking from the European point of view, the relationship in the pure foreign policy area is not a problematic one. I do not think people in Europe on the whole see China as threatening in any way. Sometimes the Pentagon studies list China as a possible threat, but on the whole I do not think European governments would think in those terms. The trade field is an area where there is scope for tension, but that depends a little bit on your attitude to trade. If you are a free trader then you would see China as producing more opportunities than threats.

Chairman: Thank you very much for that.

Q394 Lord Hamilton of Epsom: You said that cooperation with China is quite hard work. Does that extend to non-proliferation? Have the Chinese been any good with the business of leaning on Iran and their nuclear programme? Can the EU and China work together to address proliferation problems with North Korea and Pakistan?

Mr Cooper: The place probably where the Chinese have been most active is North Korea. They have been one of the key actors in what progress there has been on North Korea. As you know, the progress on North Korea is a matter of one step forward, two steps back, sometimes that way round, sometimes the other way round. There is no doubt that the Chinese are the key to it and Chinese cooperation is central to that.

Q395 Lord Hamilton of Epsom: Because that is on their doorstep?

Mr Cooper: Yes, that is on their doorstep. From the point of view of proliferation that is both positive and negative. It is positive in the sense that they really matter to North Korea but it is negative in the sense that they worry a great deal about North Korea. The last thing they want is to have the North Korean Government break down and floods of North Koreans come across their border, so they are very cautious in their dealings with it. Nevertheless, they, more than anyone else, are the people who can put pressure on North Korea but are generally not willing to put pressure on them in a way that would destabilise them. On Iran, the Chinese are sensible members of the Three Plus Three group that deals with Iran. They are not enthusiastic for sanctions. They have large commercial interests in Iran and their trade with Iran has indeed been growing. They are also an oil importer from the Middle East. I tell the Chinese that I think our interests are really very similar here. We have a very similar interest in the need for stability in the Middle East that is not compatible with Iranian nuclear weapons. I believe they have exactly the same interests as ours and I hope very much when push comes to shove they will understand their interests in the same way.

Q396 Lord Hamilton of Epsom: Push comes to shove, what stage is that?

Mr Cooper: That is the stage which I hope we do not reach. That is the stage when the attempt to reach a negotiated solution with Iran fails.

Q397 Chairman: Does the EU Three Plus Three, which I suppose is the most obvious way of a close security relationship with China, provide a good model for the future or has it seemed to work well within limited expectations? What is the view?

Mr Cooper: I think we will see is the answer to that. If it solves the problem then—

Q398 Chairman: That is obvious, yes.

Mr Cooper: Yes it would be a good model, but let us have it work first.

Q399 Chairman: Clearly that is the right conclusion but I do not know whether they have pre-meetings before meetings. I was just trying to get under the skin of the attitude in terms of preparation or the work in progress of EU Three Plus Three. That is what I am really trying to get at.

Mr Cooper: We see each other quite regularly. I know the Chinese colleague who operates on this group very well. Probably the Chinese and the Russians feel closer to each other than to the Europeans. This is a group which works pretty well on the whole. Actually, as I said, our perspective on the Middle East and the Chinese perspective logically ought to be very similar. We are both energy importing countries dependent on stability in the Middle East. That is a little bit different from the Russians, for example, and it is also a bit different from the USA which has got its own particular policies and stakes in the Middle East.

Q400 Lord Jay of Ewelme: Just extending that, I think you said on the whole China’s foreign policy was not seen as problematic by EU Member States. I wonder if you would include Africa in that. We had rather a good session with Louis Michel’s Cabinet just now which talked about the developmental side of that. I am not talking so much about differences in developmental policy but the risk of Chinese pursuit of economic self-interest in, say, Sudan, Zimbabwe, conflicting with what would be generally seen as Western attempts to push good governance and perhaps even conflict prevention. Do you see conflict there potentially?

Mr Cooper: Conflict would be too strong a word. That comes a little bit into what I meant when I said that it probably takes time. This part of China’s relationship with Africa has developed very rapidly as their economy has developed very rapidly. I am not
sure they have had an enormous amount of experience of working in Africa on the different projects that they have. I suspect that after a while they may encounter problems which are similar to ours. It is true that we approach Africa in a rather altruistic spirit, but some of our countries have a history of quite dramatic exploitation in Africa so I think we ought to be a bit cautious about being over-critical of China because there are one or two replies that they could very easily make to that. However, it would make much better sense for us to work together when we can.

Q401 Lord Jay of Ewelme: Is it an area where you think there is scope for a sensible EU-China dialogue?
Mr Cooper: Yes.

Q402 Lord Jay of Ewelme: A return to a scramble for Africa based on resources is not really a sensible way.
Mr Cooper: No. There is scope in all of these areas first for dialogue but in the end for cooperation. It would be very good for China to see itself as having a stake in the orderly development of Africa and African resources and it would be very good for China to understand they would be better served probably by well-regulated markets in raw materials rather than feeling that they have to own things themselves. If we can increase their confidence that the international system works for them, as I think they have understood in the WTO, that would be the best solution to the problem.

Q403 Lord Jay of Ewelme: I was going to come on to that. I was struck by what you said about the WTO. Do you think there are other international fora, for example in the no-proliferation or disarmament field, where the Chinese do now believe that sort of cooperation would be in their interests, or is there still work to be done there?
Mr Cooper: In the area of proliferation I think the Chinese behaviour today is very different from what it was a few years ago. They are much more cautious about what they export. It is clear also that the Chinese Government listens to what other people are saying, although they do not always respond immediately. For example, in Sudan, although their policy has not been the same as ours, you can see at different stages how they have modified their policy in response to international concern.

Q404 Lord Jay of Ewelme: Just one final question. Is there anything the EU can do to encourage China to sign up to the Arms Trade Treaty on conventional weapons? It is a bit beyond my area of expertise but it is on my piece of paper.
Mr Cooper: It probably goes a bit beyond my area of expertise.

Chairman: It sounded very authoritative, Lord Jay!

Q405 Lord Jay of Ewelme: Thank you very much, my Lord Chairman.
Mr Cooper: I think if we were to do that the Chinese would probably come back to the question of the arms embargo and say, “What, you are asking us to sign a Treaty on Arms Trade when you are refusing to trade with us”.

Q406 Lord Hamilton of Epsom: They certainly have a very robust black market in things like anti-personnel mines. In fact, they have a monopoly on them as everybody else has given them up.
Mr Cooper: Yes.

Q407 Lord Crickhowell: Could you comment on China’s role in the Far East generally: counter-terrorism and counter-insurgency, especially Afghanistan and Pakistan, relations with East Asia, and foreign and security relationships with other Asian partners?
Mr Cooper: This is not an area that I am a big expert on. I would have difficulty in putting a date on it. I was involved a bit with China in the late 1990s when I was working on this in the Foreign Office and coming back and now seeing it a little more distantly it seems to me there has been quite a change in the way China deals with other Asian countries in that they are much more ready to discuss security matters. That is far from joining in widespread confidence-building measures, but ten or 15 years ago they simply would not have discussed these questions at all. Now they rather actively work in the groupings that form around ASEAN and ASEAN Plus Three, and there is another group which has formed itself, China, Japan and Korea. These are not groups which deal with hard security, they are not alliances, but they discuss political questions in Asia. They do not provide all the reassurance that China’s neighbours would like but they are at least a form of political communication. I think one would also say that the Chinese seem to me in the last couple of years to have made quite striking efforts to improve their relationship with Japan. I am not sure if I can prove this, but I can remember being in Japan just after the visit of Wen Jiabao and he very clearly went out of his way to go beyond the normal protocol things and was trying to present a more human face in Japan. This was at a time when there were still continuing difficulties with Japan over visits to the Yasukini Shrine and things like that. My impression at the time at any rate, I think it was either at the end of the Koizumi period or just after when relations had been rather difficult, was that it was the Chinese who were trying to put the relations back on the rails in a political sense. The Japanese have since responded to that because both Abe and Aso have seen the
relationship with China as being a priority. That is on a political level. On a military level there has been some small improvement in transparency on the Chinese side but there is quite a long way to go. They now publish figures for their defence budget. I think they described their large display of naval power the other day as part of transparency. I guess that is one way of looking at it. They can probably be encouraged further in that direction.

Q408 Lord Crickhowell: We heard earlier today that there are some signs of their moving a bit on relations with Burma in a helpful way, but when I pressed on whether there were any signs of their taking a real interest in counter-terrorism and so on in Afghanistan and Pakistan I think the answer I received was “no”, yet here you have a country right on their borders which you think they would be rather concerned about.

Mr Cooper: Yes, actually they are. I do not think that is completely accurate. They are concerned about Afghanistan and Pakistan, not least because they have Muslim minorities themselves and they fear infection. As I say, the Chinese point of view still always tends to start in a rather realistic way with what might have a direct impact on China. I believe they are concerned, but I am not sure if they have translated that into policies which exactly resemble ours. I believe they are a considerable donor in Afghanistan.

Q409 Lord Crickhowell: Presumably if the new administration in the United States develops a positive relationship with them this will be an area which the United States will want to talk to them about because it is central to their policy?

Mr Cooper: Yes. They are a neighbour of Afghanistan and probably the country with the most consistent long-term relationship with Pakistan and potentially an important source of influence in Pakistan. It seems to me that China is important to both of those. On Burma, we have also noticed that the Chinese have moved from the traditional Chinese position of saying they are not interested in the internal affairs of other countries to saying—I cannot remember the exact words—something a little bit different now on Burma. My guess is that they are concerned about the possibility of Burma becoming even more of a failed state than it is at the moment. Perhaps the best way to engage China on a country like Burma is less to focus on the human rights questions and more to focus on the risks that a country which is as disastrously run as Burma has. It can be a place where bird flu can incubate or a place where drugs and other forms of disorder can affect China. That is probably where their concern lies.

Q410 Lord Hamilton of Epsom: Just to return to Pakistan and the growing nervousness that it is a failed state. I think there was an American General saying quite recently it was going to implode in a matter of weeks. Do you think that is likely to happen and, if it did, would China stand back or would it go in in some form?

Mr Cooper: First, I do not think it is likely. Pakistan is a very resilient place. I think the best news in Pakistan is that they are becoming worried themselves and you can see them taking action. Whether that is going to work or not, I do not know. There are large areas of Pakistan which have never been under the control of any government, including the British Government, but if you are in places like Karachi and Lahore then I am always struck by the remarkable vibrancy and solidity of civil society, not in the sense of NGOs but of business and those kinds of people. First, I do not think Pakistan is going to collapse just like that, although there are lots of reasons for concern. Second, I do not think the Chinese think in terms of sending the PLA in to rescue other countries and I am sure that their Asian neighbours would be very distressed if they saw China behaving like that. The Chinese are relatively large contributors now to UN peacekeeping forces and that seems a positive thing. It would be much more sensible to encourage them to operate in those kinds of frameworks. Once or twice I have asked the Chinese whether they might be interested at some stage in joining the ESDP operation and they are thinking about that. The nearest they have come to that is there is a Chinese ship somewhere off the Somali coast which I believe cooperates with other navies, as navies do, and there is good communication between them and the other naval forces there, including the EU force run from Northwood.

Q411 Lord Crickhowell: You have been giving us, and I love it as a rather second rate historian, your historical perspective of China, but can I ask questions about it from the other end, the approach of the European policy. We have heard elsewhere and seen so often that there is an ability to perhaps play off the approaches of individual Member States in the Community, particularly the larger ones, against perhaps the wider EU one. We did a report on Russia recently where we found that Russia was particularly good at that on energy issues and so on. Is this a problem for the EU in developing the CFSP? Is there a difficulty in the attempt of other countries, and China in this context particularly, to exploit our differences or do you find that is not a problem?

Mr Cooper: Oh no, we provide endless opportunities for people to do that. Of course, there is always a range of views. If you put 27 countries round a table it is not a surprise that they have different interests and
points of view. The question is whether there is a sufficient feeling of solidarity and sufficient common interest that can be defined and everybody solves the prisoner’s dilemma that you get more out of cooperative behaviour than trying to make private gains as individuals. Sometimes we succeed and sometimes we fail. In China the EU trade policy has worked relatively well. In foreign affairs it is not that we have issues of enormous weight in dealing with China, there are not things that engage Europe as a whole. If you ask what are the things that are top of the European agenda in dealing with China at the moment people would probably say, number one, financial crisis and, number two, climate change. On those, particularly on climate change where policy is rather better defined, there is a very solid European position. Also, there are very important Chinese interests like their development and there is going to be a very tough multilateral bargain. That is not an absolutely clear answer. I do not find the accusation that China plays us off against each other to be the central feature of relationships with China.

Q412 Chairman: Moving on to broader areas, the arms embargo, one of the things that I have sometimes heard said is that when Europe failed to remove the arms embargo under American pressure then China no longer took the EU seriously following that. Where do you see the issue of the arms embargo going? In terms of transparency of military expenditure and that area, and the cross-strait relations between China and Taiwan, has Europe anything to offer in that area?

Mr Cooper: To come back just a second to the last question, in some ways I think China would probably prefer a stronger EU. The Chinese world view has always been that they would rather not be alone with the United States and would not mind having a stronger European Union, it would be a little bit easier for them to deal with 27 countries and they would not mind having a European Union that was a bit more independent of the USA. I do not think the Chinese see splitting the European Union as being a fundamental policy goal. There are times when you can see Chinese behaviour that looks as though they are deliberately one EU member, but broadly speaking the Chinese, for a country on the other side of the world, think the European Union is a good thing. Now I have forgotten your question.

Q413 Chairman: The arms embargo and the cross-strait question and transparency of military expenditure.

Mr Cooper: We never really got to the US pressure because we never got very close to lifting the arms embargo. It was always clear from the debates within the European Union that there would not be a consensus for lifting the arms embargo unless there was some improvement in the area of human rights. The arms embargo was imposed at the time of Tiananmen Square and the idea of lifting it while people who had been arrested at Tiananmen Square were still in prison was probably unattractive to a number of Member States. Some have linked this specifically to Chinese ratification of the protocol on civil and political rights, ICCPR. For that reason, removing the arms embargo never really became likely. If it had, at that point I have no doubt there would have been a strong reaction from the United States and Japan as well. Actually, the reaction would have been a mistake because the so-called arms embargo is a single sentence in the conclusions of a meeting just following Tiananmen Square and has no legal status and no clear definition. We have much more focused and effective legislation and the common position has legal force on arms exports generally which covers arms exports to China. Not just arms exports to China, it covers exports of all kinds of sensitive goods to China, things like numerically controlled machine tools which can be used in defence industries. That is much more important than tanks and planes. Supposing China were to ratify the ICCPR then I think the question would come back on the agenda and no doubt there would be US pressure. I can understand why the Chinese think it is inappropriate that they should be placed in the same category as Burma and Zimbabwe.

Q414 Chairman: The transparency on military expenditure and the cross-strait question, have we anything to offer there?

Mr Cooper: Cross-strait relations are one of the things that the Chinese care about very much. There are many points, but it is one of the things in which we have a serious interest too. Although it is far away from us, the disruption of a conflict across the strait would be enormous.

Q415 Chairman: Absolutely. The insurance policy is the American fleet rather than anything to do with Europe, is it not, at the present moment?

Mr Cooper: Yes, although one can never exclude being dragged into things that you think are somebody else’s business. The best insurance policy is developing political and commercial people-to-people exchanges which at the moment you would have to say is going rather well. I ought to have checked up on this but I forgot. I know that the cross-strait flights have been liberalised and I think they are now liberalising cross-strait investment rules. I am sure somebody has already given you the numbers of Taiwanese living in China and going to Chinese universities. Now what is going to happen is there is going to be more flow in the other direction as well.
All of that seems to us to be the best possible way of ensuring that cross-strait relations remain stable.

Q416 Lord Crickhowell: If you move from the arms embargo to technological cooperation, America has been unhappy about some aspects of that, particularly space technology, where there is probably great potential for Europe for useful cooperation. There are obviously areas, things like clean coal and so on, where we are all going forward. Is there a difficulty with the American approach to technological cooperation on things like space or is this something that you are quite relaxed about?
Mr Cooper: Is China a partner in Galileo? I ought to know. They were at one stage. I am not sure if this is on your agenda. I can check up and let you know. At one stage at any rate I know China was a potential partner in Galileo, but I am not quite sure where that stands at the moment.

Q417 Lord Crickhowell: I think there has been some modest cooperation but, as I understand it, it is an area which has come under some critical scrutiny from the United States. Some believe that this is an area of great potential for both Europe and China if we could get on with some more cooperation.
Mr Cooper: It is not an area that I am familiar with, as you see from my half-baked answer.

Q418 Lord Hamilton of Epsom: Should we not have more sympathy for the United States? It was not that long ago that they were getting very near to conflict over Taiwan and, as we know, there is so much technology now which has been developed in the non-military sector which is very easily transferable to the military one. I think the chances of a conflict between the United States and China have receded but are still not completely ruled out and in that case I think I would be rather nervous if I thought I was going to be faced by defence technology that would kill my people.
Mr Cooper: It is precisely for that reason that we have the arms export common position. As I mentioned, there are a number of items which we do not sell to China, which are things like machine tools.

Q419 Lord Hamilton of Epsom: I get the impression you would rather like to reverse all this.
Mr Cooper: No, on the contrary, I think it is reasonable to be cautious. One of the specific provisions in the arms export position refers to items which could adversely affect the position of allies and there was consultation with the US about what we do and do not sell to China in the area of dual-use goods.

Q420 Lord Jay of Ewelme: I want to ask a question about the mechanics of EU leverage, if you like. We talked a little bit about Burma, Sudan and Zimbabwe. I do not want to take a specific case, but let us assume a case in which there is a general view that it would be good to exert a degree of leverage or influence on the Chinese in a particular area where interests diverged, the question is whether from an EU point of view does that best come from the EU collectively or from the major Member States individually, or a combination of the two? To whom would the Chinese most be likely to listen?
Mr Cooper: If there was a strong united EU position then they would listen to that. I do not think they would have any difficulty in brushing aside one or two EU Member States, even large ones. If it came to leverage, on the whole I do not think people conceive a relationship with China in those terms, but if it came to—

Q421 Lord Jay of Ewelme: Influence rather.
Mr Cooper: If it came to leverage, that is the point at which the Chinese might start trying to play people off against each other. If one Member State did something on its own then I am sure they would start finding they were being frozen out of some markets. If there was something where we felt very strongly about it, the only way in which we would have influence would be by acting together.

Q422 Lord Jay of Ewelme: Is that true of human rights?
Mr Cooper: I would not want to put human rights in terms of leverage. Do they listen more to the EU than they do to individual Member States? In the EU there is a Human Rights Dialogue and there is certainly one in the UK and Germany that I am aware of and probably others as well. I do not know. They do listen because there have been studies done which demonstrate that the political prisoners whose cases are raised with the Chinese tend to get released a bit earlier than those whose cases are not raised. Perhaps that is not accidental. In general, my impression of the Chinese is although they do not respond immediately they do listen to what is said, they digest it, think about it, look at it from several angles and then you find a couple of years later they have changed what they do. Above all they listen to what the Chinese people are saying, that is what really matters to them. There are real changes that have taken place in China, like the access to government information. For example, they have handled—it seems to be called swine flu although I understand this is unfair on pigs—swine flu very differently from the way in which they handled SARS because I think they learnt from their own internal experience. What matters to them always is what their own people think, but I think there is also evidence that they listen to what foreigners say.
Q423 Chairman: You started to talk about the view of China in terms of the EU as a single body that is in their interests and I guess this question really explores that further. Does China still see the EU in some way as a counterweight to the United States? Is this consistent with the EU view of multilateralism and world order, I suppose? How do those come together?

Mr Cooper: The first thing is that we certainly do not see ourselves as a counterweight to the USA. Even if we wanted to be, that would not work. If you think in terms of a kind of plural world, a world in which there are not just two great powers, China and the USA, but a world in which there are several large players, that is probably more comfortable for China. I do not find that unreasonable. Maybe there will be times in the future when the EU and China will have a view which is similar and different from that of the USA. In the trade area, for example, we may well have similar interests. I know that the Chinese do take the European Union seriously because there seems to be hardly a book written on the European Union which is not translated into Chinese. They study it very hard and if you go there they display a far more profound knowledge of the European Union than most people in Britain.


Mr Cooper: Yes, my book too. I was thinking of fat books with lots of footnotes.

Q425 Chairman: Thank you very much indeed for your very concise and useful answers. We will let you have a copy of the transcript and please look that through. We very much appreciate the time that you and your colleagues have given to us. We hope to publish in the autumn. Thank you.

Mr Cooper: Always a pleasure to do business with the House of Lords!

Chairman: Thank you.
Mr Bertoldi: Good morning. Thank you for coming here which is a little outside the town of Brussels, almost in the countryside.

Mr Bertoldi: Yes, it is probably useful.

Mr Bertoldi: Yes. Let me introduce Ulrich Jochheim, who is the Desk Officer dealing with China. I am the Head of the Unit in charge of Economies of America and Asia, and IMF and G7/G8. In the Unit China has an important role, we have a number of dialogues with them, plus we follow all the things concerning China happening in fora like the G20 or in discussions with the IMF. I will add for your information a little bit on my background. I started to work in the Commission in 1990. Initially I worked in the Japan desk and after that I went to Japan as economic and political counsellor to Tokyo. From Tokyo I moved to Washington, where I was the economic and financial counsellor. In 2006 I came to work in the Commission in 1990. Initially I worked in the Japan desk and after that I went to Japan as economic and political counsellor to Tokyo. From Tokyo I moved to Washington, where I was the economic and financial counsellor. In 2006 I came back and took over this Unit. Ulrich has an international experience too and was one of my successors in Tokyo a couple of years ago. I will start with the Chinese economy and give you our reading of the current situation. We have just published our forecast on the European economy but there is also a part on the international economy and we have made a forecast for China also. Our growth forecast for China is a little bit below consensus. We forecast for this year growth just above six per cent GDP growth, growing close to eight per cent next year. The IMF has 6.5 per cent and the Asian Development Bank has seven. There is a question mark over that. There are two issues. One is the reliability of the first estimates of China’s GDP. You know that there are continuous revisions, so whether our figure is right or not, whether the economy will grow faster or slower, we will only know in a couple of years. Our impression is that China cannot completely decouple from the global slowdown, so they will be affected on exports, which are about 40 per cent of GDP. However, there is also a strong component of imports that will decline. We expect the Chinese economy will be affected by the slowdown of international trade as the Asia region is affected, part of it more heavily than China. You have seen the figures concerning most of developed Asia. Japan, Korea, Singapore, Hong Kong, Taiwan have all shown very sharp declines in the last quarter of last year and the first quarter of this year. Since there is an Asian supply chain, of which China is the final assembler of goods, we expect that, with a lag, the deceleration will also affect the growth of the Chinese economy. On the other hand, it is true that the Chinese have reacted quite rapidly to the slowdown by putting in place a big stimulus package. The headline figure of about 15 per cent of GDP is not credible but we can expect a package of about two to three per cent of GDP as has been put in place and rapidly implemented. We had a meeting with the NDRC—National Development Reform Commission—last week, where we discussed the Chinese and European economies. The representative from the NDRC was pretty proud of the accomplishments of the Chinese stimulus package and said, “We decided to build a bridge in a certain part of the country and three days later we had already started the work to build it”. In a way, you can have such an outcome from a government that can over-rule some procedures, or that...
environmental standards are fully respected and so on. This allows to speed up the process, but, on the other hand, probably in ten years, they may regret building the bridge there because it was not the best location and there were environmental problems. What has clearly appeared in the last couple of weeks is that the stimulus package is already becoming effective. Although it translated in growth figures that are much lower than the growth figures to which we were accustomed before the crisis but are still positive and robust. Growth year-on-year in the first quarter of 2009 was 6.1 per cent. On Chinese standards over the last decade that is the lowest, but it is plus 6.1 per cent and other countries in the world would like to have such a growth rate. I got back yesterday from the meeting of the Asian Development Bank that took place in Indonesia and I have to say the Chinese looked pretty confident. I am sure that they are weathering the storm quite well. This means that it is likely that next year they will go back to a rate of growth that is close to their target of eight per cent but, again, it depends on how the crisis unfolds. In our forecast we see a very subdued recovery of the world economy and therefore China will also have a problem. We have a forecast of 7.8 per cent growth for next year which is slightly below (but still in the margin of error) of the eight per cent target, but that is because of the unfolding of the global economic situation. If we want to take a medium to long-term perspective, China and the Asian region, but China in particular, will come out of the crisis relatively stronger than they went in. They will have a bigger weight in the world economy and I have the impression that Chinese policymakers will make use of the increased weight to push not only for the economic objectives but political objectives and to raise their profile at the international level. The last part of my presentation is on the medium to long-term challenges. Clearly the world economy that went into the crisis was very different from the world economy that we will see after the crisis. There is a need to rebalance global growth. This is now a key theme. It was also the key theme in the meeting of the Asian Development Bank and they wrote done a big report on that. Everybody admits that if we continue to have the global imbalances that we had before the crisis this is a recipe for disaster and we will have another crisis. Things will have to change in countries with large current foreign account deficits, like the United States, and countries with large current account surpluses, which is the case in China. One of the things that we do see, and you can look at the forecast, is that, despite the slowdown in the world economy and the negative impact of the crisis on Chinese exports, the current account deficit decline is very small. The current account surplus will probably still be above ten per cent this year, but even if it goes below ten per cent, it will still remain at nine point something, which means unsustainably high. This cannot go on forever. It is not good for a sound working of the Chinese economy because it could go against the wall and create a bubble somewhere given the size of the China’s current account surplus. On the other hand, it is not good for the general welfare of the Chinese population. These are figures from 2006, but, despite the fact the income per capita in China is more than the double of that of India, the consumption per capita was only two-thirds higher. Consumption is about 35 per cent of GDP. This figure is interesting since at this meeting of the Asian Development Bank Japan’s Finance Minister said, “We have to rebalance growth and in particular necessary have to be taken by the countries that have consumption of GDP lower than 50 per cent”. Possibly Singapore has also a low consumption on GDP, but there is only one country I can think with consumption below 50 per cent and it is China. Why is China’s consumption so low? In part this is not so surprising. In the case of Korea and Taiwan in the late 1950s, early 1960s, and after in the other South-East Asian economies in the 1970s and 1980s, consumption was low because there was a lot of capital accumulation and export driven growth This Asian model spread to China. In a way, China brought to the extreme, since the social safety net that was in place before the reform practically collapsed. The social safety net was not terminated but the system changed dramatically. The result has been that people have to save because most of them do not have a pension scheme, they do not have health insurance and so on. They have huge savings that are kept aside for precautionary reasons. If you get sick you have to go to the hospital and pay the hospital charge at a very high fee. In a way, healthcare reform is a key issue and if they are able to create a social safety net there, there is the possibility of increasing consumption significantly. An example is the introduction of universal healthcare insurance in Taiwan. After the reform, Taiwan’s consumption on GDP grew by about two per cent. In China there is an even bigger potential. Of course, an expanded social safety net that is needs to be sustainable because China’s population is ageing rapidly and, therefore, quite soon the country will face ageing problems. Some economists say that China will become old before becoming rich. The current system needs important adjustment.

Q429 Chairman: Can I perhaps come in there? What you are talking about is absolutely key and, as you say, if we do not get this right this time it will all happen again in another few years. What is the method of adjustment, whether it is exchange rates or consumption levels? On the currency someone can just decide in Beijing presumably to change the exchange rate, but they are not very happy
necessarily to do that. How can we start to get those adjustments, get that change? What influence would Europe have on that?

Mr Bertoldi: Our position is to say that the imbalances that China is producing are unsustainable and there is a need for adjustment. We think that the main adjustment has to take place in domestic policy. As I said, healthcare reform, the reform of the way in which profits of state-owned enterprises are retained and, therefore, used to create new productive capacity are key issues. With regard to the financial sector, in a way they have a rather backward and inefficient financial sector. Therefore they have been very prudent and have not bought the toxic assets that have impaired the advanced economies in Europe and the United States. But there is still a problem of inefficiency, of bad allocation of credit and accumulation of bad loans. Regularly through the use of the reserves they accumulate and the sound budgetary situation they have, they have been quite good in wiping them out in the last couple of years, but they continue to come back and produce distortions. We think that domestic reform would and should help produce the bulk of the adjustment. Exchange rates are part of the strategy. The fact that the Chinese authorities keep a stable exchange rate vis-à-vis the dollar has translated in periods of devaluation while in reality the currency should have continued to appreciate in effective terms and not only compared against one currency, the dollar. The appreciation of the Chinese currency would provide the right incentives. The companies that are less effective and cannot compete in international markets would decline and that would provide incentives to the service sector to develop. The middle class in China would be favoured by reform and that would increase its purchasing power. This was one of the things that the Chinese policymakers who were present in Indonesia acknowledged. Their economy cannot remain forever the factory of the world. They have to move up the technological ladder in manufacturing but they also have to diversify and need a larger service sector, which at the moment is relatively small if compared to what it should be in a country that is now an emerging market economy. They have the ambition to become in the long term an advanced economy, therefore the service sector has to develop. If the exchange rate remains undervalued, as we consider it to be, that clearly provides incentives in the opposite direction: you increase the manufacturing sector in order to export more to grow. In the end, either the economy will become too diversified or too dependent on the world economy with the risks and effects that we have seen. Even Japan, which is a vast economy with a very large manufacturing sector, has suffered very heavily since October. If you look at our forecast for Japan, despite the fact that they have very few impaired assets and the banking sector is not in a bad shape in the current circumstances, economic growth will be lower than in Europe and the United States where we suffer from the joint effects of the real economic crisis and the financial crisis.

Q430 Lord Crickhowell: I find the whole thing puzzling because you have got these huge imbalances in trade with the United States and Europe, the history of the recent Asian and Japanese crises is that there was a very slow recovery from the initial collapse in getting trade going, and you say in your report that China is having a massive internal construction programme but very high investment rate, an extremely low share of private consumption in overall GDP, so I find it hard to see how the internal adjustment is going to very rapidly deal with the huge imbalances. I did not quite understand what you were saying about the exchange rate. Unless there is a fairly substantial change in the exchange rate I do not quite see how the great adjustment is going to take place. There has got to be a big adjustment because they are not going to be able to do the same trade with the United States on the same basis, or indeed Europe, that has been the basis of the economy for the last few years. How is it going to happen? I do not quite understand how the adjustment is taking place.

Mr Bertoldi: There is a temporal dimension. We do not want the United States moving suddenly from a savings ratio that was zero per cent to ten per cent because we know that would bring the world economy to its knees. The same is true in the case of China. We cannot expect that it moves from a current account surplus of ten per cent to a current account balance, or close to balance, in two or three years. A big move in exchange rate with an one-off appreciation of the renminbi by 30 per cent would have a huge wealth effect and wealth loss for the Chinese themselves who hold such large amounts of dollars. The other thing that we do not want is to have a sudden and rather abrupt move in the exchange rate that would have the euro appreciating and the dollar depreciating because we want to reach a balanced position in the balance of payments quickly. After that, we would go back to a sort of semi-fixed exchange rate between the renminbi and dollar but in a way, given the productivity dynamics of the two countries, that would reproduce the same problems and would require abrupt changes in exchange rates with all the wealth effects that we know about. For these reasons reason we think that the structural reform in China can be helped by the use of the exchange rate and the progressive appreciation of the renminbi. The exchange rate can be made more flexible, although theoretically already now it has a lot flexibility: it is the way in which the policy authorities intervene that reduces that
flexibility. In order to have a sustainable and sound growth model you have to go to the root of the imbalances and in the case of China they are related to the way in which the domestic economic structure creates huge incentives to over-invest (I think the investment on GDP is currently above 50 per cent), and huge incentives to export. You have to change the system and have it rebalanced. The exchange rate in itself can be an instrument, but the appreciation of the exchange rate alone will not produce the rebalancing. Either you go for a fully flexible exchange rate that could bring rapid appreciation of the renminbi and you could have overshooting with a banking sector that is still fragile (many economists admit that the structure of the financial sector is not sophisticated and developed enough to move to a completely flexible exchange rate), or you go for huge appreciations or movements in the exchange rate in order to try to reduce the imbalances but then, as I say, there are problems. In political economy terms, a drastic appreciation of the renminbi would mean from one day to the other hundreds of thousands of companies would have to close.

Q431 Chairman: I want to bring Lord Hamilton in in just a minute, but I just want to press you slightly on that area. Does the European Union have its own view as to how that adjustment should take place? In the bilateral relations we have are we trying to influence that or are we just observers?

Mr Bertoldi: We have dialogues. They are not negotiations in terms of macroeconomic policy. Furthermore, there are also the international financial institutions that produce reports and so on. In general, on the exchange rate we follow the line that was agreed by the G7 finance ministers that takes the line that the G7 countries and the Commission and Union signed. What we are saying is that the Chinese currency should be made more flexible and be left to appreciate accordingly. With regard to the dialogues, in those dialogues we insist on the importance of domestic reform and point out that it is in the interests not only of the world economy but also of China itself to move to a more balanced growth order because it increases the welfare of its citizens, avoids unpleasant surprises down the road and has a positive spill-over on the world economy. The Chinese authorities recognise that they have to move. The big difference we have is on the speed of the move. They are extremely cautious and the word “gradual” is the key word. We say gradual is fine, but with their graduality they have created something that is not gradual, namely huge surpluses. Something more vigorous is needed. Clearly we can flag the problem up and stress that it is important for them to adjust because with the current account surplus they have there is the risk of protectionist backlash both in the United States and Europe. They have to do more. In the 1990s I was involved in a similar discussion with Japan and we found that even the strong pressure the US was generating towards the Japanese did not produce much. The important thing is to raise awareness that this is creating a problem and if the policymakers have the ambition to play a more active role in the world, they have to be a responsible partner (which in the official communiqué China indicates as one of the main objectives of its foreign policy). Ultimately the final decision is most of the time domestically.

Q432 Lord Hamilton of Epsom: You have given a forecast of six per cent growth for this year, which seems to be highly likely, and Goldman Sachs came out with a figure of eight point something, in excess of eight per cent. Where did that figure come from, do you think?

Mr Bertoldi: They revised it up. They had seven point something.

Dr Jochheim: They had six.

Mr Bertoldi: They consider there is much more attraction from the stimulus package. If I remember correctly, they have a reading of the crisis in the world economy that is different from ours. They see a stronger recovery in 2010 and in the second half of 2009, plus there is the attraction of the stimulus package.

Dr Jochheim: If I may add one thing. The real difficulty for me is to forecast the behaviour of sub-national levels of government. Below the national or central government the Chinese have five levels of authority, starting with the provinces. You might know that some provinces in terms of size are more important than both Germany and the UK, like Sichuan, for example, which has more than 84 million inhabitants. The difficulty is that the stimulus programme foresees spending of four trillion renminbi, of which 1.18 trillion would come from the central government. It relies a lot both on banks and lower levels of government. It is extremely difficult to predict. To be frank, I am sitting here and even if you go to Hong Kong, to Beijing, you feel you are not on-site. It is very difficult to predict how the lower levels of government are going to behave. In the past they were more expansionary than the central government wanted. In 2007 China had a growth rate of 13 per cent compared to an objective in the five-year plan of annual growth of eight per cent. This was driven by provincial governments and provincial leaders. The Chinese leadership tried to exert a lot of pressure on them. For example, they had a kind of credit limiting and in giving orders you must only expand your credit balance sheet by ten per cent or something. They have now abolished this and this is one of the reasons why, for example, loan growth in the first quarter was extremely high because all of a sudden there was pent-up demand, pent-up projects.
Depending on what you assume as to the behaviour of these levels of government you can justify anything between four and ten per cent for the current year.

Q433 Lord Crickhowell: Can I reverse the question in a sense. Here you are saying very high continuing growth, external imbalances likely to decline only very slightly in real terms and current account surplus broadly unaltered. What are the implications for the European economy? What is the effect if there is this great imbalance? If China is going to continue to have this imbalance, what are the consequences for Europe?

Dr Jochheim: It depends on the point of view you are adopting. The Chinese say, and I tend to agree, that the first priority issue is to save China’s economy. From our point of view it is better that the Chinese keep on growing than that they collapse. That is my personal opinion. From that point of view, they have a point. The second issue is that the programme is not very conducive to imports from the US and EU. (Off the record) The impact of the programme on the EU will depend very much on the export structures of our Member States.

Mr Bertoldi: The Chinese are not trying to export their way out of the crisis, so in a way that does not change much the effect of the large current account surplus right now. It has more or less the same effect that they had before the crisis. There is not an acceleration of the process. What the Chinese authorities are doing is that they are committing to keep their exchange rate stable vis-à-vis the dollar, so that depends on how the dollar evolves. Should the dollar depreciate significantly in the coming months we would have a problem. Should the dollar appreciate then the renminbi would appreciate against our currency. In the current situation what we do not want is to have very high volatility in exchange rates. We have sufficient uncertainty to deal with already. Of course, in our view it would be much more helpful if instead of having more activity we had a steady appreciation of the renminbi in real terms in a gradual manner. That is the message that we are sending. One of the risks of this crisis was partly a result of what we had in the crisis of 1997–98 was that for a country it is better to have a current account surplus, because if ever there is a crisis it is more able to weather the storm than a country that has a current account deficit, particularly in the case of an emerging economy. That was the case in the Asian financial crisis of 1997–98 and in part it is also the case now. We see the problems in Central and Eastern Europe. Some countries have a current account deficit. It is what economic textbooks would say. If you are catching up, the best way is to invest and to consume. You have a current account deficit because you are creating productive capacity and in future that will allow you to have a balanced position. In order to grow rapidly and increase the welfare of your population, this is the best way to proceed. The risk is that everybody after the crisis will try to follow this path, while, on the other hand, there will not be the United States as the consumer of last resort.

Q434 Lord Hamilton of Epsom: Can we look at the Chinese banking system? Quite clearly they are not suffering from the problems of Western banks, but there is a view that they have been lending to anybody who would basically create jobs without asking too many questions beyond that. How strong do you think their banking system is and is there a crisis in the making there or will that not be a problem?

Mr Bertoldi: There is a risk that they will build up a lot of non-performing loans that will not appear immediately but will appear down the road. It is still a very unsophisticated system that struggles to modernise. In a way, the Chinese policymakers move very cautiously and they still tend to use the banking sector to orientate investment and to have political drive on that. Down the road the banking sector is a problem. There were some timid moves to open it to the foreign banks, to have cooperation and so on, but at the moment all of this seems to have been frozen by mutual consent. Clearly worldwide European and American banks are withdrawing, so they are not asking for entry or investing more, but also the Chinese seem much less keen to have the presence of foreign banks in their financial sector. Changes in the financial sector are essential. What we have seen in the other economies of East Asia, and the Chinese are looking at them, is that growth will start to slow and they cannot rely forever on manufacturing. They have to diversify. They have to allocate their financial resources more efficiently and have to introduce a market mechanism. They have to do that in a gradual way. Either they can do that in a gradual way or through a big bang. The gradual way that was followed by the Japanese produced a big bang and in some other countries also. They know they cannot stay where they are, they have to move, and in this respect the crisis has made them more wary about moving towards liberalisation. That will be a problem down the road. This huge expansion of credit could create a large amount of non-performing loans. In a way, they are swapping the long-term with the short-term and that will be a problem. What I would not like is that the Chinese authorities, since they know they are creating a problem down the road, will continue to run large current account surpluses in order to be able to clean up the banking sector. This would be the wrong policy lesson from the crisis.

Q435 Chairman: Coming back particularly to the European relationship, you have outlined very well the problems that there are and the slowness of any
adjustment in the future, but one thing we would like to try to get at is whether the European Union has any leverage or influence, either bilaterally or within institutions like the G20, to actually make a difference. We are China’s largest market, we have 500 million consumers in a single market, we have the second largest reserve currency, but is China so internally focused or as the European Union are we not in a position to influence policymaking in China to mutual benefit or even to our own benefit? Why not? Are we performing better than we seem to be?

Mr Bertoldi: Part of that is a question that you should address to our colleagues in DG Trade. I do not know if you have met them already or are going to meet them, I do not know whether we would welcome knowing that the Chinese are effectively putting pressure on us to change our policies or with the Americans. What we can have is a dialogue. The Chinese could claim that the Americans are now raising the savings ratio because they pressed them. I do not think that this would go down very well in the US. What we have is a dialogue and what we can do, and we are doing, is to make them aware that without adjustment down the road there will be problems. Sometimes we are able to defuse the problem but this means that actions need to be taken. I will give you a concrete example that I know quite well because I was involved in the process; sovereign wealth funds. They are somewhat a spin-off from the global imbalances. Sovereign wealth funds have been around for 50 years but they became a problem in early 2007. The Chinese created their own sovereign wealth fund and the Russians, although it was not through a sovereign wealth fund, but state-owned companies, announced investments in the EU energy sector. There were two possibilities. One was to respond through legislation and there were discussions, as you will probably remember, whether there should be a golden share or we should set up our defensive sovereign wealth fund and so on, or, and this was the second possibility, to go through a multilateral solution where the Chinese would engage, but not only the Chinese, the Kuwaitis, the Abu Dhabis, the Russians, to agree on clear governance rules for their sovereign wealth funds and to disclose a certain amount of information so that we could be reassured as much as possible that the investment that comes from sovereign wealth funds is not done for strategic purposes but rather for commercial purposes. The IMF and OECD were involved through the G7, and very rapidly we had the code of conduct for sovereign wealth funds and the Santiago principles. Initially there was nothing, but now the Chinese have set up their own website and they disclose information, who the managers are, financial information, etc.. It is not yet an entire implementation of the principles but they tell us they are doing more than other sovereign wealth funds. We agree, but we add that, this is not a beauty contest, the principles are there to be applied. However, the positive fact is that we found a solution that in the meantime was pushing sovereign wealth funds, not only the Chinese one, but all the sovereign wealth funds to disclose a certain amount of information, to give assurances on the types of investments they were doing. For the moment this defused the protectionist risk that would have negatively affected our economies, not least because in the current climate we need capital from the sources that have capital. There was recognition by the two sides that there was a problem, although the nature of the problem was seen in different ways from the two sides, and they moved to create a global public good.

Q436 Chairman: So a policy success in that area?
Mr Bertoldi: In that area. The problem has been defused. Whether it has been solved, it will take more time before reaching a conclusion. There has been disclosure of information and assurances that make clear the other side recognise the legitimacy of our concerns. The worst scenario would have been that we would have introduced restrictive legislation and they would have reacted by introducing domestic retaliatory legislation in a number of sectors in order to make our exports more difficult. This sort of retaliation is something you want definitely to avoid in general and even more so during a financial crisis.

Q437 Chairman: Thank you very much for that. Mr Bertoldi, I think we have taken up enough of your time. We very much appreciate you having found time to speak to us this morning. Can I thank you very much indeed for having taken us through these areas, it will be very useful to the inquiry.
Mr Bertoldi: Thank you for coming. I hope I answered your questions. I do not know whether I was convincing in all my answers, probably not. If you have any further questions please do not hesitate to come back to me or Ulrich.
Chairman: Thank you very much indeed.
Present

Crickhowell, L.

Hamilton of Epsom, L.

Teverson, L. (Chairman)

Examination of Witnesses

Witnesses: Ms Nancy Kontou, Head of Commissioner Dimas’ Cabinet, Mrs Rosario Bento Pais, Deputy Head of Unit for Climate Change Strategy and International Negotiation, and Ms Lynn Sheppard, Policy Officer, International Climate Change Negotiations, DG ENV, examined.

Q438 Chairman: Good morning. Thank you for very much for offering your time on our study on Europe and China and where that relationship should go. I would say the Committee has had a particular interest in the relationship between the EU and China in two areas out of proportion maybe to the others. One of those is on the development in Africa, but the other one is very much on the climate change side. We are very much looking forward to this meeting. Would it be helpful if I just explained the context of how this works here?

Ms Kontou: Yes, please.

Q439 Chairman: The meeting will be on the record, so there will be a transcript of the questions and answers. What we will do is let you have a copy of that and if there is anything you feel is not right or incorrect you will have the opportunity to make changes. Also, if it is of any help at any point we would be happy for you to go off the record if there is something you feel would be useful but is not an official view. The only trouble with that is we cannot record that as evidence. If that would be helpful we are very happy to do that. I think you have had a copy of the sorts of questions we want to ask, but we are not necessarily limited to those. If you feel we do not cover anything please let us know, but otherwise we will use those as the basis for the conversation. Before we start, do you want to make a statement or give context at the beginning or move into the agenda?

Ms Kontou: As you would like. We are more or less in your hands. We are here to help you as best we can. We have received your questions, so thank you very much. I understand you have met other people from the Commission already.

Q440 Chairman: Yes. We have had quite an intensive programme, but we have not really concentrated anywhere yet on the climate change side within this visit. The first question is very general. How you share the answers is entirely up to yourselves. What are the strategic interests of the European Union in cooperating with China on climate change? Is it realistic to have a common position on that? I think we are particularly interested in how that common position has worked so far, is it robust and have the Chinese been impressed?

Ms Kontou: Before starting, if I could just introduce my colleagues. I am the Head of Cabinet of Commissioner Dimas who deals with environmental issues, the Commissioner responsible for the environmental issues, and climate change is one of our main priorities within environment. Lynn Sheppard is from the Directorate-General for the Environment and she deals more specifically with China related issues. She is involved in the cooperation we have with China under the Climate Change Partnership and in other fora. Rosaria Bento Pais is our Deputy Head of Unit in the Directorate-General for Environment dealing with climate change strategy and international negotiations. We are happy to answer your questions. If after this meeting you have any further questions or any more specific details that you would like to enquire about, we will be happy to stay in touch and provide any further information that you would like.

Q441 Chairman: Excellent. Thank you.

Ms Kontou: Let me start with the first question. Without doubt our relationship with China is one of the most important in the context of the international climate change negotiations. As you already know, our target is to have a comprehensive and ambitious international agreement on climate change in Copenhagen by the end of the year. China is a very important player there because it is one of the major emitters of greenhouse gases, if not the biggest emitter according to some calculations. That is why we are trying to work closely with China in the UN context and also in other fora in order to have the best result in Copenhagen. What exactly are we seeking from China? The Commission presented at the beginning of this year a Communication on Copenhagen. The purpose of this Communication was to set up a number of general principles that we believed should govern our position, the position of the European Union, in the international negotiations. In the context of this Communication, of course, an important part was on the contribution that we believed major developing countries, and in particular emerging economies like China and India, should make in the context of these negotiations. These principles in the Communication were then discussed by the environment ministers and we had
the conclusions of the Environment Council and, further to that, this year the European Council took up these conclusions and adopted a number of principles regarding the EU position in international negotiations. As a result we have already the general lines of what we expect from developed and developing countries in the context of international negotiations. I would like to give you a more general picture of what we expect from developed countries, not only from China, because in order to have an effective international agreement from an environmental point of view we need the participation of all major emitters, both from developed and developing countries. The EU has already undertaken very clear and important commitments. We said we are willing to reduce our emissions by 20 per cent by 2020 no matter what happens and we are willing to go up to 30 per cent in the context of a satisfactory international agreement provided there are comparable reductions from developed countries and significant contributions from the developing countries. That is comparable reductions from developed countries, and there we are thinking about countries like the US, Japan, etcetera. We are talking about contributions that will enable us to stay within the 2°C as the average temperature increase. This is what science is telling us is the maximum of temperature increase that we should have if we want to avoid the really catastrophic impacts of climate change. For this we expect the developed countries to make comparable reductions compared to where they were in the past. The base year we are looking at is 1990 which is the base year under the Kyoto Protocol. For the developing countries, and especially for the emerging economies like China, we expect them to take significant action. We do not expect them, however, to take absolute emission reduction commitments. In other words, we do not expect China to reduce its emissions compared to where it was in 1990, for instance. We expect and hope that China and other major emitters will cap the growth of their emissions. According to the scientific advice we have, in order to stay within the 2°C, in addition to the reductions by the developed countries, the developing countries should cut their growth to between 15 and 30 per cent below business as usual by 2020. This is the range that scientists are giving us as the range of reductions that we will need from the developing countries and being a major emitter that means we would expect China to make a significant contribution to those reductions. We apply vis-à-vis China what the UN calls the common but differentiated approach. That means all countries should make contributions but the contributions should be compared to their level of development, so take into account their capabilities and their contribution to greenhouse gases in general. In parenthesis, although it is not relevant for China, we do not expect the least developed countries to take mitigation action. Our policy is that with the least developed countries, since they do not contribute much to the overall greenhouse emissions, what is more important for them is adaptation to the inevitable impacts of climate change, so what they need from us is assistance, finance, capacity-building, cooperation, rather than mitigation. These are more or less the general principles that we have to govern the position of the EU in the international negotiations. Of course, within this general context there are certain aspects that need to be further worked out even within the EU. For instance, the details regarding cooperation in the development and deployment of new technologies, which is very important for China and India in the context of international agreements, or financing, which is a very important issue which we raised in our Communication where the European Council agreed that the EU should make a “fair contribution”, as they put it, to financing in the context of international agreements, but where further discussions will be taking place in the June Council and probably even beyond in order to determine the details of the EU position regarding this very important aspect of the negotiations. If you like, we have the general principles but we need to work out some important elements of these in practice we are already doing it and we should continue. We are trying to coordinate practically with our Member States so that we have a coordinated position in the international negotiations.

Q442 Chairman: Given that this is an area where Europe probably has a more coherent position than on many other areas, are you finding that there is coherence from the other side in terms of the BRIC, let us say Brazil, China, India? Is China playing a lead in that role or is it really one-by-one that you foresee a solution or negotiation here?

Ms Kontou: There are differences in the positions of individual countries but there is also some degree of convergence on issues. For instance, on the issue of financing there are demands from developing countries from G77 for a very significant financial contribution from the developed countries. Not only from the EU, of course, because what is important is all the developed countries are contributing financially. There is a very strong emphasis on the transfer of technology and cooperation in technology development and deployment, not only from China but from a number of developing countries. When you look at the position that they have taken on the negotiations, of course, each of those countries is trying to bring forward the particularities of their development and what they have been doing already. For instance, China quite often says that there are certain particularities regarding the low carbon
development of their economy in the future that need to be taken into account. That is an important point. What we have proposed as the EU, and it has received a favourable reception in the latest negotiation sessions in Bonn, is what we call low carbon development strategies. What we are essentially saying to the developed countries in the context of these new carbon development strategies is that each of the major developing countries should list the actions that they intend to take in order to cut the growth of their emissions. We would like the biggest ones, for instance China, to indicate before Copenhagen what they are willing to do. Our intention is to see exactly what they intend to do, whether this is satisfactory in the context of an overall agreement, and also try and determine what are the financing needs for what they intend to do and how much of this can come from private sources, from the carbon market, or how much support from the developed countries will be needed.

Q445 Lord Hamilton of Epsom: I believe that if the Chinese did agree, taking the bottom range, to a 15 per cent reduction from today, they would not in any way be able to deliver it. The Chinese have not even started driving cars yet and that is one of their ambitions when they get richer. The whole business of carbon capture as a technology is in its infancy. We do not actually know what the costs are involved in this area. They are going to be quite substantial if you are going to talk about compressing CO₂ and pumping it into the ground or whatever. I really do not see how they could sign up to anything because, on the whole, the Chinese are quite honourable and they would not want to sign up to a target that they could not reach. When we last looked they were building a new coal-fired power station every four days, I do not know whether it is still every four days, and they put more Chinese coal into that that is even dirtier than the Australian coal they have been importing, so everything else is pointing in the other direction and we will see CO₂ emissions increasing in China and not reducing. There seems to be a total conflict between this desire to reduce CO₂ and the realities on the ground.

Ms Kontou: Our experience with China has been that they are engaged in the negotiations. They realise there is an issue and have set targets nationally to do things that go in the right direction. For instance, they have a set of targets for renewables, for the share of renewables in their energy mix, and they have targets on energy efficiency in their economy. They are collaborating with us on this near zero emissions coal plant. We cooperate them in other areas, for instance in the development of low carbon zones where we currently have a pilot project in China. The Chinese want to engage in the negotiations and they recognise that there is a potential for them and for us to move to a low carbon economy that would be beneficial also for jobs and growth in the future. Personally, I believe that there is willingness on the
part of the Chinese to engage constructively in the negotiations and we see them in our own cooperation. I have here for you, and I will leave it at the end of the meeting, a copy of the rolling work plan that we have adopted with the Chinese under our EU Partnership on Climate Change. Rosario or Lynn could describe for you all the kinds of projects we are doing under this Climate Partnership. This list has the different priority areas that we cover.

Q446 Chairman: That would be very useful. I think we are moving on to that in one of the other questions.  
Ms Kontou: In there we cover areas apart from the near zero emissions coal plant, which is very important because the Chinese use a lot of coal and will continue to use a lot of coal in the future. We are also talking about areas like energy efficiency and other kinds of cooperation. Would you like to add anything, Lynn or Rosario?

Q447 Chairman: That is our fourth question. If I could be slightly pedantic, maybe we could leave that to make sure we cover everything. That is an area we certainly want to explore. We have covered most of our second question except the very specific question of whether Europe would be prepared to offer financial and technological incentives to China as part of the deal. Are we there with the financial incentive offers?

Ms Kontou: I am sorry for repeating myself, but we are already cooperating with the Chinese in a number of areas that have to do with technology. For instance, for the near zero emissions coal plant there is financing that is already provided from the European Union and Member States, and the UK, as you probably know, plays a very good role in this context, in the first phase of this plant which is the feasibility studies at the moment. We are now looking within the EU and with our Member States to find financing for the other two phases of this very important project. Maybe later my colleagues would like to give you more detail. We are already working with the Chinese. As part of the deal financing and technological incentives will be a very important element, and should be a very important element, in Copenhagen. There will be further discussions on this among the Member States in order to prepare a detailed position on this in good time for Copenhagen.

Q448 Chairman: I do not want to extend this, but given the current financial position of European Member States is there really going to be anything much more on the table practically, in reality?  
Ms Kontou: Yes, I hope that there will be. Of course, I cannot speak for—

Q449 Chairman: For the budget.  
Ms Kontou: (There followed a discussion off the record)

Q450 Lord Crickhowell: Significant financing for individual projects is already taking place on the back of the European emissions trading. I declare an interest; I have a son who is heavily involved in that process going to and from China involved in those projects. The significant new development is the arrival of the Obama Administration in the United States. If we are to see major reform of the carbon market and transformation of the CDM and the development of international emissions trading that is very significant indeed. Having said that, there is a bit of a worry that the United States' targets and objectives, even having come on board because of political reasons, will be lower than those that you have described for Europe and that will tempt the Chinese into some kind of settlement that they feel is going along with the United States at a rather lower level than Europe will indicate. Clearly the reform of the carbon market, emissions trading and development is absolutely crucial as part of this. What is the European view about the way it is likely to go now that the United States is taking a positive rather than a negative line?

Ms Kontou: I fully agree with you about the importance of the CDMs for China and the fact that there is already transfer of technology and funds flowing from Europe into China via the Clean Development Mechanism. We estimate that about £700 million a year go to China from Europe in the context of the Clean Development Mechanism, so this is already very important both from the point of view of financing and transfer of technology. As Europe, we are trying to further develop and improve the CDMs so that they contribute even more to the environmental objective that we have set. We have suggested as a way into the future what we call the sectoral crediting mechanism that could apply to countries like China if they are willing to accept it. What this new idea that we are suggesting means is that instead of having individual CDM projects in certain sectors there is an agreement between the country concerned and the international community that once a certain benchmark that is set in agreement between the two is reached then any further emissions that are realised beyond this benchmark could be used for crediting purposes. This is a new idea that we are discussing now with countries in the context of the UN. It could be a way to further improve the crediting mechanisms that we have at our disposal and in the UN context. To come to the second aspect of the question on the United States, we are very encouraged by the signs coming out of the United States. What President Obama and the new administration have been saying is all very
encouraging. There is a change of climate in Washington, if I can use that expression. There is clearly a willingness to engage very seriously in international negotiations and a willingness to do their best to have agreement in Copenhagen. The US position, in particular regarding the targets, has not yet fully crystallised. There are discussions taking place now in Congress based on the draft Bill submitted by Waxman and Markey. This is now in the House and it will go to the Senate. We understand that the US Administration would like to see how things evolve in the House and the Senate before taking a final and detailed position on the targets in the international negotiations because they are trying to avoid what happened in Kyoto, namely that an agreement is signed but then is not ratified in Congress. As I said, there are positive signs in the US that the situation is developing and we are following developments there with great interest. What happens in the US will be very important both for other developed countries and for China and the major economies because what China has been saying so far in the negotiations is that they would like to see what the US is willing to offer in the context of international negotiations before they are able to say precisely what kinds of actions they would be willing to take in the context of international agreement. We hear the same not only from developing countries but also from other developed countries, for instance from Japan. I believe whatever is decided in the US will influence the level of ambition for the international agreement and this is why we are following developments in the US very closely. We hope that in the end there will be a very good outcome there.

Q451 Lord Hamilton of Epsom: Surely one of the other lessons from Kyoto was that everybody signed up to very ambitious targets but not many people have achieved them.

Ms Kontou: In the EU, as you know, we are implementing our Kyoto targets. We have different means at our disposal, such as the carbon market, but not only that, a number of other measures in the sectors that are not included in the carbon market that help us reduce our emissions. According to our estimates we will be able to meet our collective Kyoto target which is an eight per cent reduction compared to 1990. As I said, in the US there was no ratification of the international agreement and this is a situation that nobody wants to be repeated. The US Administration does not want to be in that situation and nobody else wants that because if we want an international agreement we want it to be effective but at the same time credible and the kind of agreement that will be ratified and will be implemented in practice.
CDM facilitation project which is the Commission’s biggest CDM capacity-building project worldwide. There we have been trying to extend knowledge of the CDM beyond the central government out into the provinces, out to project developers and potential participants in CDM projects to increase knowledge and capacity for using the carbon market. I think this will be very important when we are talking about further developing the carbon market in new directions. That project is also doing some studies and research work which is informing the government as they develop their position in the international negotiations, so they have been doing some work, for example, on how much technology transfer the CDM has actually delivered for China. The full list you can see. In addition to the list, which is publicly available under the rolling work plan, there are almost 100 projects which the Member States are conducting which our Chinese interlocutors prefer not to have in the rolling work plan because it is an EU-China rolling work plan so they do not see individual Member States’ projects as being part of that, although obviously they contribute to the same objectives. There is also cooperation on energy issues, much of which contribute to our climate change objectives and that is managed by DG TREN. At the EU-China summit on 20 May, DG TREN and DG Enterprise very much hope to agree further cooperation with China, for example on energy efficiency and buildings. The cooperation is continually being added to and new projects and conversations are always coming on-stream. In addition to that, we always meet the Chinese bilaterally in the margins of the climate change negotiations and in other fora, such as the G8 and the Major Economies Forum.

Q453 Lord Crickhowell: You have comprehensively answered the question about what the EU is doing at the moment and the help at every level. I think you have already indicated that you see technological transfer and so on, joint research and development, not least on CCS, as a pretty fundamental part of the likely cooperation. Can I ask you a question about the development of a climate change economy, possibly a climate change fund? Clearly if we are going to do what we want to get what we want we cannot rely on EU funds that come from the taxpayer or limited resources, we have somehow got to generate very large scale private sector investment in this whole area of climate change mitigation and in that case you have got to try and create a carbon market and a floor price for carbon and so on to generate that. Do you have any views in the context of discussions going on with China about the way in which one might go forward to create the carbon market which some people believe is the only real way we are going to get everything that we want in this field?

Ms Kontou: In the EU we already have a carbon market. Other countries are also thinking of setting up their own carbon markets. In the US there is a discussion on this. We believe it would be excellent if we could link different carbon markets that will evolve in the future with a view to creating at the first stage an OECD-wide carbon market and then at a later stage extend it further to other countries. I am making this distinction not because we would not like to have everybody linked to the carbon market from day one, but looking at it from a realistic point of view.

Q454 Lord Crickhowell: Australia, for example.

Ms Kontou: Exactly. Looking at it from a realistic point of view and other countries’ level of preparation and their willingness to become part of a carbon market. The sectoral crediting mechanism that I mentioned earlier could be a way to move gradually for the major developing countries from a CDM project-type basis to a sectoral crediting mechanism, so at some point in the future if they want to they can join the carbon market too. We see a lot of advantages in having a wider carbon market for financing, for creating a market that has more liquidity in it, a market that has greater potential for cost abatement opportunities. For this reason we believe it would be a good idea to link different carbon markets. In the climate and energy package we adopted recently we have provisions that will enable us to do this link if other third countries are interested in doing the same. I fully agree with you that as regards the question of financing we are looking at different sources of financing: private sector, the carbon markets and also public funding. When we issued our Communication at the beginning of the year we had commissioned a study by McKinsey where they looked at financing in the context of mitigation for climate change. It might be helpful to give you a copy of that study or the link so that you can find it. One of the conclusions of this study was that in the climate field in many countries, including developing countries like China, there is a lot of potential for mitigation action that would nearly be self-financing, for instance in the area of energy efficiency. So you can reduce your climate emissions at very little or zero cost and at the same time you are making investments that would be very good for your economy in general in the medium to long-term. In this study they have identified a potential for these kinds of opportunities. This is quite an interesting avenue to explore further. The low carbon development strategies that I mentioned earlier are a practical way for the different countries to think and also express what kinds of actions they think they could take in the context of mitigation in
order to reduce greenhouse gas emissions. It is a way of getting down to practicalities, to see what countries are willing and able to do, what is needed in order to help them achieve this objective, and this is why we have put forward this idea in the context of the negotiation. Do you want to add anything, Rosario, about what happened in Bonn regarding the low carbon development strategy and what was the response from the developing countries?

Ms Bento Pais: Thank you. I will go one step back to add one more element as regards the projects elsewhere in your question four and to complement what Lynn said. We are involved in the preparation of a Communication on CCS and I think you forgot to mention that, Lynn.

Ms Sheppard: We talked quite a lot about—

Ms Bento Pais: But we did not say where we are and it is important for you to know where we are in the preparations. Under NZEC we are finalising the first phase, it is divided in three phases. We are now involved in the preparation of this Communication for the CCS pilot projects in China. It is for developing countries in general but we are starting with China because it came out of the summit last year that we were going to coordinate better in this area. We will adopt it in principle in June. There will be an amount from the Community budget for it but the intention of this Communication is also to raise funds from public-private partnerships and engage the private sector to use the carbon market money to finance these projects. This is to complement the measures we are in partnership with China on and the importance of these projects for the low carbon economy and also to answer Lord Hamilton’s question on coal and China using so much coal. As regards the low carbon development strategies and the idea we put on the table in the negotiations, I have to say that it was quite well received from developing countries. From the emerging economies, and in particular Korea, we have some ideas on the table already on how to further develop this idea of the low carbon development strategies. From the Korean side there is a proposal on the table which matches this idea which is the question of having a registry where you register all your actions where the actions will be matched with finance and they will all be MRV-d, which means monetarily reviewed and verified, before they get the financing, so you have to show your action, what you intend to do in these strategies and what your commitments are in order to reduce your greenhouse commissions and they match that with finance. You have to prove that you have achieved the objective. Korea has already developed this idea of registries that matches with our idea. We are discussing how to work together with the ideas on the table, to have an international CDM consensus. This was one of the greatest achievements in Bonn in March/April apart from two or three other issues where we made progress. There is already a great understanding of what we intend with these low carbon development strategies but now, of course, the devil is in the detail and we need to fine tune that with the other ideas coming into the picture. It is something that is getting to be part of the jargon of the negotiations already.

Chairman: Thank you very much. I think we are probably going to have to bring this to an end. We have covered energy saving a little but I am particularly interested in the technology transfer side which is one of the big demands, as I understand it, from the other side, if you like, from developing countries, and how we achieve that. If it would be possible to provide us with any written evidence on that we would be very grateful indeed. Can I thank all of you for having given us your time. It probably seems a very superficial dip into one of the most important challenges that faces us but it has been most useful. Thank you very much indeed.
THURSDAY 7 MAY 2009

Examination of Witnesses

Witnesses: Dr Rina Ruth Kionka, Personal Representative for Human Rights of the High Representative for the CFSP, and Mr Aymeric Dupont, General Secretariat, Human Rights Unit, Office of the Personal Representative for Human Rights, European Council, examined.

Q455 Chairman: We are very grateful for your time. As I know you are aware, we are an EU Committee in the House of Lords, a scrutiny committee, and we are doing an inquiry into EU-China relations. In many ways there are three big areas that have come out. They are climate change, the development side in Africa, but obviously human rights has been a big area in terms of the European-China relationship, hence we wanted to have an evidence session particularly around that area. Can I just outline how this works. I always feel embarrassed doing this in other people’s offices.

Dr Kionka: You have a methodology, I understand.

Q456 Chairman: I have to give you health warnings, like on cigarette packets. This is a meeting on the record which allows us to take it as evidence. If there is anything that you want to say to us that you want off the record, if you indicate that is the case that is fine. We would welcome that if it helps us, but obviously that cannot be used as evidence in any way. What we will do is send you a copy of the transcript so if there is anything that is inaccurate you can amend that. That is it really. What would be very useful to us is if perhaps you could give us an overview to begin with. Clearly human rights has come into evidence sessions we have had back in London and since we have been here human rights has been a thread all the way through from two extremes in a way, one saying it is all window dressing and gets in the way of the real business but we have to keep the parliamentarians happy to that is a core part of European values and how we operate and, therefore, needs to be a core part of our relationship with China.

Dr Kionka: I sign up to the second one.

Q457 Chairman: I suppose we would be worried if you did not in your position.

Dr Kionka: Exactly. I would be happy to give an overview and then how China fits into that picture, but ask questions too.

Q458 Chairman: Yes.

Q459 Chairman: We are very keen to hear from you.

Dr Kionka: To start with your second assertion, this is the one that we promote and believe in. In fact, it is documented all over various documents on which the European Union bases the Common Foreign and Security Policy and that is a core value upon which the Union itself is built on, ergo it makes sense that human rights is also at the core of the Common Foreign and Security Policy. How this works is through a variety of instruments. I do not know how familiar you are with the human rights tools that we have available.

Q460 Chairman: I would assume not minimum knowledge, but little knowledge perhaps.

Dr Kionka: There are a number of tools that we have in the first pillar, Community tools, which I will not address because I assume that you have seen people at the Commission. The ones that I will talk about a little bit are the second pillar tools, the intergovernmental tools. There is one broad category of tools that we call the human rights guidelines. There are seven plus one of those and they cover a number of specific topics, like the death penalty, torture, violence against women, children in armed conflict, human rights defenders and so forth. There is one in addition that is worked out by the legal experts on international humanitarian law. This is becoming more and more important because of our crisis management operations that are increasing in number and because of counter-terrorism efforts. Those are the guidelines. Another set of instruments has to do with international organisations, mainly with the UN, so Geneva, the Human Rights Council and the Third Committee in New York. Another broad set of instruments has to do with the human rights guidelines. I will come back to China in just a moment as this is what you are really interested in. Then there is a whole number of other instruments, like political declarations, general political dialogue, that are raising human rights at the political level and in our ministerial meetings, summit meetings and so forth, or at a lower levels as well, declarations on executions and that sort of thing along the lines of the guidelines. Of course, there are the EU Special Representatives. There are nine Special Representatives. We do not have one for China, but they cover various parts of the world or countries.
and serve as a focus of EU policy across the pillars. Then there is my office, which is an instrument as well although it is attached directly to Mr Solana. I am his Personal Representative for Human Rights which means that I operate at his request and I do not necessarily reflect the Member States in that position. I am double-hatted, so where I do represent the Member States I am Head of the Unit also for human rights here in Council Secretariat. I am the human rights part of the troika for the Secretariat. Those are the second pillar instruments that we have available. How does China come into it? The major instrument is the dialogue. We have a dialogue with China and we have had one for 11 years. We have been talking for that many years every six months with the Chinese about a variety of human rights issues, including all the categories of rights, political, civil, economic, social and cultural. We regularly bring up a number of evergreen topics which include ratification of the ICCPR, the International Covenant on Civil and Political Rights. We always bring up the death penalty question. We always bring up the reform or abolition actually of this arbitrary detention system they have called re-education through labour, RTL. This is a system that the Chinese have by which they can pick up somebody for an administrative error, for instance dealing drugs or using drugs or trying to petition the government.

Dr Kionka: Or being a religious minority actively. The person picked up can be put in a camp, detained, put in prison for up to two years and there is no due process at all on this, it is completely arbitrary. The decisions are made on the basis of a local committee. This is another topic that we bring up regularly. Then we bring up other topics on the agenda that seem to have particular resonance at a certain time either for the EU or because of the political context. For instance, in the run-up to the Olympics we talked a lot about the freedom of the media, freedom of information. Right now we are preparing for a dialogue next week and we are going to talk about the one child policy under the right to health. We do this every six months with an official delegation. On the EU side it is a troika delegation, so the Commission, Council Secretariat and Presidency. It is led by the Presidency. Usually there are about 10, 12, 15 of us, something like that. On the Chinese side there are usually 25 or so representatives of various line ministries, the Ministry of Interior, State Security, Justice, and it is led by the Foreign Ministry.

Q461 Chairman: Just to get a flavour of it, are they people who want to be there or are they people who just get told to be there, they have got to do it and if they do not they do not get promoted?

Dr Kionka: (Off the record)

Q462 Lord Crickhowell: Over 11 or 12 years, what has changed?

Dr Kionka: (Off the record)

For a number of years there was very little change. There were probably incremental changes, little infobits that we would receive. The important thing deemed by the Member States was to keep talking and keep the process going and push it forward even if slowly and steadily. A year and a half ago during the Portuguese Presidency—it happened in Beijing—we had a real breakthrough in terms of the kind of information that we received, the kinds of assurances on progress, concrete evidence. For instance, we were given the most concrete timetable that we had ever been given for ratification of the ICCPR. We were given assurances by the Chinese side that EU diplomats would be able to monitor appeals of death sentences which was a brand new thing. There is always a field trip associated with sitting across the table and we were given assurances during that round that we could go to Tibet which had been a long-time request from the EU side. There were a number of important pieces of progress, especially in relation to the previous ten years. This was the round during the Portuguese Presidency, so it was the second half of 2007. We were well into the run-up to the Olympics. The time right after that we saw a considerable change in both the tone and results, even small results that we were getting. We saw some back-pedalling on a number of issues and we were seeing regression. This was in the run-up to the Olympics. That was the penultimate one. The last one that we had was also unremarkable. In content there was no visible progress but a bettering in the atmosphere. It was very friendly, very open, but not too much substance.

Q463 Lord Crickhowell: Are these meetings publicised? How much does the world know about them?

Dr Kionka: After each round we write a press release which is not extremely content rich but is an indication that it happened, these are the topics that we discussed, and there is always a sentence characterising the atmosphere at the beginning, the part that says “open and frank” or “open and constructive” or “less than constructive”. We characterise it and give a list of the topics we have covered and talk about when the next one is going to be. There is not a lot in terms of content but it is intended for civil society and for people in China to understand what it was we talked about.

Q464 Chairman: If you like, is the moral traffic one-way or are we in a sort of Cuban-Soviet system where they throw back the inequitable rights of the workers? Obviously it is not that, but does it go both
ways or is it one-way traffic? What agenda do the Chinese have here? Is it just to listen and cooperate or do they have counter requests or demands?

Dr Kionka: They certainly come with counter requests and demands. This is becoming an increasingly pithy part of the dialogue.

Q465 Chairman: It presumably makes it more meaningful, does it not?

Dr Kionka: It does and it keeps it more on a give and take level which is very important as a method because that is what the Chinese want. The Chinese side is very interested, as are we, in having an exchange and approaching this in a constructive manner. The Chinese side is always very careful to remind us that this is something that is done on an equal basis and in a spirit of partnership and so forth.

Q466 Chairman: What do they ask for? What is their pitch?

Dr Kionka: It is the flavour of the day. It depends on what is happening in European politics or social politics. During the cartoon crisis we had questions about religious freedom and freedom of expression. When my own home country transferred a Soviet monument we had questions about the role of history, the war and so forth.

Q467 Lord Crickhowell: You have talked about the information getting to the organisations within China. I have asked, or suggested, in one or two of the exchanges we have had would you agree that perhaps one of the most important results of this, because clearly progress is going to be very slow, is that in a global world, a communications world particularly in which even with the efforts of the Chinese Government to restrict access to the Web and all these other things, the fact that changes are going on and so may have the most results in their effect on internal opinion in China and in encouraging the changes of attitude and the political pressures from in China which will eventually, perhaps after a very long time, bring about change. Do you feel that is an important aspect? The counter argument we have heard, and we have heard it from experts we have just been lunching with, is that China does not really like being moralised to and lectured by these Western powers and “who are they to tell us how to run our affairs” and that it is positively counterproductive. There are the two sides of the argument, I suppose.

Dr Kionka: I do think that part of the calculus is to give the information to the society in China. Ultimately I think we have seen this from Europe’s own history. If there is going to be change—

Dr Kionka: Yes, it has to come from within the society. The European Union has no interest in overturning the Chinese Government, this has got to be clear and is the basis of the discussions that we have. That having been said, we think the free society and free market model—free market may be less what we are talking about here—can be very seductive and this is part of the idea that we are trying to put across, that China is a modernising society, a modernising country, it has undergone tremendous change in the last 30 years. If a country wants to modernise, part of modernisation is rule of law, paying attention to respect for human rights.

Q469 Lord Crickhowell: Rule of law, which is important for trade and everything else.

Dr Kionka: Absolutely, investment, climate, everything. Everything is based on the rule of law. A corollary is human rights as codified in law. This is the idea that is behind the whole thing, if you will.

Q470 Lord Crickhowell: Would I be right in feeling that probably the Chinese, because they have been doing it for 11 years and realise it is part of the process they have got to go through if they are going to work co-operatively, are happier about this than the sporadic and occasional outbursts of moralising on particular issues either by particular ministers or particular individuals where it is some sensitive issue particularly on things on which they are very sensitive, like the Dalai Lama or Tibet or whatever it may be? On the whole is this something they accept in a way where they would probably be more cross about the public expressions of disapproval for particular episodes? Is that so or not?

Dr Kionka: I think that is a fair characterisation, but I would not apply it only to China. (Off the record)

Q471 Lord Crickhowell: There are different approaches from within Europe. As someone put it when I said the northern European countries, the Protestant countries, one of our own people said, “Oh, you mean the wine producing countries and the non-wine producing countries”.

Dr Kionka: The wine versus the beer.

Q472 Lord Crickhowell: The strong moralisers being the non-wine producing countries of the north which tend to raise these issues more vigorously than perhaps the wine producing countries of the south. Is that true or not? It was very interesting that at the breakfast we had this morning the one person who did come in very strongly on this issue was from one of the northern Members of the Community.

Dr Kionka: I would not make that characterisation.

Q473 Lord Crickhowell: You do not think there is that distinction?
Dr Kionka: No, having experienced presidencies from all parts. I have been doing this for five or six presidencies.

Q474 Lord Crickhowell: It works equally?
Dr Kionka: I would say equally. (Off the record)

Q475 Chairman: You mentioned the one child policy earlier on. Is that something that you really go in and talk about?
Dr Kionka: Not so often, but we do try to balance the rights that we address. We try not to talk only about civil and political rights but also about economic, social and cultural rights. We have questions about minorities, and the Chinese do to us as well. That is why we talk about issues like access to healthcare, which is a problem in some rural areas in China, and part of that is this policy. I would not say this is a leit motif of any sort, but it is coming up. I mentioned it because it is next week.

Q476 Chairman: In terms of the religious minorities, and I can see why they see it as an issue here, clearly in western China we would see it as a particularly growing issue with them, is that a discussion of the deaf to the deaf? Do they recognise there is an issue within China on religious rights or is it just something that is technically dealt with in the constitution? I am thinking particularly of the Islamic issue in the west of China.
Dr Kionka: In Xinjiang. This is possibly the hottest topic that we touch in terms of controversy potential. This and the related issue of minorities are both cross-cutting with Tibetan questions, the Dalai Lama questions. There are two major issues. One is the Muslim population in Xinjiang in east Turkistan and the other is the question of Chinese Buddhism versus Tibetan Buddhism. This is something that comes up almost every time in some way, shape or form. The question of religious freedom is not only confined to those two populations, there are a number of what from our point of view would be considered traditional Western churches that have a lot of trouble in China for engaging in proselytising evangelistic activity. This includes all kinds of standard Western churches like the Catholic Church and various denominations of the Protestant Church, especially Baptists and the Mormons, some of the Adventists, who have a lot of trouble. They are thrown into jail and so forth. How the Chinese side reacts to this, how would you characterise this?
Dr Kionka: These are unregistered churches, house churches.

Q477 Chairman: I was asking about the gender issue if you are looking at broad rights and social rights. Is that something that there is a dialogue on or is China better than the West in terms of its gender discrimination?
Dr Kionka: We handled this last year during the dialogue because it was a priority of the French Presidency. Specifically we talked about domestic violence and violence against women. The whole broader question of equal pay for equal rights we have not handled and I do not see this as a problem. They are probably doing better than we are.

Q478 Lord Crickhowell: I think someone has told us over the course of the last 48 hours that they felt there had been cases where the exchanges about particular issues had meant that individuals had perhaps had sentences altered or had not been condemned. Occasionally these exchanges do seem to have consequences at the individual level. Do you feel that?
Dr Kionka: I do think so. I will make a couple of general remarks. We do get the impression that talking about these individual cases, both in the context of the dialogue as well as handing over the list, helps the situation of these people who are detained. Maybe they are released earlier, maybe their conditions of detention improve, maybe they have access to a doctor where they had not before, maybe they receive family visits where they had not before, and so forth. This is something we have understood from our contacts with NGOs who are in close contact with the prisoners.
Dr Kionka: This is a foundation that works only on human rights and lists human rights defendants.

Q479 Lord Crickhowell: Would you say a word about the role of the NGOs?
Dr Kionka: Sure.
We work very closely with the NGOs in preparing the dialogue and carrying it out as well. In the preparation phase we talk with NGOs, both international and those focused mainly on China, to get their input. Not only those, there are others who provide information as well. Much of this information forms the basis of the things that we will ultimately say or ask of the Chinese. We debrief these same NGOs afterwards so they know what has happened, where they can go from here. With all of our dialogues we have a civil society element and it differs from dialogue to dialogue depending on the context, the format, the history and so forth. With the dialogue on China we have a legal seminar that is
Are there distinctions in the human rights treatment you have got the vast area of remoteness and poverty. Industrial developing China around Beijing and then obviously very visible places in commercial and approach or greater freedoms? You have got the so on. Do you find that there are differences of different provinces, with different governments and so on. China is a very large place with more we talk about China the more we find out about my perspective. We keep talking about China and the Lord Crickhowell: Q480 Academy of Social Science.

On the Chinese side it is the Chinese Dr Kionka: contractor, a network of academics. last year the responsibility was handed over to a to be organised by the European Commission and to topics on the agenda. This was something that used in that if their area of expertise happens to be one of the topics on the agenda. This was something that used to be organised by the European Commission and last year the responsibility was handed over to a contractor, a network of academics.

Dr Kionka: On the Chinese side it is the Chinese Academy of Social Science.

Q480 Lord Crickhowell: Just one final thought from my perspective. We keep talking about China and the more we talk about China the more we find out about the differences. China is a very large place with different provinces, with different governments and so on. Do you find that there are differences of approach or greater freedoms? You have got the obviously very visible places in commercial and industrial developing China around Beijing and then you have got the vast area of remoteness and poverty. Are there distinctions in the human rights treatment or is it pretty standard across the country? Dr Kionka: I am not a China expert, I am actually a Soviet expert. What does come out in the context of this dialogue is that there is a real difference in implementation between how things are implemented in urban areas and how it is translated into action in rural areas. It is much more difficult in rural areas for people to enjoy their rights. There is a vast system called the petitioning system which is an historical system for China by which people make petitions to the regional or central government on certain specific issues of concern to them if they feel they are not getting justice at home. One big topic of conversation that we have had with China lately has been the problems with the petitioning system. Petitioners are picked up before they even get to central government or regional government. This is because it is thought that the local authorities in the rural areas have no interest in having people complain to the regional or central government about why they are not having their rights that are guaranteed by law and the constitution passed out to them. This is a very concrete expression of the fact that there is a difference between the rural and the urban.

Dr Kionka: This situation is very frustrating for the central government.

Chairman: I think we are going to have to leave it there as we have to get the Eurostar back to the other side of Europe. Thank you very much indeed for giving us your time.

Supplementary memorandum from Dr Riina Kionka, Solana’s Personal Representative for Human Rights, European Council

On the system of Re-education Through Labour (RTL), the EU has, in the past, raised its concerns on the use of the scheme to incarcerate drug dealers, members of religious minorities such as Falun Gong practitioners, or petitioners seen as trouble makers for the public order. The EU was particularly concerned at the fact that there was no due process ensured at all with the RTL system.

On religious freedom, my assessment is that China handles the issue of house churches quite differently than Islam or Tibetan Buddhism. In that sense, China might take a more relaxed approach towards house churches and individuals praying at home than towards Tibetan Buddhism in Tibet or Islam in Xinjiang where the issue is, to some extent, linked to what China perceives as threats on its territorial integrity.

On the contacts with the “outside world”, the Council has a quite well-established communication with the European Parliament. We have confidential briefings and debriefings to Members of the European Parliament before and after each round of the dialogues. We also involve civil society in Brussels and based outside of Brussels. NGOs provide us with briefings before the dialogues and we discuss with them the issue individual cases which are put on the list we hand over to the Chinese authorities. We have an understanding, from the research undertaken by NGOs such as the Dui Hua foundation, based in the US (San Francisco), that the people who have been put on the list during bilateral dialogues, including the EU-China Human Rights dialogue, were released earlier than other political detainees, although, generally, political prisoners are less prone to receiving sentence reductions than other prisoners. We therefore believe that the list of individual cases can improve the situation of those individuals for whom the EU has particular concerns.

On the issues that our Chinese counterparts might bring, in exchange, during dialogues, let me for example mention the issue of minorities in Europe, whose rights are closely scrutinized and who can therefore become a topic for discussion during our dialogues. This was the case during the last round of the dialogue, where the situation of Roma communities was discussed.
Last but not least, on the legal seminar organised back-to-back with the Human Rights dialogue, the topics covered last May were disability rights and access to Justice. On the EU side, the seminar, funded by the European Commission, is managed by the University of Galway. On the Chinese side, the Chinese Academy of Social Sciences has the lead. I may add that we take advantage of our missions to China to meet with a number of NGOs working in China on a number of issues, including those NGOs participating in the legal seminar.

I hope these elements will bring additional food for thought for the House of Lords inquiry on “the EU and China”.

16 July 2009
Perhaps we can go straight to the Professor Song: questions? first or would you like us to go straight into you would like to say as a short opening statement doubt there will be supplementaries. Is there anything the sorts of questions we would like to ask, though no That is where it fits in. I think you have had a copy of We are hoping to visit China in the summer as well. Council and some of the people on think-tanks there. visited Brussels to talk with the Commission and the European-China relations. A number of us have as I am sure you are well aware, that we are doing into not think that is the case. This is part of a major study , you will have an opportunity to amend it if you do not think that is the case. This is part of a major study, as I am sure you are well aware, that we are doing into European-China relations. A number of us have visited Brussels to talk with the Commission and the Council and some of the people on think-tanks there. We are hoping to visit China in the summer as well. That is where it fits in. I think you have had a copy of the sorts of questions we would like to ask, though no doubt there will be supplementaries. Is there anything you would like to say as a short opening statement first or would you like us to go straight into questions? Professor Song: Perhaps we can go straight to the questions.

Q482 Chairman: That is fine. I really would like to start off on the broader strategic side and ask you how does China make its strategy and policy on Europe? Which individuals and agencies decide long-term and day-to-day policy? What is the role of institutions in the public realm, like think-tanks, academia, the media, and indeed public opinion and public pressures? Professor Song: The Foreign Ministry does the basic daily work on China’s foreign policy decision-making. Under the Chinese system most of the important strategic decisions are made by the Politburo or the Standing Committee. They are the top leaders. I am not sure but I think of the top people, like Hu Jintao or Wen Jiabao, Wen Jiabao takes care more of Europe and Hu Jintao takes care more of the United States, but it is not clear. For European affairs, it should be the Foreign Ministry but, according to the 1985 Agreement, it is the Ministry of Commerce which has more responsibility, especially for EU-China programmes or agreements. The argument from many Chinese is that one Ministry should not handle everything. I know this is a big argument by the Ministry of Education, because the Ministry of Commerce people know nothing about higher education, so how can they take care of it? Since 2003 or 2004 people have been talking about upgrading the 1985 Agreement. Turning to the role of institutions in the public realm or think-tanks, they have started to have a more important role. As you know, we started an EU-China think-tank roundtable in 2004, which now meets annually. It is not very easy to define think-tanks in China. For instance, the China Institute of International Studies and the China Institutes of Contemporary International Relations, are basically governmental institutions or think-tanks. They have a certain channel to the top leaders. Probably ten years ago the universities had a very small role but they are now more active, especially in academic research. European Studies has developed very fast over the past ten to fifteen years. Before 1995 there were only six centres in China for European Studies, five in the universities and one in the Academy of Social Science. Currently, to my knowledge, there are something like 30 research centres for European Studies in China, most of them in the universities. We also have our own policy report research project. Sometimes we have a different opinion to the Government but in most cases they will come to us to seek our opinion. I think the role of think-tanks and universities is still limited because the basic governmental decision-making structure comprises a very small group. There were arguments last year about the postponement of the China-EU summit; not many people know how it was decided. There is debate about this in China. The role of public opinion is not very strong, but it is becoming greater, especially through the internet. The Chinese Government has to take into account the access people have to the internet. There is more and more in the newspapers, especially the local newspapers. We know there is a big debate, and it is an interesting phenomenon. Some newspapers, such as those in Guangdong, always have interesting ideas, sometimes anti-government ideas but interesting ideas, also in the China Youth Daily in Beijing. The especially interesting thing is the internet.
Q483 Lord Crickhowell: Thank you very much, professor, for that introduction. You made it clear where the really crucial strategic decisions are taken, but you have confirmed an impression that we received in Brussels last week that the Internet and local newspapers and so on are beginning to be a significant factor, but when we come to the carrying out of policy, China is a very large country, the provincial regimes are quite important, and we heard that individual decisions on, for example, climate change policy, or in another area which we looked at in Brussels, aid and overseas investment in Africa, there the decisions are very much being taken at a more local level or by individual businesses or by individual provinces. Do you agree that there is this difference between the key strategic decisions and the way in which policy is actually being carried out?

Professor Song: Yes, I agree with that. Basically, it depends on different kinds of areas. If you look at development aid, if the aid comes from central government, local government does not have a very strong role, but when it comes to overseas investment, local government has more power. It depends. On the environmental issue, the basic policy comes from the centre but the problem is implementation at a local level; there is a big gap.

Q484 Lord Anderson of Swansea: Professor, there are obviously in any country the formal structures and there are those structures where the real decisions are made. In the US we know that we can talk to the members of the National Security Council, the State Department, and think-tanks are important. The difference in your country, of course, is the leading role of the Party and particularly of the Standing Committee of the Party. Given that Western policy-makers want to penetrate to the areas where the real decisions are made, in your understanding, how great is the access of European Union policy-makers to the Standing Committee as opposed to, say, the “front men” of the Ministry of Foreign Affairs?

Professor Song: That is related to how important European Union affairs are to the Chinese, especially the Chinese Government. There is a story that the top leaders directly invite certain individuals, academics, professors, to their office or to have dinner with Hu Jintao. I know of several occasions related to US policy, US-China or Taiwan. That is what they concentrate on. I have not heard of any European experts having this opportunity. It basically depends on the area.

Q485 Lord Anderson of Swansea: I am not just talking about experts. I am thinking rather more of Ministers of European countries. Do they have direct access to members of the Standing Committee or do they just meet the formal structures?

Professor Song: You mean on the European side?

Q486 Lord Anderson of Swansea: Yes.

Professor Song: No, I do not think so. The Americans have a so-called “hotline”, so there are phone calls, that kind of thing. I do not think they can go directly to certain individuals on the Standing Committee, no. That is very politically sensitive. That is my understanding.

Chairman: That is very interesting.

Q487 Lord Jones: Professor, can you say what you consider to be the main successes of the relationship in recent years? How would you characterise the strategic partnership between the European Union and China? Wen Jiabao said strategic meant “overall, long-term, stable nature that transcends differences in ideology and social system.” Is this a fair characterisation of the direction the partnership has taken since 2003?

Professor Song: Yes, the strategic partnership is still being debated in China. Not everyone agrees with it. There is official discourse, not just in China but also in the European Union. If you look at all the joint statements of the summit, they always talk about “comprehensive strategic partnership”. Personally, I do not fully agree with this. The problem about Wen Jiabao’s definition is that it is too broad. The basic issue is that, although both sides talk about a comprehensive strategic partnership, it seems to me there is no common understanding of what the strategic partnership really is, what the mutual strategic interests are. There is no clear definition. I think that is the problem. On several occasions even during the EU-China think-tank roundtable, I personally strongly suggested that we need a dialogue on the strategic partnership and what it really means and what the common or mutual strategic interests are. It is not very clear. I think that is the problem. Some people also argue that we have no common strategic interests. I have published a paper on this. It seems to me that on the Chinese side, working with the European Union strategically is very important for China but I am not sure what the strategic importance for Europe is of working with China. We have heard nothing about this. For China the most strategically important matter is China’s domestic development, not just economic but also social and political development. It is very important for China to work with the EU in this area. In those terms, the EU should be more important for China than the United States but, as a strategic partner, we need to define our mutual strategic interests, which are not clear. Over the last ten to fifteen years EU-China relations have
developed very fast. I would even define it as the best bilateral relationship in China’s external relations compared with US-China and Japan-China. It is stable. Economically there are mutual benefits. Politically it is quite stable. Still, there are some problems, especially over recent years. Some would argue that post 2006 EU-China relations have been troubled, especially with the big problem there was last year. That is also related to a common understanding of our relationship, which is not very clear. The United States is always the first priority. We need to work on finding the common interests of the EU and China. That is my basic understanding of this.

**Q488 Lord Jones:** Which voice do you think China listens to most in trying to understand what the EU’s strategic approach to China is?

**Professor Song:** That is also my argument about the EU-China strategic partnership over the last five or six years. You could say we started to talk about this in 2003, but it is still not very clear. That, I think, is the problem. That is also the argument because most Chinese leaders or ministers when they come to Europe say, “We have no fundamental strategic conflict”, so my argument will be, where is the fundamental strategic interest?

**Q489 Chairman:** If you were sitting on the European side of that argument, Professor Song, what would your answer be?

**Professor Song:** That is a problem. I am not very clear myself. I have tried to find the most important strategic elements for EU-China relations for the EU. Some Europeans argue it is the so-called new world order or global governance, but that is too broad or too abstract. That is the basic thing. China’s major strategic concern is the neighbourhood policy; its neighbours, regional security, issues to do with Taiwan. Those are the strategic interests between China and the United States. That is very clear. The strategic interests between China and the EU are still not very clear. From the Chinese side, I mentioned that domestic issues are very important, but I do not think this importance has been recognised on the European side.

**Q490 Lord Crickhowell:** What you say is interesting. We heard very clearly the message in Brussels last week that at the highest level of the Commission and so on a great deal of attention is being paid to China and its importance. Clearly, the recent financial crisis, the world economic crisis, which has brought China right to the centre of the stage, is one aspect, but we also heard very strongly the significance of the whole development of climate change policy and the vast technological change and partnership that goes with it, the importance both for Europe and for China. So there are clear areas that are emerging, and even on the area of security and so on, some of us pressed very hard for the significance of China’s role or potential role—important to Europe, as for the United States—in Afghanistan, in Pakistan and in the other troubled regions of the world. We very much got the picture that Europe recognises the crucial significance of China. Indeed, that is why we in this Committee are undertaking this inquiry.

**Professor Song:** Yes, I agree that EU-China relations are important, but what we need to ask is: is it strategic? What does “strategic” really mean? That is my argument with my Chinese colleagues. I prefer to call it a collaborative partnership. The Solana Report was the first time the European Union talked about a strategic partnership with China, but that is only in security terms. Thursday 2006 European Commission policy paper and the Council’s conclusion only mention global security. So is the security area for EU-China strategic partnership or not, or is it just collaborative? Formerly we have called it a comprehensive partnership. Even the Chinese Ambassador talks about engagement, comprehensive partnership and strategic partnership. He sees it as a step forward but I do not see any great difference. Why are we talking about a strategic partnership? If you look at the Solana Report, it mentions the EU-China strategic partnership, but it is not at a very high level. Transatlantic relations come first, then EU and Russia, then the strategic partnership with Japan, Canada, China and India and “all others who share our common values”. We can definitely not say that China and the EU share common values, so what is the real meaning of the strategic partnership? That is the problem. We need a real definition of EU-China relations and how we work together. The idea of a strategic partnership has a negative impact on the expectations of both sides. That, I think, is the problem.

**Q491 Lord Anderson of Swansea** Professor, some commentators talk of the development not of a G20 or of a G7, but of a G2 between China and the United States. Given your European formation, is that something you recognise? How significant are those in your country who talk of the first concept of the development of this G2 relationship?

**Professor Song:** I think most of the Chinese, especially Chinese scholars, will not accept this concept of a G2. G2 is a term used by the Americans. Some Chinese even argue that it is a conspiracy to ask China to pay more; that is the Chinese understanding. It is not good for China! We have to be careful. That is the so-called conspiracy theory. We do not follow the American notion. We
need to have co-operation, a working relationship, not a special one.

**Chairman:** I think you will find that answer has resonated with the Committee very well.

**Q492 Lord Hamilton of Epsom:** If we could just continue with this concept of G2, I understand why China might not want to sign up to that concept but if there is a de facto G2, a very close relationship between the United States and China, the worry in Brussels last week was that deals would be tied up between China and America which would then effectively be imposed on the rest of the industrial and commercial world. Do you think that might happen?

**Professor Song:** Yes. It is also related to how the Chinese look at EU-China relations and US-China relations. US-China relations are very important with direct reference to China’s national security, because China still regards itself as not fully accepted by the outside world, so the working relationship with the United States is very important. Economically and financially, the Chinese still believe the US dollar is more secure than other currencies. There is also an argument in China that EU-China relations, in the long term, especially on domestic issues, are more important for China. That is also related to the G2. A G2 in certain locations probably makes sense. In the financial crisis, China is the biggest holder of US Treasury bonds. That shows there is financial inter-dependence, but in the long term the most important issue for China is how to deal with its domestic issues, economically, structurally and socially. That is the discussion among the Chinese. I am writing a paper: the EU as a social power. The social power aspect is more important for China, because China has a lot of problems, and the European experience is more relevant to China than the American one. In the long run we need to work more closely with the European Union on social security issues, medical care, regional policy and all those kinds of things. What is also very interesting is that politically the Chinese for the last ten or fifteen years have looked very closely at Europe and the European models—I will not say the EU model but European models—especially on social security issues, and also the Labour party and the Social Democratic party. Before the 17th Party Congress the big argument within China was about democratic socialism. In the long run that is also the debate. There are debates among European scholars, scholars of European Studies and American Studies.

**Chairman:** That is very interesting.

**Q493 Lord Selkirk of Douglas:** May I ask the professor, do you think the Chinese leadership regard the EU as growing in significance? With regard to the relationship, may I ask you about the main areas of difference? The abandonment of the 2008 Summit was seen as a serious indication of difference. Was this evidence of a specific problem or set of circumstances or of a relationship encountering serious difficulties? If I may echo a question you have already been asked, what do you see, if you had to summarise, as the main successes of the relationship between the EU and China?

**Professor Song:** I do not know about the Chinese leadership, I know more about the academics. That is also related, I think, to the Chinese understanding of the EU as a global economic power but not yet a global political or security power. China has always had a dilemma about whether to deal with the EU or with EU Member States, because the EU is still not a real global actor, politically or on security. Economically also it is not a full global actor because when China deals with the EU, it is basically on trade in Brussels. Even on investment we need to deal with the Member States, not Brussels. Lots of people hope the EU will develop fast. The Chinese understanding, rather than policy, is that a strong EU would be good for China, especially as a counterbalance to the United States. Things are gradually changing. We need a strong partner, but the EU is not yet a strong partner. If you look at EU-China relations, I think the most successful aspect is the economic cooperation, which is not just about trade. The EU is the number one trade partner of China and the EU is also the number one provider of technology to China. That is, it seems to me, more important for China’s economic development and also investment than the amount of FDI. If you look at the amount, the EU only ranks about fourth, but EU FDI to China, the investment in projects, is much bigger than that of the United States or Japan. That is economically also very important for China. The economic picture is quite good, but other issues are not very clear. We have a political dialogue but we also have a political problem. The major problem is probably the human rights issue or the Tibet issue. Even if you look at last year’s problems, they were basically related to this. The postponement of the Summit was because of this. It is also related to the problem of EU level and Member-State level. Last year the basic problem was between China and France. The Chinese argument is that France has hijacked the EU. That is still the argument.

**Q494 Lord Inge:** I would like that recorded!

**Professor Song:** China can deal with this in a more skilful way but it is very interesting if you look at the events of last year. Something is not clear, even now. It was the European Union which openly stated that China decided to request for the postponement ahead of China. The European Union stated it first—I do not know why.
Q495 Chairman: That is an interesting view. Can you explain that to us a little more? Professor Song: Yes. We know about the negotiations between the Chinese and French governments around Sarkozy’s meeting with the Dalai Lama. I am sure that was a big pressure. The Chinese side probably also threatened to postpone if the meeting went ahead. I know the Chinese Foreign ministry had talks with the French Embassy. Then the EC delegation also got involved. It was still in negotiation. My argument on the Chinese side is that the Chinese Government assumed that if there were strong pressure, Sarkozy might cancel the meeting. If that is correct, the Chinese would not say publicly “We will cancel or postpone” if it was still under negotiation, but the European Commission openly said, first “The Chinese authorities decided to request for the postponement.”

Chairman: Thank you. I am sure we will include in our report the fact that France has hijacked the European Union! That will be brought up as one of our comments.

Q496 Lord Crickhowell: We have gone a long way towards addressing the question I was going to ask about the difference between China’s approach to individual countries and China’s approach to the EU, and you have laid emphasis, very interestingly, and clearly correctly, on the importance of trade, technological exchange and so on, as being the crucial factor in the relationship. We get two different pictures from within Europe about the way in which the relationship works. Yes, of course, as you have emphasized, on particular areas the individual relationships between European countries and China are very significant but, on the other hand, we get a message—we certainly got the message when we were in Brussels—that China actually understands the EU very well. It knows exactly how the EU works. It has made a lot of effort to discover how it works, and it is devoting a great deal of time and effort to actually making the relationship with the EU as a whole effective. There is a very large Chinese representation in Brussels. The top Ministers make a point of going to Brussels when they come to Europe. There seems to be a recognition that Europe working as one—getting its act together, which Europe is not very good at—is important. Could you comment a little further on how you see China addressing Europe as a whole and the individual countries, and which do you think are the most important of the European countries from China’s point of view?

Professor Song: That is related to what I was saying about the 2003–04 so-called EU-China honeymoon. After 2005 you could say the honeymoon was over and normal life started and we had competition and co-operation. I think the problem on the Chinese side in 2003 and 2004 was that they over-estimated the role of the European Union. They assumed that the European Union was a strong, supranational entity they could deal with directly, but that is wrong. Later, as you have mentioned, we put lots of resources into understanding the European Union. It was assumed that the EU would lift the arms embargo in 2003 and 2004 but the reality is that the EU is not so strong, so we have to work at European level with both the Commission or the European Parliament. The Council is not so easy to work with, although they are still working with them. As you said, it is a big delegation but it is smaller than the Chinese Embassy in the United States. In China only two embassies have a special group working with the Parliament, and that is the Chinese Embassy in Washington and the China Mission in Brussels. We need to work with the European Parliament. China is very skilful at playing the game, but it seems to me China has no choice. The only way to deal with the European Union is to deal with both the European level and the Member States. Member States in certain areas are more important than the European Union. That is the current understanding. There was also a debate several weeks ago when we had a seminar in the China Mission with students from the College of Europe. Some argued for a G2, some asked why not a G3? My argument is, who would be the third? Could it be the EU? That is a problem.

Q497 Lord Crickhowell: Which of the European countries does China devote most attention to? Germany, France, UK are fairly obvious candidates, but is there a particular relationship with any one of them that is stronger than the others or not?

Professor Song: It is hard to say but it seems to me, if you look at economic relations, we have more with Germany. Germany is the number one trade partner of China among the EU Member States. I think we may have more of a non-economic relationship with the UK, but actually you cannot compare it with Germany. Germany is more focused on the economic relationship, even on the Chinese side. The Chinese pay more attention to the UK, I think, than to other EU Member States. There is a debate about how to deal with France. You may remember that in 2006 we had a conference here where we had a debate. It was said that China likes to work with Germany because they always follow the rules. They do not always like to work with the British because they criticise China, but if you do a deal with the British, you can always trust them. Be careful in working with the French, because they always say one thing and do something else. I think that is the perception from the Chinese side. Sometimes there is a problem with other Member States, especially the smaller ones, because they lack expertise. In countries like the Czech Republic, there are no China experts, even in the Chinese Embassy in Prague. How can they deal with
China in those circumstances? One of my students used to work in Brussels at the China Mission. He has been to Prague to help the Chinese Embassy people to deal with the presidency.

**Chairman:** How interesting.

**Q498 Lord Anderson of Swansea:** Professor, one test of the comparative importance attached by your country to the European Union and the individual countries is the hierarchy of ambassadors sent from Beijing to Brussels, Berlin, London and Paris. Are you able to say what is the batting order—I am not sure what the Chinese expression would be—in terms of the comparative importance, the prestige, the weight, the status? Where does the Chinese Embassy to the European Union rank compared with those to the individual countries?

**Professor Song:** This is very interesting. We have five Deputy Minister-level ambassadors in Europe. That is probably the most: Germany, France, UK, Russia, and the China Mission to the EU. The China Mission to the EU used not to be the Vice Minister level; this started in 2002. There used to be one embassy with two titles. Now they are separate: now we have two ambassadors in Brussels, a Belgian one and one to the China Mission. One used to deal with both; now they are separate. Since 2002 the head of the China Mission has been a Vice Minister.

**Q499 Lord Anderson of Swansea:** Of the five, which is deemed to be the senior and the most prestigious?

**Professor Song:** I think among the five it is difficult to say but lots of people argue that probably currently it is the Ambassador to the EU who is the most important person. He used to be the Secretary to Wen Jiabao in charge of external relations. The argument is that Wen Jiabao put this person in charge of the China Mission to show his view on the importance of China with the EU, but the Chinese Ambassador to the UK was always the top one among the European ambassadors.

**Q500 Lord Inge:** A lot of my question has already been answered but perhaps I could just talk about one bit of it, which is the Common Foreign and Security policy. How seriously does China take Europe’s Common Foreign and Security Policy?

**Professor Song:** The Chinese side cannot take the CFSP very seriously because we do not really know what it is. That is the problem. In terms of EU-China relations it also refers to EU-China security cooperation. The military exchange is not China-EU; it is China and EU Member States. We have no project at European level. The argument is, is there a real CFSP after ten years? Probably the European defence policy is more relevant because with the CFSP the argument is, is it possible for the EU in the near future to have a coherent foreign policy? The answer is no. That is related to this.

**Q501 Lord Inge:** Can we go to the security policy? Are you saying China does not take Europe’s military capability seriously or are you saying also that it does not understand what the policy is?

**Professor Song:** Basically, it does not understand what the policy is, especially the external part. We know that Europe as a whole has no military capacity. It is the EU and NATO, and in terms of externally, that means China and EU co-operation in this area. So there is almost none. There is also the argument about Iraq and Afghanistan: is it the EU or EU Member States? It is NATO, not the EU. Where is the EU?

**Q502 Lord Inge:** Do you keep an eye on NATO?

**Professor Song:** Yes. China has informal contacts with NATO. The Ambassador in Brussels has met the NATO people on several occasions, but it is still on an informal or unofficial basis. The argument from the Chinese side, especially with the military or foreign affairs people, is that there is an arms embargo.

**Q503 Lord Crickhowell:** This is a minor point perhaps, but China has, quite interestingly, sent a ship to the Indian Ocean to help to deal with the piracy problem and is working quite effectively alongside the European-led initiative. Was there any particular feature or aspect of policy that led China to do that? What do you think the objective was? There is not an obvious immediate Chinese interest.

**Professor Song:** First, there is a clear Chinese interest there. For the last four or five years the protection of Chinese economic interests overseas as well as the security of Chinese citizens has been a big topic of debate. There is also strong debate about whether China should send ships that far away. The leadership still worries about this kind of action and how the outside world perceives it. The Chinese leadership is always worried about the so-called China threat. They prefer to keep a low profile in the international arena. Most of the time they feel they have no choice, they have to do something, and then they act; otherwise they prefer to do nothing.

**Q504 Lord Inge:** Can I just ask briefly, has China suffered any ships being taken by pirates?

**Professor Song:** Yes, and Chinese people working on ships. I think also a Taiwanese ship was captured.

**Q505 Lord Anderson of Swansea:** Professor, the spirit of co-operation, the wish to co-operate, is in some ways more important than the actual institutional framework. Nevertheless, it is important to ensure the smoothest institutional
framework, like plumbing, to remove any obstacles to a smooth relationship. In your view, is the current institutional framework between Beijing and Europe adequate, fit for purpose? If not, how can it be improved, and what can you say about the PCA negotiations, the Partnership and Co-operation Agreement negotiations?

Professor Song: In terms of the institutional arrangements for EU-China relations, we have different levels. There is the annual summit and probably 30 different types of sectoral dialogue. It seems to me that the institutional framework is structural and stable. I am not familiar with the detail of that sectoral dialogue but the structure looks good.

Q506 Lord Anderson of Swansea: So you cannot suggest any improvements?

Professor Song: It needs deepening. I know a little about the technical dialogue but a good example is the dialogue on human rights. It is quite interesting. There is a lot of argument about whether it is useful or not. I have heard the complaint from the European side, especially from NGOs, that it is pointless, but it seems to me it is quite useful from the Chinese side. Some of my students from various ministries are involved in this. They say they have to do something every time there is a dialogue. That is the impact. They have to respond and that is good. This kind of structure has a problem on both sides. On the Chinese side it is basically governmental people; on the European side it is NGOs, so how can they have a real dialogue? I have heard from the European side that most of the people involved in the EU-China dialogue from European NGOs know nothing about China, so how can they have an effective dialogue? They always say, “You should do this, you should do that, you should do the other,” according to their general knowledge, but they need specialist knowledge of the Chinese situation. That would be more effective. Also, the Chinese side should have non-governmental people involved and on the European side governmental people should play a more active role. The EU and China should do something to follow up this dialogue in the form of a specific project. It should not just be talk. We have these kinds of things going on with the Australians. An Australian NGO came to China. They have to work with the Government, otherwise it is difficult, but there is a concrete project. The Chinese Government allowed them to go into Chinese prisons to do a project. That is something real. There is no specific project of this nature with the EU. Dialogue is not enough. That is an area where something could be done.

Q507 Lord Anderson of Swansea: What about the PCA?

Professor Song: I am not sure. The PCA is a totally internal negotiation. We do not know what they are talking about or what progress is being made. Yesterday we had a conference in Bristol and the Commission people were asked why they need a PCA. There is this argument on the Chinese side: everything is fine without a PCA, so why do we need it? There is the human rights issue, which could be put into a framework and constrain China, but if you look back at why we started this, it dates back to 2003–04. That is the basic background, the expectation. At that time the Chinese Government believed that the EU would lift the arms embargo and grant Market Economy Status to China but nothing happened. From 2006 we had discussion with the Commission in Beijing. They asked why China was not interested in the PCA initiative. Our argument was that they needed to look at the background, which they are doing now. The debate is how we reach agreement. The Chinese will argue what the EU can offer China. Otherwise, there should be less talk. We can have a negotiation and we can even reach agreement, it will probably take another five or ten years to be ratified. That is useless. That can be the situation legally. The problem is that we have no common understanding on certain specific issues. The PCA is an example of this.

Q508 Lord Anderson of Swansea: Are you in fact saying that, in your judgment, the institutional framework is currently adequate and that you have no particular suggestions for improvement of that framework?

Professor Song: On the technical side, it is okay. We have solved the technical problems with trade and the environment. They are different. The only other issue I am familiar with is human rights; the human rights dialogue needs improving but basically I think it is good.

Q509 Lord Crickhowell: On human rights, we did meet the EU people who deal with the regular dialogue with China on human rights. I was not aware until I went there that there is in fact a regular six-monthly meeting and they all sit round the table, apparently get on very well, and very, very occasionally, some significant movement is made, though not very often. I therefore saw a distinction arising. Clearly, China very much dislikes the moral lecture which you said the UK rather went in for, telling people how to behave, but China seems quite prepared to sit down in a regular meeting and have a civilised discussion about these issues, which perhaps does have a long-term impact, not least the knowledge in China that these exchanges are going on. So there is a quite well structured relationship on this taking place on a regular basis.
Professor Song: Yes, I agree. The structure is good, but it could be more effective on human rights.

Q510 Lord Hamilton of Epsom: Can we now move on to the more economic questions about the existing financial crisis and the downturn in world trade. How is that affecting the relationship between the EU and China? What are the more long-term perspectives, looking forward to the next ten years? Does China see itself as being an economic leader in terms of the global economy in the future?

Professor Song: As we discussed before, EU-China economic relations are very good. Despite the financial crisis and the sharp downturn in trade, the EU is still China’s number one trade partner. In terms of economic co-operation, there is another argument: the EU as a trade bloc is number one for China but it is 27 countries, and economically it seems to me China will pay more attention to East Asia. The EU 27 makes up something like 17 per cent of China’s total foreign trade. East Asia we call the ten plus two, that is, the Asian ten, plus Japan and South Korea, plus Hong Kong and Taiwan. That represents more than 40 per cent of China’s foreign trade, so much bigger than the EU. They are only 14 countries but represent a bigger share than the EU 27.

Q511 Lord Hamilton of Epsom: What about the US? Professor Song: As a single country, the US is number one.

Q512 Lord Hamilton of Epsom: What percentage? Professor Song: Fifteen or slightly less. There is also the argument that if we take the United States, Canada and Mexico together, it is almost the same as EU, but East Asia is more. China’s economic relationships with East Asia, with the EU and with the United States are at different levels. In those terms, China very much pays attention to the economic relationship with the United States and the EU. The two together are about one-third of China’s total foreign trade. Also, what is very important for China is technology transfer. Interestingly, we have difficulty getting technology from the United States but we get lots of technology from Canada that is really from the United States. If you look at the 16th Party Congress in 2002, and the 17th Party Congress of 2007, when they talk about China’s external relations, it is always its relationship with developed countries first, which means economic and security aspects. That is very important to China. Recently we have had what is called the “new left” in China criticising the current leadership strongly, saying they are pro-Western.

Q513 Lord Hamilton of Epsom: What is the overall state of Chinese exports compared with a year ago? They have dropped, have they not?

Professor Song: For the first four months compared with the same period last year there has been an average 20 per cent drop. Interestingly, however, total trade dropped by something like 20 per cent but the trade surplus increased by 35 per cent in the last four months, some 70 billion.

Q514 Lord Hamilton of Epsom: Can I just come back to something you said earlier, which was that China looked at the EU as a social power. I do not quite know what that means but certainly what is true is that EU social costs are at one end of the spectrum when China’s are at the other. Do you see a convergence of China and the EU? Do you see China’s social costs going up? Is the EU economic model a thing to admire in the global market we are in today, where it seems we are still determined to load costs on to employers all the time? What is your view on all that?

Professor Song: The EU as a social power means the EU as basically a kind of social model. People consider the European Continent practises what is called social capitalism as opposed to in the United States free market capitalism. China faces a challenge domestically on social security. China has no social security and we are trying to build up social security system—pensions, health care, medical care—not on models relying on market forces like the United States but more like Europe. According to research, the Chinese prefer the European model to solve this problem, but we have still not actually adopted the European model. There are lots of research projects on the issue. A recent health care project came up with four proposals, two based on research on the European medical care system. That is very important for China in the long term. Despite the financial crisis, lots of people argue, as can be seen in the newspapers, that the Americans are losing their houses, they are living in their cars, and there is none of this kind of thing happening in Europe. The Chinese see that as being because the Europeans have social security.

Lord Hamilton of Epsom: But are the Chinese prepared to see the state spending 40 per cent of Gross National Product, which is what they do in most European countries?

Q515 Chairman: Just a quick answer to that one, please.

Professor Song: I still think the Chinese may prefer the European model. Social stability is very important for the Communist Party.

Q516 Lord Jones: Earlier on, professor, you did mention the hope of a technological partnership. I am wondering whether the aerospace industry in China might be the means for that. You might know that Airbus/EADS, with the Chinese, are producing
aircraft in China now. Is there the prospect of that industry growing to the point where you would be satisfied that there was partnership between Europe and China?

Professor Song: Yes, not just that but the automobile industry is also very important. There are more European projects in China than Japanese or American. If you look at the profile of the EU or Europe, it is very high in China compared with other Asian-Pacific countries. We have had projects for the last few years, and the European profile is comprehensively the highest in China. So there are the social foundations in China for working with the EU. That is one way of managing EU-China relations.

Chairman: We have covered human rights to a large degree so I think we will move on to co-operation in other areas.

Q517 Lord Crickhowell: I am turning to question 9 but I want to break it up into two separate parts, because I think there are two quite different areas. First, international policy global governance issues. How do you see the ability of the EU and China to co-operate on things such as non-proliferation, Iran, North Korea, nuclear programmes and so on, and the situations, which were briefly mentioned earlier, in Afghanistan and indeed in Africa, the role of China, for example, in Sudan? Would you like to say a word about the effectiveness of the EU and China working together on issues of this kind?

Professor Song: Yes, I think China would like to work with the EU on different international or global issues. At the moment the debate in China is about whether the EU has the capacity, because the United States certainly has this capacity; China has worked with the United States in North Korea and even Iran and elsewhere. We worked together in Iran but not with the EU; it was with the Member States. That is the dilemma. The EU and China have a joint declaration on non-proliferation and arms control. It is a question of whether the EU can play a real role in this area or whether we prefer to work with the two other Security Council members, the UK and France. That is the crucial problem. Again, China and the EU have a dialogue on Africa but nothing happens. This is related to how China and the EU at European level work on this. It is probably better to work with the Development Departments of the UK or Germany on these kinds of issues. That is the big debate: should we concentrate more on the Member States or the EU in different issues? With Afghanistan, as I mentioned, is it the EU or NATO? There is actually no role for the EU; it is the EU Member States, the NATO Member States. That is the dilemma on this. Last year there was a Commission policy paper on EU-China-Africa trilateral co-operation, which raised a similar problem. What is Africa? With whom do we deal? We cannot work with more than 50 countries. Does the EU have this capacity? No. There is a paper but no action. That is the problem.

Q518 Lord Crickhowell: Can I turn then to an area where perhaps the EU has a leading role and does act coherently as one, and that is on environmental policy, where Europe has actually taken a lead. While President Obama is now moving in the same direction in a very welcome way, it has been Europe that has taken the lead, and there is already a great deal of co-operation, exchange of financial assistance and so on, and huge scope for technological development; clean coal technology is crucially important for both countries. Again, we heard in Brussels that there are really quite encouraging noises coming out of China about the approach to Copenhagen and really making progress. How do you see the climate change and environmental issue?

Professor Song: This is a very good area that China and the EU can work on, and I think have worked on together. There are quite a number of EU-China co-operation programmes on environmental issues, not directly related to climate change, but if we look at the EU-China leadership, when they meet, it is probably the easiest area in which to have a common understanding. I am not sure what they can realistically do, especially in Copenhagen, because China still has its own domestic problems. I would suggest that there is great potential for co-operation in this area but we also need to be careful, especially on climate change. The European side says, “You have done wrong. You must do something about it.” The Chinese people can very easy argue that in per capita terms you have caused much more damage than us.” We should concentrate more on a common responsibility, rather than saying, “It is your responsibility Because you pollute more.” This approach is very important, because the Chinese leadership is concentrating more on domestic problems. If they have to succumb to international pressure or domestic pressure, they will always go with the domestic. They cannot say, “We do not care.” That approach is very important.

Lord Crickhowell: Can I just follow that up? You are absolutely right. I think there has been a difference of expectation between Europe and China but there does seem to be a growing recognition in China that they have to move along this road, not least because of the environmental threat to China. Can I say how much I sympathise with what you said about the lecture point? Indeed, at a meeting we had with senior Brussels officials dealing with this, they kept using the words “We expect China,” and I criticised them; I said, “You should not be talking in language indicating that you ‘expect’ China. You should be
seeking a common interest in doing something,” and I think you have made a very important point.

Q519 Lord Hamilton of Epsom: I would just like to come back on the meeting we had in Brussels. One of the things that they were putting enormous resource behind was the whole idea of carbon capture. Carbon capture in power stations is something that might happen in 2020, which is a very long way off. We have absolutely no idea how much it is going to cost. At the same time Europe is spending its time trying to get China to sign up to these things when we have absolutely no idea what effect this will have on the cost of your electricity or whether in fact the technology can be had at all. What does China feel about signing up to these things? That is what Europe is trying to force you to do.

Professor Song: I am not sure about this. I know nothing about this. It is outside my knowledge.

Chairman: That is fair enough.

Q520 Lord Jones: Very briefly, professor, why not send us your publication on the EU environmental policy and its implication for China?

Professor Song: It is a project from early 2000. At that time we talked about the importance of environmental issues to economic development. It was published in 2002.

Q521 Lord Inge: Can I come back to defence policy for a minute—not the Common Foreign Security Policy. When China modernised its armed forces, a key part of that modernisation was to allow it to project military power. Why do you think that was?

Professor Song: I do not know. Project?

Q522 Lord Inge: In other words, to allow you to deploy military power overseas.

Professor Song: My understanding is every kind of military modernisation needs to do that.

Lord Inge: You might tell Europe that!

Professor Song: I do not know. Project?

Chairman: Thank you very much for that. That is a very useful point.

Q523 Lord Selkirk of Douglas: Can I ask a quick question on a lesser issue. There is a rising interest in the European Union in tourism to China, seeing heritage sites, the Emperor’s warriors and so on. How important do you see cultural, tourist contacts as being? Is that a small issue from your point of view or do you see it as a growing matter?

Professor Song: I think it is very important. We always say historically China and Europe are closer than China and the United States. More Chinese come to Europe. From the Chinese side that is very important. One point I also forgot to mention was the special role of the UK in Contemporary China Studies. We always say historically China and Europe are closer than China and the United States. More Chinese come to Europe. From the Chinese side that is very important. One point I also forgot to mention was the special role of the UK in Contemporary China Studies. We always say the Chinese like to work with the United States because it is easy. One very important reason is that there is lots of personal contact academically. There is a lack of these kinds of things between China and EU, but compared with other European countries, we have more of this kind of contact with the UK through Chinese Studies, which is strongest in the UK. Some people will argue it is probably still comparatively weaker than the United States but I think that is very important.

Chairman: Professor Song, can I thank you very much for your performance and evidence over the last one and a half hours. It has been full of insight. Thank you very much indeed. We will obviously send you the transcript in due course. Thank you very much indeed.
THURSDAY 21 MAY 2009

Present
Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Inge, L
Jay of Ewelme, L
Jones, L
Swinfen, L
Teverson, L (Chairman)

Examination of Witnesses

Witnesses: Mr Gareth Thomas MP, Parliamentary Under-Secretary of State, Dr Tamsyn Barton, Deputy Director, Europe Department, and Mr Marcus Manuel, Director, Pan Africa Strategy and Programmes, Africa Directorate, Department for International Development, examined.

Q526 Lord Chidgey: Minister, first of all the Committee wants to thank you for the useful evidence to the inquiry into the EU and China. The evidence notes that the EU and China have identified strong shared interests in Africa, and that there is huge scope for co-operation. What are the main areas in which there is scope for co-operation, and what are the challenges? Does China’s stated policy of non-interference amount to implicit support for corrupt, repressive and dictatorial regimes?

Mr Thomas: Peace and security, support for African infrastructure, a range of environmental and natural resources issues, and certainly on agriculture and food security, those four would be four very obvious areas where the EU, together with the African Union, together with China, we think could trilaterally work together very much on. Let me take the example of infrastructure, if I may. Given the huge resources that China certainly does have, that it can deploy not just through government but through its private sector or its parastatal companies, I think there is huge potential benefit from China’s engagement in Africa. I mean, to go back to the example I gave of the North South Corridor Conference which we have helped to drive, that took place in Lusaka in April, we worked very closely with a range of players, but we did seek, for example, China’s engagement. We know that the Africans were keen to have the Chinese in the room for that discussion, given the amount of money they spend on roads and railways in a number of countries in the southern and eastern African bloc. So there was not only an ambassador from China in the room, but I think the Chinese Development Bank was represented as well, and I think a number of their private sector companies were there too. I mean, we have been working to try and both understand ourselves better how China engages and works with governments, what it does in African countries for quite some time, so, for example, our staff in the DRC have been funding work to effectively draft the law on environmental and social standards, which will, in a sense, help to govern part of how some of China’s funding is being spent on infrastructure in the DRC. We are also funding work there to understand the impact of how those programmes impact on social issues and environmental issues in-country. Now we have done that with the agreement of the Chinese and the support of the Chinese, they have welcomed that work. We have also done that with the active support of the DRC government too. So what we want to do is to try and replicate the examples of that type of collaboration, which is just between the UK very directly and China and the African country concerned, with the EC as a whole with Africa and African institutions with China. So we have been gradually encouraging European Commissioners to have a whole series of discussions with their opposite numbers, which they have begun to do, and one of the results of that was a European Commission document called a Communication on the potential for that EU-China-Africa protocol co-operation, which was published in October last year, and which set out those four areas, as I said, which we see there as being real opportunities to work together.

Q527 Lord Chidgey: Yes, Minister, you quite understandably stress that China has this interest, of course, in stability and security, absolutely fundamental if you are trying to extract valuable resources elsewhere, you have to have that as a starter, but it does not really address the issue that I have raised of implicit support for corrupt and repressive and dictatorial regimes. Am I correct in thinking that one of the great thrusts of DFID’s programmes is investment in the support for parliamentary strengthening, the ability for parliaments in developing countries to hold their executives to account, none of which seems to me to be part of the Chinese agenda which is fundamentally to build the infrastructure, to extract the minerals and resources, understandably, but frankly improving democracy and strengthening
parliament does not really figure very high on their agenda. So where is the partnership between ourselves, the EU and China in that regard?  

Mr Thomas: Well, I think in part it comes back to the issue we were talking about before around what different donors do, and trying to make sure you bring all the different donors to the table, and people’s particular strengths are in a sense concentrated on. So not only do I think you are right that parliamentary strengthening is a particular area where I like to think we were regarded as being quite good on, I do want the Chinese, for example, to join the Extractive Industries Transparency Initiative, to give just one example of an initiative which helps country governments to see what is paid to particular corporations, and then to have it all published and set out. You know, we continue to push the Chinese on those issues. As you will know, China has on occasion vetoed Security Council resolutions about situations in particular countries like Sudan and Zimbabwe, where we have had real concerns, and we have obviously been disappointed by those decisions, and we continue to push them and encourage them to take our view of the situation in those countries as you would expect us to do. I do think we have to understand the context sometimes in which China is engaging in a country, so one of the issues that we know has become a major concern in China has been around energy security, and therefore their engagement in, for example, international commodity markets means they are going to want long-term contracts with countries, and relatively stable relations which do not change over a short period of time, and we have to try and understand the drivers in Chinese policy better. That does not mean we do not challenge them and push them to take a different stance, and we are on record as having done that, but I think it also means that on occasion, we have to co-operate with them, so we have, for example, had a series of delegations of some of the people who work on development in Beijing come over to the UK to see how we do things, and hear why we do things in particular ways, why we focus on particular issues as opposed to others. We still have an office in Beijing, which still works on some of the issues around poverty reduction in China, but also it is seeking to set up ways of joint working, for example, on climate change as well. Not only because we need the Chinese to do more to reduce their emissions, but we also need the Chinese then to replicate what they have done in that area into some of the work they do in other countries. So to give a short summary, we do push them on some issues, but we also try and actually actively work with them and recognise the benefit that they can bring.  

Chairman: I have three members of the Committee wanting to do supplementary questions. Perhaps I could ask them to make short points, and Minister, perhaps a short response so we can move on.

Q528 Lord Crickhowell: I understand what you are saying about having all these worthy discussions, but is there not really a difficulty that Chinese development in Africa is not really concerned primarily with poverty reduction and economic progress at all? As Commissioner Michel said in a useful book that we were handed by his Chef de Cabinet as we went into the room, and I did a quick skim of, and I put a question to Mr Doens. The Commissioner says China, the US, Australia and India, but also Malaysia, are increasingly competing for control of Africa’s mining, oil and gas deposits. He then went on to point to some of the dangers, the risks to the beneficiary countries of massive redevelopment and dependence, and so on. We will come on in the next question on the list to some of the sort of detailed problems. But is there not really a very fundamental difference that all the objectives that you are aiming for are really very different from the principal objectives that China has at the moment in a country like Africa, which is the economic resource one primarily?  

Mr Thomas: I am absolutely clear that like every country, there is a mix of motives and drivers as to why China does particular things at particular times in developing countries. I have given an example of the energy security concerns that we know China has. But I have to say, the discussions that I have had on occasion with some of the organisations like the Chinese Development Bank, like these senior officials who came over from China’s equivalent of their Development ministry, suggested that they were motivated by some of the same things, the same desires to be helpful in terms of reducing poverty as we were. That does not mean, Lord Crickhowell, that we do not disagree with them on occasion. We certainly want to know and understand the deals that China does do, and we certainly want to help developing countries, both at government level and at civil society level, know in more detail what China is doing, how China operates and engages in the region, so that they can think through their response better. We want them to be able to negotiate more effectively, not just with us, but with China and with a range of other countries too, so we are funding some research to help achieve such better responses. We are working with the African Union to help them in their discussions with China. So in a sense, and Lord Teverson, I am breaking your stricture to me. I accept the premise of your question that China will have a series of motives for doing what it does do, I do not think all of them are purely driven by Chinese self-interest, I do believe some of them are, as with my Department’s motives, for the reduction of poverty, but we do need to see more openness in terms of the deals that China does, and we have to help African countries be able to negotiate better with the Chinese authorities.
Q529 Lord Swinfen: Minister, you said that China was building roads and railways, and my question follows on to a large extent from Lord Crickhowell, but they are also taking a great deal of raw materials and an increasing amount of food out of Africa to feed their growing population. Are the roads and railways built to assist them in getting the raw materials, the food, out of Africa, or it purely for the benefit of the country in which they are operating?

Mr Thomas: Well, you would have to ask that question very directly of the Chinese authorities, but to give you an answer—

Q530 Lord Swinfen: But your department is keeping an eye on it, I am not, and I am asking your opinion.

Mr Thomas: You are asking my opinion, and I will try and give you an answer, with respect. In a sense, if you build a road and you build a railway, it helps countries both export goods and take goods out of a country, as well as deliver increased bilateral trade, one country with its neighbour, or just individual farmers and businesses being able to get their goods to particular markets. So there are potential benefits for all sorts of people from investment in roads and railways. The key thing, I think, which you touched on in your question is that the African country concerned has got to want that road built in that way, that railway, that port, provided in that way. What we have been seeking to do, and in a sense the North South Corridor Conference was part of that process, was to help African countries get a clear strategy for investment in the absolutely key infrastructure in southern and eastern Africa, and to increasingly work to get the major donors, including China, aligned behind those plans. So to do that, you have got to build up the capacity of the African Union to help, in a sense, act as a convening force, bringing the key engineers, the key planners from countries together. We have to help the individual developing country be able to negotiate better with the World Bank, the Chinese and ourselves, and we are beginning to do all of that.

Chairman: I am going to move on to the next question, which we have covered maybe a little bit of, but Lord Crickhowell.

Q531 Lord Crickhowell: I think it does arise very directly out of what we have been talking about, and that is the situation and the concerns that have been raised about the DRC and the investments that have happened there. We have received evidence about concerns about the manner in which China's resources for infrastructure model is affecting things there. They have identified lack of transparency, failure to involve democratically elected institutions, risks for long-term financial stability, insufficient protection of labour rights and the environment and so on. I mean, what is your view of the situation that has developed in that particular area, where incidentally, I think it is worth observing that we talk about China, but of course, most of these contracts are being entered into by individual trading organisations from China, though it is also true of what is happening from individual trading organisations from Western Europe. We did get very clear evidence again that one must not always take the sort of collective view that it is all happening in the same way, because the organisations themselves very much are directing the thing to their own particular interests.

Mr Thomas: Well, I would be sympathetic to some of the concerns that you have received evidence about, and the deal in the DRC, I think, is a very good example of why we need to encourage both the DRC government and other governments who negotiate with the Chinese and others to be completely open about the nature of the deal. There are worries about whether the particular deal that has been done with the DRC might hold up increased donor support, particularly from the IMF, because of concerns around debt sustainability, so there are discussions and work underway to try and resolve those concerns. Our concern is that it is quite hard to be able to accurately assess the conditions of each deal, because we have not seen all the paperwork, so we continue to encourage both the DRC Government and the Chinese to give more information about that, about those deals. I gave some indication of the fact that we were getting engaged in the margins of that particular deal, with the support of both the DRC and the Chinese governments, looking at some of the issues around social and environmental impact, and we are funding some work to do that, precisely because of some of the concerns that were being raised.

Q532 Lord Crickhowell: Mr Doens, addressing this very issue, talked about the need to try and create what he called a level playing field to influence the governance agenda on the awarding of contracts. He said that if you looked at "the way in which the DRC awarded the mining contracts, one can question the objective way of handling that, and by the way, one of the issues with the international financial institutions is the concessionality of the loans given by the Chinese, precisely because it is a back-to-back issue with the delivery of mining resources." So it seems that both the EC and DfID are working in the same general direction, which is good. Do you see the same problem arising significantly elsewhere in Africa, or has this been a particular area of concern in the DRC?

Mr Thomas: Well, it has been a particular issue that we have focused on in the DRC as are range of civil society organisations and I think some other donors
too. It is interesting, I think the sort of climate is changing, and I think China is beginning to want to engage with other donors in a more systematic and regular way. I have seen a significant change just in the time I have been a Minister, and it is clear that within African countries, there are starting to be more questions about the types of deals that are being done. To give just one example, during the recent Zambian elections, the opposition candidate for, I think, president made a big issue of some of the Chinese organisations in Zambia not employing local staff, and just of shipping in I think Chinese staff. That has led to some change in how China operates, I understand. So I come back to this key question. Part of this is not simply to say it is China’s fault and China has got to do everything differently. Part of the job of work surely is to actually help the African countries be able to negotiate in a more effective way with those who are seeking to do deals with them, and that means I want them to be as effective at negotiating with the Chinese as they are with the Germans or with the French or indeed with British businesses going forward, and part of the support we give to developing countries is to try and help build up that negotiating capacity.

Q535 Lord Jones: The Minister did mention the concerns of some African nations in his reply. When you have your strategic policy considerations in the department, are you always taking into account that there are 600,000 Chinese nationals in Africa, 800 Chinese companies operating in Africa, and that over the next three years, China’s investment in Africa shall be US$20 billion? I dare say all of these factors are fed into your consideration for your strategic policies in the years ahead.

Mr Thomas: Lord Jones, we have touched on the whole sort of aid effectiveness agenda both in an EU context and to a slightly lesser extent in the context of the relations between China and Africa. One of the examples of the way in which things have changed in terms of China’s approach on these issues is that it has agreed to join with the OECD’s Development Assistance Committee to prepare a study on China’s aid to Africa, and that in a sense reflects, Lord Jones, your point about, in a sense, just the sheer range of the way in which the Chinese, be it individuals, the state and the parastatals of the private sector, etcetera, are engaging in Africa. I think that is a sign of China shifting its stance and beginning to engage. I think it is also a reflection of just the way in which the international architecture is changing. Where once the G8 was seen as being the place where real business was done, the G20 has become very much a place where people increasingly focus on. China is a very big player within that G20 discussion, and I think a lot more conversations between how Lord Crickhowell described sort of traditional donors, the West, with China, are taking place, as China has engaged much more in some of those international institutions.

Q536 Lord Inge: A lot of my question has been answered to a certain extent. First of all, do you think, Minister, we ought to be thinking not about Africa as a whole but priorities for countries, not necessarily competing with China, because each country is different. East Africa is different to West Africa, for example. So are we really looking at Africa sensibly and dealing with the challenge between ourselves and China in certain places, do we really know how to deal with these different Chinese companies and how we handle them, and do you think in the past the Chinese left Africa because they lost control of what they were doing? Do you think they would ever bring—this is a difficult question. I know—military force, where they have produced armed forces now that can project power. Do you think they would ever bring armed forces in in a peacekeeping role to protect their interests in Africa?

Mr Thomas: Lord Inge—
Q537 Lord Inge: Sorry about that, I just made it up on the spot!
Mr Thomas: Forgive me, Lord Teverson, I am not even going to try and answer Lord Inge’s question. Just on the earlier part—
Chairman: Minister, it is entirely at your discretion what you choose to answer.
Mr Thomas: We sit down and try and plan out quite carefully what should be the UK’s response in particular countries, in terms of where we put our money and our expertise. We see the same thing happening in the European Commission, this is one of the reforms that has come since Chris Patten’s time, increasingly, EC strategy papers for countries, and so donors are increasingly in Europe having a conversation about who does what and why we are going to do that in particular countries, and part of that conversation is about what other donors are doing, donors who perhaps we do not know in detail what they are doing, we do not have detailed conversations, and that would be the Chinese included in that. As I say, we are seeing an increasing engagement with us from the Chinese authorities, and we welcome that. They do not sit down at the table with donors in quite the way some traditional donors do. We hope that will change, and we are certainly encouraging them to do so. One of the reasons why we have been really pleased to see this EU-Africa-China communication released by the Commission in October 2008, with AU and Chinese support, is we think that will continue to encourage the type of strategic discussion that you actually think is necessary, and we would support that too.

Q539 Chairman: Perhaps just to follow up Lord Inge’s question—
Mr Thomas: Well, the last bit was—
Chairman: Well perhaps I could just change it slightly back to the conflict prevention role, which perhaps is more DfID’s area—
Lord Inge: Could I just say, I would include conflict prevention in anything like that. I take that as an absolutely vital part of any—

Q540 Chairman: Indeed and one of the things that has been brought to our attention on a number of occasions is China’s role in peacekeeping, which is different, but do you see a Chinese-European role in conflict prevention particularly?
Mr Thomas: I would have to do a little bit of research in terms of the detail of what they absolutely do at the moment, but why not? Why should not China have a role as a major international player, in the same way that other major international nations, including ourselves, have a role in peacekeeping going forward, why should they not have a role too? But forgive me, if I can perhaps add, make this the third thing on which I will give you a fuller response by letter.
Chairman: By all means.

Q541 Lord Swinfen: What can DFID and the EU do to minimise any negative impacts of Chinese corporations operating in Africa? Should the EU put more effort into persuading the Chinese government and Chinese corporations to sign up to key multilateral initiatives such as the Extractive Industries Transparency Initiative?
Mr Thomas: On the latter part of your question, the answer is yes, and we will. We have done already quite a lot of work to continue to talk to them about the EITI. One of the things we have pointed out to the African partners is they might want to have their own discussion with the Chinese about the Extractive Industries Transparency Initiative, and encourage them to sign up. In terms of the first part of your question, around the Chinese corporations, we are funding the World Bank to work with the highest government level think tank in China, who are working with some of their major Chinese companies, looking at corporate social responsibility issues, and that is just, in a sense, one way, with the EITI being the second, in which we can encourage more openness and more engagement in a whole series of social, environmental and labour standards and issues by Chinese corporations.

Q542 Lord Anderson of Swansea: Back to capacity building, Minister: how are we trying to help African governments competently look after their own interests, for example, in increasing capacity building in the African Union, in helping the bureaucracies of African governments to negotiate with the Chinese and others, and also, you mentioned PACs and so on, to help African parliaments to hold their own governments to account in respect of their devolved development policies?
Mr Thomas: Lord Anderson, I hope I have given one example, in terms of the work we are doing in the DRC, where we are actually helping with the drafting of a range of standards which will govern how the Chinese money is spent. That was with the support of both the DRC government and the Chinese government. That is just one example. Marcus, do you want to give some other examples of how we are helping to build up countries’ capacity to negotiate with the Chinese or otherwise? Mr Manuel: I think there are two major ways. One is there is not a lot of information around, and getting information is very important. I know Chris Alden...
Mr Gareth Thomas MP, Dr Tamsyn Barton and Mr Marcus Manuel

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came and appeared before you, and we have been funding him for some years now, to expressly encourage both the gathering of information and dissemination, so as he may have told you, he was with the AU and briefing the AU heads of mission and talking about China approaches in Africa, and that has been very well received, and people really appreciate that information and briefing that we can support in that kind of way. The other one can be very specific, support to ministries of mines and this kind of process in terms of negotiating deals, and where we can, and where people want to do that, we will offer that. Sometimes they will want to take it from other donors, but that is getting very much into the detail. We would do that. One example is we have done this in Sierra Leone, we have certainly offered it in DRC.

Mr Thomas: Lord Anderson, perhaps I can just give you one other example, which is on a trade level. Members will be aware of the current Doha round of world trade negotiations. We have funded all sorts of capacity building support into developing countries’ trade ministries, so that they can do the research they need, they can fund the negotiators to go to international meetings, they can work with the civil society and business groups, et cetera, in the way that we would do ourselves, and thus negotiate better, not only with the Chinese, but frankly with the international community more generally on what they want to get from those negotiations.

Q543 Lord Hamilton of Epsom: Minister, I cannot remember the year now but you will, because you were probably there, but Tony Blair, when he was Prime Minister, gave a speech at the Labour Party conference in which he said that he was going to address all the problems of Africa, and basically turn the whole thing round in a relatively short space of time. Was that not an extraordinarily ambitious speech to make, and would he not be rather disappointed at how little progress has been made since?

Mr Thomas: I think that is a slightly unfair characterisation of the speech, but I actually think, from the conversations I had with him, both privately and with other people in the room, that he would be extraordinarily proud actually of what Britain has done in Africa, in a range of African countries, both in terms of the numbers of extra children in school, the numbers of extra health workers we have helped to achieve, and the work we are continuing to do more generally through international negotiations, as I have said, to push Africa’s case. I do not think Tony Blair or Gordon Brown or indeed any Secretary of State I have worked for have ever thought we were going to be able to sort out Africa’s problems overnight, but the very fact that we have established a Department for International Development, that we have a Secretary of State for Development sitting at the Cabinet table, and that Africa is such a key part of how we spend our time within the Department working, I think he would be pretty proud of that record and recognise the work that we still have to do as well.

Lord Hamilton of Epsom: Do you think somebody in your department could give me a copy of that speech?

Chairman: Perhaps we could have this as—

Q544 Lord Inge: Very quickly, and again it is probably another unfair question, but if you looked at the five to eight African countries that worry you most, who would you choose?

Mr Thomas: Well, Sudan, without question, because of the situation in Darfur, there is no question about that. Zimbabwe, obviously because of the humanitarian situation, not least, there. I worry about those countries where the HIV/AIDS epidemic is still huge, even though there has been progress in a variety of ways there. So forgive me for not giving you a list of five or seven.

Q545 Lord Inge: The Congo as well, DRC?

Mr Thomas: Absolutely, the Congo is one that we are watching extremely closely. My colleague, Ivan Lewis, went out with our director general for country programmes just a couple of weeks ago, again to follow through on how our programmes are being spent and what else we might do.

Q546 Lord Inge: Do you think Europe could do more in those countries?

Mr Thomas: I do think Europe could do more, we certainly saw Europe as being a key part of the response to the global recession’s impact on developing countries. That was a big topic at the General Affairs and External Relations Council on Monday, and it is a big part of our conversation individually with a series of Member States.

Q547 Lord Jay of Ewelme: I am sure you are right to mention Sudan, but I wonder whether you would agree it is not just Darfur, but also south Sudan is a huge area of risk at the moment, given not just the growing insecurity but also the political risk that if there is a referendum in 2011, the risk of further civil conflict there.

Mr Thomas: I was about to try and belatedly follow Lord Teverson’s requirement that I should be brief in my response.

Q548 Chairman: I am afraid I do have one small thing which we have left out which perhaps I need
to do for our EU-China inquiry. We have obviously focused on Africa, but would you see the situation as very different in any other part of the region in terms of the EU’s relationship to China, or is it really similar?

Mr Thomas: The straight answer is I think it varies from one country to the next. I would not say it is Africa specifically as such, I think it is country specific. You have focused in on one continent, but there are differences in issues in Asia in terms of how we work with the Chinese, and how the Chinese operate.

Chairman: Thank you very much, Minister, and thank you also to Dr Barton and Mr Manuel as well. That has been very useful for us on both sides, and as I said, we intend to keep perhaps closer to DFID issues and development issues than we have done in the past, which I hope will be to the benefit of both sides in this important area. So thank you very much indeed for your evidence.

Supplementary memorandum from the Department for International Development

Thank you for the opportunity to discuss the important subjects of EU development co-operation and the EU-China-Africa dimension with your committee last month. I hope the evidence provided was useful for your enquiry.

I said I would provide you with further information on three specific questions: (i) examples where DFID aid has made a difference in Africa, (ii) links between population growth and DFID programmes, and (iii) China’s role in peacekeeping. Please find this information below:

(i) Question 7 in the transcript, I undertook to provide some concrete examples of where DFID development co-operation has made a difference in Africa. I would like to highlight the following achievements:

— Bed nets have substantially reduced the risk of malaria for over six million men, women and children in the Democratic Republic of Congo. In 2008–09 DFID provided funding for the purchase and distribution of over 1.4 million treated nets, bringing the total number of bed nets we have provided in DRC to around 3.3 million.

— Rwanda is well on track to achieving universal primary education, with a 94% enrolment rate for both boys and girls. DFID has contributed to this by paying the education costs for over 2.4 million children in primary and lower secondary schools and by contributing to the recruitment of almost 2,000 additional teachers, the construction of over 2,300 classrooms and the provision of more than seven million textbooks.

— Since the removal of health user fees in rural areas in Zambia in 2006, DFID has committed £2.9 million each year to the health sector. Zambia is now on track to meet the MDG target for reducing child mortality. Under-five mortality has declined from 168 deaths per 1,000 live births in 2001–02 to 119 deaths per 1,000 live births in 2007.

— In Tanzania, DFID has contributed to improved access to treatments against malaria and other diseases for young people. 92% of infants were vaccinated against measles in 2008, and 85% were fully vaccinated against diphtheria, whooping cough and tetanus. This has helped contribute to a 40% fall in child mortality in the last five years.

— DFID support in Kenya has helped provide anti-retroviral drugs to 230,000 people, and supported provision of home-based care to 64,000 living with HIV/AIDS and 110,000 orphans and vulnerable children.

— In Mozambique, DFID’s £2.5 million road programme has helped increase the percentage of the road network in good or fair condition from 40% in 2001 to 69% in 2007.

— Between 2005 and 2007, girls’ attendance in schools directly supported by DFID in six States in Northern Nigeria increased by up to 83%. In early 2009, DFID began supporting over 700 female teacher trainees from rural areas.

— Sierra Leone is on track to meet MDG 2, with a ratio of girls to boys in primary education at 0.91. DFID has contributed £3 million to the education sector in 2008–09, supporting the Government of Sierra Leone’s 10 year education plan which focuses on providing free education.

(ii) Question 12 in the transcript, I said I would provide a more detailed response to Lord Anderson of Swansea’s question on the impact of population growth on development.

World population is projected to reach nearly 9.2 billion under the UN “medium scenario” by the year 2050—up from nearly 6.7 billion today. The majority of population growth is happening in developing countries, for example the populations of Uganda and Niger will more then triple and quadruple respectively by 2050.
As you know, rapid population growth can impede quality-of-life improvements, perpetuate poverty and worsen the impact of climate change. It also leads to dramatically increased demand for food and basic service, including food, energy, clean water and sanitation, education and health care. Rapid population growth can also lead to a high proportion of young adults (aged 15–29)—a so-called “youth bulge”. Large numbers of underemployed males is a trend that has been linked to political instability and radicalisation.

Improving access to sexual and reproductive health services can help stabilise population growth. Working to reduce high levels of fertility—by improving people’s ability to make decisions about family size and birth spacing—can help create opportunities for economic growth if the right social policies are in place. There is a massive unmet need for family planning services with 137 million couples globally having no access to family planning and a further 64 million reliant on less effective traditional methods. Donors need to place more emphasis on re-invigorating and resourcing voluntary family planning programmes.

We believe population growth will decrease when women are educated and empowered to take control of their own fertility. This means being aware of their rights to information and services to improve their sexual and reproductive lives. This also means ending harmful practices like female genital mutilation, early marriage and coerced and non-consensual sex. DFID supports a range of programmes designed to increase access to reproductive and sexual health services, including in Mozambique, Ethiopia, Zimbabwe and India. DFID also supports the global efforts of UNFPA and the International Planned Parenthood Federation (IPPF). In October 2007, the UK announced additional financing of £100 million over five years to UNFPA’s Global Programme for Reproductive Health Commodities Security, which is working to improve access to reproductive health services including condoms and other methods of family planning.

Key to improving women’s empowerment is getting children, particularly girls into school. This is why UK will spend at least £8.5 billion over 10 years in support of education in poor countries. This long-term commitment provides predictable financing to help enable government prepare ambitious 10 year education plans.

(iii) Question 540 in the transcript, I also wanted to provide you with more information on China’s role in peacekeeping and the possibility for Chinese-EU role in conflict prevention

The EU plays a key role in supporting the African Union (AU) peace and security capability. The EU has regular political dialogue with the AU, provides technical support to the AU Peace and Security Secretariat, and supports AU peacekeeping capability. The EU has also funded African-led peacekeeping missions from the €300 million Africa Peace Facility. This helps to ensure predictable and sustainable funding for the AU.

China can contribute a great deal to efforts to prevent and resolve conflict in Africa. China has over 1,000 peacekeepers in UN missions in Africa and is increasing its support to AU peacekeeping. China played an important role in persuading the Government of Sudan to accept the hybrid AU-UN force for Darfur (UNAMID), and their influence in Khartoum remains crucial for the future of peacekeeping in Darfur.

We welcome China’s contribution to UN peacekeeping operations in Africa and we want to continue to work together with African countries to ensure “responsible sovereignty” for their citizens. The challenge for HMG both bilaterally, and through the EU, is to engage China on developing AU capacity, while continuing to conduct a frank dialogue on issues such as Sudan and Zimbabwe, where we do not always see eye to eye.

There are increasing signs that China recognises its activities in Africa bring with them responsibilities. For example, China’s contribution to anti-piracy patrols off Somalia demonstrates increasing engagement in the international arena in response to an issue that affects shared interests.

I hope this information is useful, and I look forward to continuing discussions with the committee on these and other important development co-operation topics in the near future.

8 July 2009

Further supplementary written evidence from the Department for International Development

On 21 May 2009, I gave evidence to your Committee’s inquiry into the European Union, Africa and China. In recent correspondence between Committee staff and DFID officials several points of clarification were raised and further information was requested.

The Committee had noted that the “Extractive Industries Transparency Initiative (EITI), under which information on mining deals agreed with corporations is published...”. This is not correct. The EITI focuses on revenues paid and received by Governments and companies but this is after the deals have been struck. EITI currently has no influence on transparency of the contracts themselves, although there is growing interest in extending transparency beyond revenues.
Your Committee staff also asked for clarity on whether the UK Government would like China and Chinese companies to join the EITI and what challenges this would represent. In response, the UK is strongly supportive of China joining the EITI in some form and, in certain respects, it is already engaged in the process through subsidiary companies.

Given its status as a major importer and exporter of energy, by joining the EITI China would have a major influence on the credibility of the EITI’s claim to be a global standard. Although China is the world’s second largest energy consumer and a major overseas investor in energy resources, the structure of the Chinese energy sector means that the greatest gain for the EITI would be for Chinese companies rather than the Government to join. Our initial objective therefore is to see Chinese companies like Sinopec (China Petroleum and Chemical Corporation), China National Petroleum Corporation (CNPC) and CNOOC Limited, express their support for the EITI and extol its virtues. DFID is currently organising a conference in China on “Corporate Social Responsibility and Voluntary Initiatives”. EITI will be at the core of this conference.

Chinese companies, although largely owned by the State, are still active in international financial markets. Participating in the EITI would contribute to mitigating the political risks of their investments. Companies adopting the EITI would benefit from a better assessment of risks in international financial markets. The EITI already helps Chinese national oil companies in promoting an improved business climate with major international oil companies. It is important to note that several Chinese subsidiaries are already reporting according to the EITI requirements (Mongolia, Liberia are cases in point). This is mandatory in some of the countries where they operate.

February 2010
Present
Crickhowell, L
Hamilton of Epsom, L
Jay of Ewelme, L

Selkirk of Douglas, L
Symons of Vernham Dean, B (Chairman)

Examination of Witness
Witness: LORD PATTEN OF BARNES, a Member of the House, examined.

Q549 Chairman: Lord Patten, welcome. We are delighted to see you here and thank you very much for coming to give us some evidence on the EU’s relationship with China. May I apologise for the absence of our colleague and Chairman, Lord Teverson, who is unable to be with us today. Also, you will notice that there are fewer of us than usual. A number of our colleagues are, unfortunately, abroad at the moment but, as you see, you have the crème de la crème around the table and I am sure that you will notice that there are fewer of us than usual. I am sure that you will notice that there are fewer of us than usual. Thank you very much for being here. May I ask you before we start with the questions—and I think you have had notice of the questions but there are obviously themes that my colleagues and I would like to develop with you—is there anything you would like to say to start off? Lord Patten of Barnes: No.

Q550 Chairman: Fine. In that case, perhaps I can start with a question which you have not had notice of but which I suspect will be something that you will be more able to answer than many of us. We have seen on our televisions again recently, in the last couple of days, that here we are at the 20th anniversary of the events in Tiananmen Square and we have seen the footage again of everything that went on and, of course, it is 25 years since the agreement on Hong Kong. We wanted to ask you what do you think has changed over that period? In the time that you have been intimately acquainted with our relationship with China, how do you think the relationship has changed vis-à-vis China’s positioning with the rest of the world and with the EU? It is a big question but a thematic one which I think is an interesting one given the date.

Lord Patten of Barnes: It is an issue I think about quite a bit myself because I was in Beijing until a week or so before the killings in or perhaps off Tiananmen Square. I was attending a meeting of the Asian Development Bank as a Statutory Vice Chairman, I think, because I was Britain’s Development Minister. It was an extraordinary spectacle, a great democratic festival. We had a meeting with Zhao Ziyang, at which I remember everybody sitting round in a circle, anxious to avoid causing offence and asking any questions about what was consuming our interest in the square and outside, because we were holding the meeting in the Great Hall of the People. Eventually, I asked Zhao Ziyang, whose leaked memoirs have just come out, as you know, what he thought about it, and he took some notes out of his pocket and delivered what I think were the remarks which helped to bring him down about his understanding of the students’ position, and his hope that they would wind things up. I recall the British Ambassador at the time—he would not mind me saying this, I am sure—explaining to me how it was all going to end peacefully. He said it was like a Chinese military strategy, that you could tell it was going to end peacefully because the policemen, the paramilitaries, were wearing brown plimsolls and he said you do not put down this sort of thing with violence if you are wearing plimsolls. Well, the plimsolls went and the tanks came in. Since then China has continued to put all its emphasis on economic growth and economic reform rather than any political development. Such political changes as there have been have been vestigial but that is not to say that people’s lives have not improved hugely, not just in terms of disposable income but in terms of the amount of freedom they have to do the sort of job they want, to live where they want. They have a range of economic choices which they did not have before, and they have become, of course, much more prosperous. I look back to the first time I saw China, 1978–79, and I recall that in 1979 China exported as much in a year as today it exports in a single day. Nine per cent a year growth compound makes quite a difference, as I am sure we would discover in our own country. So China has become an important economic power and therefore an important power, full stop. I do not doubt for one moment that people’s lives in China are incomparably better than they were in 1989. I do not doubt that most of the 240,000 people who work in the Foxconn factory in Shenzhen think mostly of whether they can afford a plasma screen television or a small car rather than arguing with one another about what happened in Tiananmen Square. But is there something acultural about democracy and human rights in Asia in general or China in particular? I do not think there is. Is it the case that you can go on indefinitely with a lack of symmetry between economic development and political development? I do not think that is true. I do not think there is any automaticity about economic development bringing political change and
development but I think you are already starting to see the argument within China itself, and it is even occasionally reflected in what leaders say—for example, what Wen Jiabao, who was of course one of Zhao Ziyang’s right-hand men, says about accountability and transparency. What he said in relation to the melamine scandal and to the scandal of collapsing buildings in Szechwan during the earthquake. A couple of years ago the argument between the reformers and the hard-line conservatives, with a small “c”, in Beijing broke cover in the Hong Kong press, Ta Kung Pao and Wen Wei Po, which is often the case. The argument went like this. The modernisers, many of whom were running the financial services and banks, which is a nice reflection on our times, were arguing that unless there was further reform and opening up, unless, in other words, the state gave up more of its control over the economy, the economy would not grow as fast, there would not be as many jobs and, in those circumstances, the Party would lose control, not just of the economy but of the state. The hardliners were saying if the Party gives up control over the economy, sooner or later it will certainly lose control over the state. It always seems to me that the dilemma in China is that both of those propositions are entirely correct. As I have said, I do not think there is anything mechanistic. If you look at Liberty House and some of the other people who draw up freedom indices, there is sometimes a suggestion that there is an automatic link between levels of per capita GDP and the outbreak or sustainability of democracy. There are always plenty of arguments on the other side, like Singapore, but Singapore is a pretty small example on the other side. That may all be true. I do not happen to think it is true. What I do think is true—and this is part of the scandal I have occasionally caused with Sinologists—is I do not think China is totally different from any other part of the world. David Pilling in the Financial Times this morning makes the point that everybody uses soap, that soap is universally popular; it is not simply a Western substance. I think the same is true of democracy; I think the same is true of freedom; I think the same is true of due process and I think the same is true of torture. Human rights are pretty much the same everywhere.

Chairman: Thank you. Perhaps we can turn now to Lord Crickhowell.

Q551 Lord Crickhowell: I found that fascinating. That takes us to the very fact that the economic change has taken place. When I was in China during the signing of the Hong Kong agreement—I was actually on holiday on my way to government business in Tokyo—there were virtually no cars. There are now something like 25 million cars. I do not think I need to ask you whether it is worth the European Union engaging with China because they are a sufficient player on the world stage for it to seem obvious, but what do you see as the key features of the relationship between the EU and China, and what is your general assessment of the EU’s approach to China? How could it be made more effective?

Lord Patten of Barnes: Can I say at the outset that anything you say about the EU and China is equally true about the EU and Russia or the EU and Latin America or the EU and the United States. Secondly, nothing I say is meant to be critical of the European Commission, which does its best in extremely difficult circumstances. Let me give an example of what I mean. There are, I think, six climate change dialogues with China: the European Union’s and five of Member States. I think there are seven human rights dialogues, one which is officially the European Union’s and then ones with Member States. I asked somebody the other day how many trade and economic dialogues there were with China, and they thought there were probably slightly more than the number of Member States, that is, 28, so 27 Member States and the Commission/EU. It is very difficult to have a coherent strategy on China and one which is pursued effectively if the Member States do not sign up to it and act accordingly. There are some very obvious consequences of the present fracturing of Europe’s relationship with China. The British Prime Minister, the German Chancellor, the French President, all agree at one time or other to see the Dalai Lama. Each of them is then picked off by China. I do not particularly blame China. If this sort of thing works, you cannot be surprised when countries pursue it. Not a single Member State comes to the defence of the others. So the British Prime Minister or German Chancellor, when the EU summit is scrapped in Lyons because Mr Sarkozy has seen the Dalai Lama, the German and British heads of government do not say, “This is outrageous. We have done exactly the same.” Everybody hopes that they will gain some imagined commercial benefit from the embarrassment caused to a fellow Member State. Now let me answer the question more generally. It really comes down to whether there is much point in the European Union. Clearly, we think that we do some things better as medium-sized European states by working together than by not. We are, after all, I think in almost every case, countries which over the next few years will enjoy some combination of the following: falling share of world population, falling share of world trade, falling share of world output. A single market, a single trade policy, a single environment policy, are all areas where we have recognised it is helpful to have competence over the whole European Union. So you would think that at least in those areas, we would see the point of acting collectively together but we do not do it. It is not, I repeat, the Commission’s fault, I do not think.
It is the fact that everybody pursues what they believe to be their own bilateral interest and does not leave even areas of Community competence to the European institutions to deal with. The one exception to that that I can think of was the negotiations over the WTO, which I think had a spill-over effect into other areas as well, where there was a clear focus and Community competence for pursuing a policy. It was successful and I think it gave some backbone to our strategy. I used to think when I was a Commissioner that the Chinese believed more strongly in the European Union than we did, and saw Europe, in their geopolitical terms, as one of the struggles for hegemony in the 21st century, as a bloc to put alongside the United States, China and India, but I think they have probably given up on that because that is not how we behave. I am not suggesting that we could make the sort of leaps in foreign and security policy which are plainly improbable but I do think, at the very least, we could act coherently in the areas where there is already Community competence. Can I just add one point? One of the questions you mentioned in your helpful note was whether there were things we could learn from China. One thing we can plainly learn from China is the advantage of having a clear strategy. The Chinese have a strategy as far as Europe is concerned. They want to have as open a market for their goods as possible; they want to attract as much European investment as possible; they want to get hold of as much technology as they possibly can and as much research collaboration as they can. They want us to behave ourselves, mind our Ps and Qs over Taiwan and Tibet, and they pursue that policy absolutely—and I do not use the word "ruthlessly" with any particular pejorative force but they pursue the policy absolutely, clearly, and very effectively, and we are still pretty fractured in our response—indeed, probably more fractured than we have been before. The last time I was in China was in November and I asked the Head of the European delegation how many European Ministers had been in Beijing that year, and he said they could not conceivably keep account. They had no notion of the number, but since there had been, I think, nine or ten Commissioners, Heaven knows how many Ministers there must have been.

Q552 Lord Crickhowell: Two follow-ups, if I may. You began to touch on the question I was going to ask: given what is happening, in the way you have so vividly described it, it is interesting that the Chinese, one, seem to actually understand the European Community almost better than the Community itself. It seems to take, as was very clear when we went to Brussels, a remarkable amount of trouble: large resources, senior people involved in dealing with Europe. To take an example, we had a piece of paper on our desk this morning, a description of the trade discussions at the beginning of May, where they sent a very large team under a Vice Premier to come and discuss. So on the one hand, there is what you have been describing, and yet China seems to be devoting quite a lot of senior effort to dealing with the European Community.

Lord Patten of Barnes: Yes, I totally agree with that, and it has actually produced documents on its relationship with the European Union which are very positive and very helpful. China certainly used to send to Brussels rather more senior diplomats than some of our other partners. Although I am an India “groupie”, I think that China has over the last few years had a much clearer sense of the importance of Europe as a partner than India has had. India, I think, still has some difficulty in seeing Europe as one trading or economic partner which may be our fault but is certainly manifest when you are dealing with them. So I agree with what you said about the importance which China attaches to the relationship, and I suppose a lot of Europeans would say that one of the reasons for the quantity and diversity of European contacts, Member States, Union and Commission, is that we attach a great deal of importance as well but the fact that we go about it in that way has extremely unfortunate consequences, and sometimes humiliating consequences, as happened with the rumpus over the arms embargo five years ago.

Q553 Lord Crickhowell: Can I have one other follow-up question? It is the way in response Europe seems to sometimes behave. We have two examples, I think. If you take climate change, where there are clearly potentially great shared interests, because China actually realises it is going to be badly affected by climate change and they see great scope for technological exchange and so on. Yet we had an example when we were dealing with officials in Brussels. They kept giving the impression that they were telling the Chinese what they must do; they were lecturing the Chinese. Similarly, when we talked about human rights meetings, we discovered that actually—and you have pointed to the sensitivity of the Chinese to public lectures—there are these six-month exchanges when people sit down and have a quite civilised discussion across the desk, where it works. There does seem to be a tendency in Brussels when it is dealing with China and, I dare say, with others, to say “Well, really, if you are going to work with us in Europe, you have got behave like this.” which seems to me to be likely to be counter-productive.

Lord Patten of Barnes: The Chinese know we do not believe it even if we say it. We have had a human rights dialogue with China for years. If I had a mortgage, I would put my mortgage on the
proposition that the Chinese have not made any substantive change in human rights policy internally as a result of pressure from Europe. Maybe it is true to say that, with an eye to the rest of the world, they were encouraged to sign the International Covenant on Civil and Political Rights. They have never actually ratified it. It remains a subject for discussion in their Parliament. My worry about the human rights dialogue, not only with China but with some others as well—we used to have a human rights dialogue with Iran—is that it becomes an alternative, a surrogate for doing anything else. People ask you what you are doing about the incontinent use of capital punishment in China and you say, “This is part of our human rights dialogue and we have these very positive meetings every six months.” Well, it does not make any progress. I am not against talking to the Chinese about human rights but I do not think they move very far.

**Q554 Lord Crickhowell:** I am rather more concerned than on human rights with this wider approach on important issues where we ought to be actually finding a way of working together, like climate change, where the worst possible way is to say, “You have got to do this because we think you ought to do it.” This does seem to be a tendency, rather than finding a common interest which will make them think it is a rather good way to proceed.

**Lord Patten of Barnes:** I must say, I have not picked up that rather pedagogic or lecturing approach on climate change.

**Q555 Lord Crickhowell:** I am sure you never did it. **Lord Patten of Barnes:** I am sure I would not. I think on issues like that the Chinese used to regard me as a known interlocutor. They knew what my views were likely to be. On climate change, I think what we are seeing is the emergence of the G2 rather than a G3. The really crucial issue on climate change, even though I think Europe has taken an important step forward in the commitment it has made and has huge technological contributions it can make to the debate, but the really important discussion is between China, which is the biggest global emitter, and America, which is the biggest per capita emitter, and there will not be any post-Kyoto deal unless there is a deal between them, and I suspect that it is not irrelevant that the new American Energy Secretary is a Chinese-American.

**Chairman:** Lord Jay, I think really Lord Patten has dealt with your particular point about dealing with Europe as the Commission or individual countries. Is there a point you wanted to raise?

**Q556 Lord Jay of Ewelme:** I just wanted to follow up on one thing. Indeed, I think that is in some ways the key question. I have been extremely interested in what you have been saying, and I agree with you that trade is the obvious one, the WTO negotiations. I just wondered how you thought that the Chinese saw the euro, the relationship between currencies, as it were, whether they would see the EU as having an important role to play, at least, those members of it that are members of the euro, because of the growing importance of the euro as a world currency, and secondly, closer to your earlier responsibilities, on an issue like Iran, the CFSP area, where you have Solana, supported by the two or three main Member States, having quite an important role, whether the Chinese would see that sort of configuration or whether there are other kinds of configurations where the Chinese would see the EU as being a sensible and even necessary interlocutor.

**Lord Patten of Barnes:** First of all, on trade and financial issues, the Chinese understand the trade point very well. When we completed the discussions on their access to membership of the WTO, we concluded at exactly the same moment the negotiations on Taiwan’s access to the WTO, and I took the strong view, though it was not uncontroversial, that in order to ensure compliance with the terms of the WTO, we needed an office in Taiwan as well as being able to look at things in China. I went to China and I explained to them that we were going to open an office in Taiwan, that this was not a recognition of Taiwan’s sovereignty, that it was not a political gesture on our part but it was necessary in order to meet the terms of their agreement with us on the WTO, and the Chinese, while going through some of the motions of saying that they did not want us to do it, nevertheless accepted it as a necessary part of the trade relationship, and they understand Europe’s competence in trade. I would guess they have probably been disappointed that the integration of the eurozone has not gone further than it has. They must be reasonably happy with the relative strength of the euro over the last months because they have substantial holdings in euros. This goes well beyond my competence but I think they are in a bind about the dollar and about the whole argument as to whether there should be another global reserve currency or basket of currencies, because they have so many dollars in the reserves that if they do or say anything which devalues the dollar, they are going to be the biggest losers. I think they tread a very difficult path on international financial currency issues, and we come back to G2 arguments, because I think the biggest and most difficult argument that will have to be resolved in some way or other as we emerge, we hope, from this financial crash is the relationship between surplus and deficit countries. That is an argument for the Germans but it is not really a general European argument. I hope that they see areas where Europe has come together, like Iran, as
areas where they can deal with us in common foreign and security policy as one. Of course, the jury is still out when it comes to the difficult bit, that is, whether we can actually resolve between Europe and America an acceptable place for other people to draw the line in the sand as far as nuclear development in Iran is concerned, and if we can agree on where more sensibly that line is drawn, whether we can then ensure that the Germans, French, Italians and others all come together in a common position, supporting the United States. I am sure in those circumstances we would be more likely to be able to get China, Russia and India on board, but I think there is still an awfully long way to go on that.

Q557 Lord Hamilton of Epsom: Can I come back on your juxtaposition between the fact that the Chinese Government can lay out a strategy which dictates what the country’s position is. That is slightly belied by some evidence we have been given that if you want to do a deal in China, you are probably better at dealing with a regional governor than you are with somebody in Peking. Ignoring that, the fact is there is a Communist central government in China and that runs the whole place at the moment. In contrast, you have said that the problem with Europe is that there were some states in Europe which had some imagined commercial benefit from competing with other states. I suspect most of the time it is not imagined; it is actually real; many different countries in Europe are competing both in terms of imports from China and indeed from exports to China. So if you want to put us on a par with China in terms of the government’s role, of course you have to have a single European government, and I do not quite see how you can get away from that. If it were a Europe “de patrie”, in the words of De Gaulle, we are going to compete. You either have a single government or you compete. I do not see there is anything in between.

Lord Patten of Barnes: Let me deal with that, but first of all, on the regional point, it is perfectly true that the Emperor’s writ does not always run very far beyond the walls of Beijing on detailed issues. There was an old Confucian era poem about peasants which said something like this: “We go out into the field in the morning, we work all day, we have our lunch, we go home in the evening to have our supper, and we go to bed. The Emperor is far away” and of course, that is equally true today, and it is true that people do deals with local mayors and regional bosses, and that sometimes those local apparatchiks are doing deals which are in defiance of central policy, but not for long, if it is a really strong central government policy. For example, the last powerful Party Secretary in Shanghai was toppled precisely because he challenged Hu Jintao’s policy on spreading wealth across China and not putting all the investment into the maritime cities and so on. So I think that you can certainly cut deals with this or that company but you would have great difficulty, I think, as a regional boss, going against the main strategic elements in Chinese government policy. Let me deal with the second point. There are two aspects to it. First of all, even competing with one another, European nation states would be better served if they agreed to combine their political and economic strength in achieving certain strategic objectives. For example, the European Chamber of Commerce has a list of trade grievances, of issues that affect European companies, individually and collectively, from local content in manufactured goods to intellectual property theft, and we are more likely to be able to achieve progress in getting the Chinese to change those things if we work together rather than if we lobby separately and then actually do not do anything about it when they do not change. So you are more likely to have increased German and British exports, even though they will still be competing one with the other, if you get the Chinese to open up their market in areas where it is non-tariff barriers which actually prevent European exports being as large as they should be, or the share of Europe in the services sector. I think in that sense Europe is stronger when it works together. Secondly, Europe and individual Member States would do better if, as Europeans, we understood that the Chinese, by and large, do business on exactly the same basis as everybody else: they buy what they want at the lowest price that they can get it for, and they greatly benefit from the assumption that their principal commercial interest is in getting other people to do what they want politically. They constantly—and you cannot blame them, because we behave so foolishly—give the impression that, unless you behave yourself on Taiwan, Tibet, China’s agenda, you will not be able to do business in China. It is complete rot! There are a lot of studies, for example, comparing German and French exports after the French had sold arms to Taiwan; the lack of any long-lasting impact on Denmark after Denmark had tabled a human rights resolution in Geneva because nobody else would because everybody else was scared witless of the consequences; the fact that while I was having a few problems with China and we were rowing about Hong Kong, British exports to China doubled, having actually fallen in the period between 1984 and 1991. So I just do not believe it is the case that, in order to do business with China—and this is the way I am afraid Europe collectively as well as individual Member States play it—you actually have to do exactly what they want politically. On both those fronts, I think we would be better served if Europe as a whole made it easier for companies in individual Member States, though of course they are increasingly multinational, to do business in China, with which we have, after all, the largest trading partnership of any country or bloc of

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Lord Patten of Barnes
countries in the world, but still have a 169 billion trade deficit.

Chairman: Lord Selkirk, perhaps you could turn now to the question on engagement.

Q558 Lord Selkirk of Douglas: Lord Chairman, I think Lord Patten has already to a large extent answered the question, but can I ask this in general terms, in case you can state any principles which should guide both the EU’s actions and our own: what is the best way to engage with China and on what subjects? Perhaps as a follow-up to that question, and a follow-up to what Lord Crickhowell asked you, if there are any important matters relating to trade, tourism, climate change, where we want very much to get progress with China, should issues involving human rights, Tibet and Taiwan be raised at a different time or should they be raised as part of the same agenda? In order to get maximum constructive engagement, what guidance would you give us as to the best way to proceed?

Lord Patten of Barnes: I am increasingly exasperated by the gulf between rhetoric and reality in foreign and security policy. It is not just an issue for beating the European Union over the head; it applies to others as well. Even though I would wish that we had more developed and coherent policies on a whole range of international issues, I would start by sticking to the areas where the Member States have already conceded, as I said earlier, that we should do things as a group of 27, the areas where there is, in other words, Community competence, and the whole area of the single market, of trade, and of environment are the three crucial ones in relation to China. So the first engagement I would seek would be at that level, and I would seek to get the Member States to agree to work more coherently together. Since in relation to issues which are much more of security concern, like the relationship on energy with Russia, and since we are not able to get Germany, Italy and France, to take particular examples, to actually accept what may be counter-intuitively the British position that we should have something closer to a common energy policy, and that is an area where it really matters to us, I do not think it is going to be easy to persuade Chancellor Merkel or President Sarkozy or Mr Berlusconi, if he has time from his other concerns, to agree that we actually have to work through a single channel if we are to make the most of our relationship with China. It will be interesting to see what happens if the European Treaty is ratified and comes into force, with the appointment of a President of the Council as well as somebody—I know that I am not allowed to call them European Foreign Minister but the non-Foreign Minister, the very special High Representative. It is going to be very interesting to see what effect that institutional change has on our relationship with countries like China. Does this give our partners elsewhere, our interlocutors, a single telephone to phone? I am not convinced. Does the President of the European Council turn into a sort of combination of the Queen Mother and a progress chaser, or will he or she have a more significant role in dealing with the rest of the world? I think the jury is out on all that. So first of all, I would seek to engage more coherently in areas where the Member States have accepted the pooling of sovereignty, without going any further, without going towards all that the superstate stuff, which falls into the category, I think, described by Thomas More as “terrors for children.” None of that is going to happen. Should we engage the Chinese on human rights and on Tibet? Absolutely. We should not hector or lecture but we are bound to have a qualitatively different relationship with China than we do with India. I am loath to compare the European elections and the Indian elections which have just happened but India is a great democracy and, while imperfect, as we all are, India’s politicians share the same values that we have around this table, and that makes a difference.

So I think we should raise those issues, I think the Chinese are amazed when we do not, and I do not think it makes it more difficult for us to make progress on other issues as well, whether it is economic or environmental. In my experience, human rights, Tibet, arms embargoes, are invariably issues which, while they did not fall because of competence issues to the Commission, the poor Commissioner was asked to deal with them in bilateral meetings or summit meetings with the Chinese because those were the difficult bits that the Chinese might not like.

Chairman: Thank you, Lord Jay, I think we have covered what can each side teach each other, which I think is something you were planning to ask questions about. Is there anything more you would like to ask on that?

Q559 Lord Jay of Ewelme: No, I do not think so. I was actually not going to ask it, because I was rather chastened by Lord Crickhowell’s point about not teaching others. I am happy to leave it. If I were going to rephrase it, I think I would ask a slightly different question, which is actually one which Lord Patten has just about answered, which is not so much what can each side teach or what can each side learn but what does each side need from the other? It seems to me a better understanding of what is actually needed may lead to a better understanding of how one goes about pursuing it. I would just rephrase the question in that way, if I may.

Lord Patten of Barnes: Let me deal with outside China and outside Europe when I talk about what we need from one another. I think we can play a useful role in reminding China of the mistakes that we made in the past in pursuing commodity diplomacy in Africa and
other parts of the world, because the Chinese for sure are making many of the mistakes we made in the past, when, as it were, President Mobutu was on our side, we did not much care what he got up to or how much he salted away in Swiss bank accounts. I suspect you could make similar points today about China in Angola, about the way that Chinese behaviour has undermined, for example, the application of the Extractive Industries Transparency Initiative in African countries and other developing countries. I do not think that the right way to talk to China on Africa, where its trade is going up five times as fast every year as Europe’s, is to lecture them because we made the same mistakes, but to try to involve them in OECD discussions on development assistance, in Paris Club discussions on debt; to try to develop our dialogue with China on development would, I think, be extremely useful and would help them to avoid making exactly the same mistakes that we have made. Let me take one example. I do not actually think the Chinese have behaved as badly over Sudan Darfur as some people suggest but it is true that they have been perceived in Sudan as being strongly on the side of the government in Khartoum and have provided arms and other “bonnes bouches” to the Sudan authorities, but 80 per cent of the oil in Sudan is in the South and the South has the chance of a referendum on whether it remains part of Sudan in, I think, 2011 and it is a pound to a penny that the South will vote to be independent of the North. It is not only independent of the North because the Colonial Office people in the Foreign Office lost a debate with the Arabists in the Foreign Office when we actually spatchcocked two very different countries together before independence. So the Chinese will have put much of their money on the part of the country where only 20 per cent of the oil is. It is not, obviously, hugely in their interests to have backed the non-oil partner in those circumstances, a country from which they get ten per cent of their oil, or thereabouts. I think convincing the Chinese, as a great power, which they are, that they have an interest, as a great power, in stability, that they have an interest in good governance, that they have an interest in peaceful and sustainable development in Africa, for example is important. They recognise it at one level. There are, I think, more Chinese peacekeepers now than peacekeepers from any other member of the UN, but in other ways they pursue policies which are likely to make good governance more difficult rather than easier.

Lord Patten of Barnes: No, I think you are not wrong. I think both the Chinese and the Indians have behaved rather badly about Burma Myanmar and have reached the conclusion that the junta is more likely to provide stability in the country than any democratic elections, and the Indians have the additional issue of concerns about Nagaland and frontier areas. No, I think we should put more pressure on the Chinese over regional stability. I assume that we are at the moment, at both a European and a national level, in touch with the Chinese authorities about the trial of Aung San Suu Kyi. I very much hope we are. The Chinese have, I think, in a quiet way tried to engage the regime in Burma Myanmar to move in a glacially slow direction in bringing in political change. If I can mention an aspect of this, which is a perception, not something I can prove, I co-chair an organisation called the International Crisis Group, which does a lot of very good, very professional reporting on areas of potential conflict in Africa, the Middle East, South Asia and elsewhere, and we know that the Chinese Foreign Ministry makes a lot of use of our reports. We have a good dialogue with the Chinese mission at the UN on some of our reports, even when they are quite critical of China. The Chinese have allowed us to open an office in Beijing, which is quite a move forward and I think that reflects the fact that there is a debate within the Chinese Foreign Ministry, and doubtless within the Party as well, about whether the way they have pursued commodity diplomacy has been entirely in their interests. On Islam, I think they want to avoid getting drawn into an argument or into a global debate, particularly since they are so concerned about the position of the Uighurs and Xinjiang, and that is, I think, the biggest issue for them. There is a stability aspect to the argument about Tibet which is not often raised but is always seen, it has seemed to me, in the last few years to be increasingly important, and that is the fact that six or seven of the great rivers in Asia all rise on the Tibetan plateau and, as water stress becomes a bigger and bigger problem in China and India, so I think debates about diversion of water on the Tibetan plateau, where earlier glacier melt is going to be having quite an impact on river flows . . .
Q562 Lord Crickhowell: One question that I think Lord Inge would have wanted to ask is whether you see Chinese military modernisation and the fact that they are parading their navy and so on as significant.

Lord Patten of Barnes: It does not cause me sleepless nights. I think it is an inevitable consequence of China being on the way to having the largest GDP in the world, which is what it has had for 18 out of the last 20 centuries and it will be in that position again later this century. It will not be as rich as we are in terms of GDP per capita but in aggregate terms it is going to be the richest country in the world unless things go wrong politically and that would be hugely against all our interests. I think sometimes the Chinese find me a useful idiot in arguing that we would be in much more difficulty if China went wrong rather than if China continued to grow and prosper.

Chairman: Lord Hamilton, perhaps you want to go on from there to the question about the embargo. I think that Lord Patten has dealt with the issues around what Hong Kong taught him very comprehensively.

Lord Hamilton of Epsom: Perhaps if we could pick up the ones on the arms embargo to which he has already referred.

Q563 Lord Hamilton of Epsom: Yes, indeed. This is all to do with the United States which put pressure on the EU not to lift the arms embargo, to strictly limit the transfer of technologies which assist China and its military modernisation. Should China and its military modernisation be a matter of concern to the EU, which follows on from Lord Crickhowell’s point, and should the EU respond to US pressure?

Lord Patten of Barnes: Having handled this issue in 2003–04 so appalling ineptly, the EU is going to avoid it as long as it can, I think. We had a settled policy on the arms embargo after Tiananmen Square and, while the Chinese raised it regularly with us, they did not do so at the sort of decibel level that suggests tremendous concern. They made the point that they did not want us to lift the arms embargo because they wanted a lot more European weapons or weapons systems necessarily but because it was humiliating for them to be put in the same sort of position globally as Sudan or Zimbabwe. Then we found ourselves faced with the consequences of Chancellor Schröder on a sales trip to China in 2003, telling the Chinese he saw no point in continuing the arms embargo. Then I think I am right in saying that President Hu Jintao was going to Paris in early 2004 and President Chirac thought it would be a very good way of rolling out the red carpet even more enthusiastically for him—I think I have remembered the sequence of events—to lift the arms embargo.

Initially there was some support in the Council for doing that, but it rapidly became apparent that the American market was of far more consequence to most of our arms manufacturers than the Chinese market and that many of the companies which might have been thought to gain from being able to sell weapons to China were themselves partly owned by American companies or were heavily dependent on American technology for the equipment they sold. The Americans put pressure on us quite properly. The American Congress got pretty bellicose on the issue and we backed off. There are some aspects of all this which raise one’s eyebrows. First of all, one of the biggest sellers of arms to China is Israel, which of course reverse-enginners much of the technology that it gets from the United States into products that it sells to China. When the American surveillance plane was brought down by jets in 2001, you could see from the photographs that they had Python rockets under their wings which were an Israeli product, which I think I am right in saying had been reverse-engineered from the United States. It is true also that Humvees are manufactured in China, not hi-technology defence equipment but sort of relevant. I think I am right in saying that, as a proportion of their total defence armament spend, the Chinese were buying three times as much American equipment as European anyway.

The figures are fairly small, it was something like six and a half per cent to two and a bit per cent but, nevertheless, they indicated that while the Americans had a legitimate interest since they provide security in Asia, which Europe does not do, they were not entirely blameless if one was saying that the only virtuous course was not to sell anything to the Chinese. What should we do? I think that we should have an open, transparent code of conduct on arms sales to China which is what we talk to them about, which would deny the sale of arms that could be used for internal repression or which might destabilise the region. You would not sell rockets which could be pointed at Taiwan and you would not sell, I suppose, the sort of equipment which a paramilitary police force might use, but it is an issue on which a great deal of humbug is spoken. It is an issue on which Europe demonstrated its ability—I hope this is not a mixing of metaphors—to shoot itself in the foot and it is an issue where there was a much bigger and more legitimate American interest than European interest and it was stupid of us not to talk to the Americans before we made any move whatsoever.

Q564 Lord Hamilton of Epsom: Where do you think it goes from here? It is clearly really the Taiwan experience which has heightened the position of the Americans, although they did not want to be attacked by superior technology, but I take your point about not selling arms which can be used to suppress people internally and not sell them things that can be used to attack Taiwan. It is very difficult to draw those lines between what you then use to defend your country legitimately. Do you see the Taiwan situation remaining quiet long enough for the Americans not to feel threatened on that front or do you think it is going
Q565 Chairman: Could I pick up on the Taiwan-EU-China axis. Do you think the EU has had any impact in the relationship between China and Taiwan in the efforts that have been made to do a bit of bridging? You talked a lot about the American side but what about the European Union?

Lord Patten of Barnes: I do not think that it has had any effect at all. We talk a lot about the difficulty of doing business sometimes in China and nobody should discard the difficulty of doing business in Taiwan, for example getting public sector contracts. I have had difficult discussions with Taiwanese officials on these sorts of matters.

Q566 Chairman: I think this is all part of the remit of the EU’s relations with Taiwan, Macau and Hong Kong. Could you give us a little snapshot of how you see the importance of our relationship with those? You said that you think when we talk to China, China will go through the motions, it will want you to establish a WT office in Taiwan and understand the position but in relation to the way we deal with those three territories in particular, how will the Chinese react overall and do they care about how we deal with Hong Kong, Taiwan and Macau?

Lord Patten of Barnes: The Chinese would not concede that we had any standing in relation to Taiwan. They would concede privately and intelligently that of course we have a commercial relationship with Taiwan, which we do and it is an important one, an important one for us and an important one for Taiwan. They would also note, I guess, how important the attraction of Taiwanese students to British universities has been over recent years. They would not go any further than that. Hong Kong is in a very different position because of our historic relationship with Hong Kong. They still go through the motions of arguing that the existence of the joint declaration and commitments to preserving Hong Kong’s system for 50 years after the handover does not give us any standing in Hong Kong’s system for 50 years after the handover does not give us any standing in Hong Kong, but of course, it gives us a locus as a judge of the extent to which Hong Kong is able to retain its different system. I think by and large Hong Kong has gone pretty well since 1997. Macau is a very different economy and a much smaller economy. I would not say that if I was a Portuguese but I am pretty certain that the casinos and gambling must be a huge chunk of the Macau GDP. I am not sure that I know what the figure is. Of the three, clearly we have some standing in Hong Kong which is still, in my view, one of the freest places in Asia and has been remarkably successful. We have an important economic relationship with Taiwan but in Chinese eyes no locus and I would not think that the Taiwanese thought we were terribly relevant to them either. I mentioned students in relation to Taiwan; I think it is important too to recognise the value of university collaboration with China. I do not say that because of my own interests in higher education but, for example, at Oxford at the moment we have 743 Chinese undergraduates and postgraduates. About a third or more of all our maths undergraduates and postgraduates are Chinese and we worry about Polish plumbers! It is a very open and good relationship. When the Dalai Lama came to Oxford at the invitation of the Buddhists Society there were demonstrations by Chinese students who were learning how to do these things.

Q567 Lord Hamilton of Epsom: Were they all from the Republic of China?

Lord Patten of Barnes: No.

Q568 Lord Hamilton of Epsom: Of all those students, some would be Taiwanese?

Lord Patten of Barnes: No. It is interesting that even if you ask a Chinese dissident about Tibet, very often you get a very similar line to that you would get from a
hardline spokesman in the foreign ministry; it is a national issue. I am sure some would have been Hong Kong Chinese. I do not know about Taiwanese in any demonstration, but the point I am making is that they are part of the university’s life and a very valued part of the university’s life. I wish we had as many Indian students as we have Chinese.

**Q569 Chairman:** Could I ask you something very specific about non-proliferation. You touched on the area of the arms embargo and you talked about the importance of drawing the Chinese into any wider discussions you had in the context of Africa, for example, about proliferation, particularly weapons of mass destruction, do you think that the EU and China can co-operate on these issues? Obviously thinking in terms very particularly of the way in which China has reacted thus far to movements in the UN over Iran and the disinclination the Chinese have to get involved too much in interfering in that sort of development in other countries, is there a role for the EU’s relationship with China in that respect?

**Lord Patten of Barnes:** Not much, I do not think, because I do not think that Britain and France will concede that there is much of an EU dimension to the debates which primarily they will be having on the European side with the United States and others. I think the very welcome decisions that President Obama appears to have taken in the wake of the extraordinary agreements of Henry Kissinger, George Shultz and others on the non-proliferation treaty, the sorts of initiatives which President Obama is talking about in order to give some greater momentum to the nuclear non-proliferation renewal treaty at a renewal conference next year will be viewed with slight concern by China and India because I am not sure how much they will welcome raising the whole issue of the size of nuclear arsenals, control over fissile material and those sorts of issues. I am not sure how much they will welcome that all being opened up but, as far as Europe’s position with China is concerned, I simply do not believe that the British and French Governments, who are themselves trying to work out a response to President Obama, I guess, will concede that Germany, Latvia and Poland should be part of their decision-making process.

**Q570 Chairman:** Lastly, Lord Patten, we talked a lot about the institutional relationship between the EU and China and you have pointed out a lot of its shortcomings as well as some of its strengths. Overall, do you think that we are missing something institutionally? Do you think that there is something that we could do to better enhance the dialogue through the institutional mechanisms? You have talked about the possibility of the higher representative, obviously you do not know whether that will happen in a way that the Treaty is envisaged because of all the problems we have within Europe over the Treaty but if you are able to say there is one thing that institutionally would make this relationship a more satisfactory one, would there be something that you would put your finger on?

**Lord Patten of Barnes:** I am often criticised for thinking that political will is more important than institutional change and one could discuss that in relation to some of our own contemporary controversies. I think that, of course, it is the case that institutional change can help create political will and political pressures. It may be that the appointment of a president of the Council full time—I mean the present rotating system is barking mad—the appointment of a very, very high representative for common and foreign security policy would produce more coherence in foreign policy and in the representation of Europe abroad with perhaps the establishment of a European diplomatic service drawn from some of the Member States as well as from the resources in Brussels. Those things are possible but they will not happen if after the European Council has agreed to say X or Y to the Chinese next time they meet them the President of France, the Chancellor of Germany or the Prime Minister of Britain says something completely different in order to allegedly steal a march the next time he or she meets them. So it really does come down to political will. I think some of the tensions which people perceive in present relationships within the European Union are likely to be enhanced to some extent when you have got a full-time president of the Council and the non-foreign minister. Who speaks for Europe at EU summits with the United States, China or India, who goes to the G8 meeting for Europe? In my experience, one of the consequences of Europe’s relationship with the rest of the world was that whenever we were part of a meeting it increased the size of the meeting, so the Quartet consisted of six, which used to puzzle others because there were three representatives from Europe. I used to go sometimes on Troika visits with five or six people which, again, sort of puzzled other people, but it is all part of the consequence of this extraordinary and unique attempt to transform sovereignty in some areas, though not in others. It is about what Lord Hamilton said, the consequences of a union of nation states which have agreed sometimes reluctantly to transform sovereignty or pool sovereignty in some areas but not others. Dealing with the rest of the world is one of the issues for most countries which goes to the heart of national sovereignty.

**Q571 Chairman:** Thank you very much indeed, Lord Patten. That was a tour de force, if I may say so, and thank you for giving up so much of your time to us this morning.

**Lord Patten of Barnes:** Thank you very much indeed.
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Present

Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Inge, L

Jay of Ewelme, L
Selkirk of Douglas, L
Swinfen, L
Symons of Vernham Dean, B
Teverson, L (Chairman)

Examination of Witness

Witness: PROFESSOR FRANÇOIS GODEMENT, Director, Centre Asie, Sciences Po, Paris, examined via video link.

Q572 Chairman: Professor, do you have an opening statement or anything that you would like to say before we start, or shall we go straight into questions? Professor Godement: Not really because I understood on receiving the list of questions that most of you had at least glanced through this report which I have co-authored on New China Relations.

Q573 Chairman: Perhaps I could start off by saying that your recent paper on Europe-China relations describes Europe’s approach to China as “unconditional engagement” but you feel that we should indulge more in “reciprocal engagement”. We would be interested to understand the difference in those terms and how that would practically affect Europe’s engagement with China?

Professor Godement: I think these are concepts; these are not diplomatic guidelines. You do not go to your Chinese interlocutor and saying we are going to have unconditional engagement with you. Most likely you will not even mention that you would have a reciprocal engagement. It is a change of philosophy for the basis of European relations with China. Unconditional engagement comes from the history of our relations particularly at the EU level, and our conception of China as a transition country, as a developing country, as a country to be aided, as a country that was most doing a transition to market and to a perceived change of political system. Even if you read this year, for example, a report to the European Parliament by two distinguished members which was published on February 17, you will find that there is a kind of automatic belief that the integration and interdependence of relations between the EU and China will, by itself, lead to a convergence of norms and even to a form of democracy. In many ways, China has superseded that stage of development. I will not deny that there are areas which are underdeveloped in China but the relation we have with China is not at all typical of one we would have with any other developing partner. For example, it is very dissimilar from the kind of exchange that we have at the European level with India, so there needs to be adjustment. The second reason for moving to reciprocal engagement is that there is right now a lack of symmetry in the approaches. We approach this from the point of view of aid and we approach this from the point of view of our open market and open society. China has maintained a fairly centralised, fairly coordinated government system, particularly when it comes to foreign relations, particularly when it comes to crucial economic interests—I will not pretend that this is so for every aspect of life in China—and therefore we are dealing with an interlocutor who is naturally stronger and more realist and simply understands unconditional terms as an opportunity to push further in many areas. I could give you examples today. Probably nearly half of the EU delegation in Beijing works around aid and cooperation programmes. If you go to the Japanese Embassy in Beijing you will find that there is a complete phasing out of aid programmes. If you go to the US Embassy in Beijing, you will find that they do not know what you are talking about, although US aid still has a marginal US$7 million programme. There is a degree of well meaning intention on Europe’s part which is the heritage of the relationship as it was built in the 1980s, but there is also complacency to think that we can deal with China as an emerging pupa who will come our way as we help it.

Q574 Lord Anderson of Swansea: Professor, if Europe were to make the sort of adjustments in its policy that you suggest, if we were to make our policy as you define it more conditional, what, in your judgment, would be the response of China?

Professor Godement: I think we can guess that the initial response will not be kind, if this is the innuendo in your question because China has become accustomed to a certain style of relationship with Europe and would not take kindly to another kind of relation. If I further your question, the big problem with Europe’s possible change of course is that of course it has to be coordinated. It has to be shared by the various Member States and by the European institutions. If we move with a lack of synchrony among us then obviously China will pick out the softest interlocutors and try to make the best of it. I
France, there is a kind of prisoner’s dilemma in their particularly the big three of the UK, Germany and take the example of the larger Member States, construction of Europe. What I know is that if we you know, it is a political choice about the needed at the Commission level, for example. It is a among Member States themselves and what would be level of coordination and cohesion that is needed Professor Godement: I am not choosing between the unity which does not really exist? Surely you are looking for a form of EU integrity and talk about trade and not about human rights. China could get better, I can see no other way but to if you are asking me how lopsided relations with China have a sceptical and pessimistic answer and say this is question about the state of Europe today, I might even the US experiences di...V...erence between the 1980s...happened between Germany, France and the UK with two different sets of political leaders. Then there is something which is said about China about how it considers Europe. I think the very reason that China turned to the European institution—the changeover can be dated to maybe 2002/2003—they have a foreign ministry statement on policy towards China. Until that date, they had clearly been playing the bilateral game towards Member States and paying less obvious attention and less obvious consideration to European institutions. What we are seeing since last year, and as manifested by the cancellation of the summit in December in Lyon, is a return by China to the previous attitude of having purely formal or symbolic relations at the European level and trying to deal, as you said, at the level of interests with each Member State. I do not think it is in the interests of Member States. The big difference between the 1980s or the 1990s and today is that even the largest European Member State has a considerably weaker bargaining hand in dealing with China than it had 10 or 20 years ago. Negotiations are becoming tougher... ventured as much China as an expert base to third countries. There are European firms who do very well on the Chinese market or who have invested there, who sell there or we are losing out on economic interests is not shared which is a very tough one because the perception that Professor Godement: Thank you for this question which is a very tough one because the perception that we are losing out on economic interests is not shared by everybody. It is not shared by some firms. There are European firms who do very well on the Chinese market or who have invested there, who sell there or who use China as an expert base to third countries. One difficulty is that Europe’s macroeconomic difficulty is not necessarily each and every country’s or each and every firm’s difficulty, so I have to qualify
the judgment about Europe getting the worst side of the deal. The second remark that one should make is that China is currently making efforts to make the situation look different in a sense by emissions, for example, for trading nations to distinct Member States again playing the bargaining rule rather than the collective EU rule, but is it trying to create an impression that the situation could move otherwise? I believe that when Premier Wen Jiabao went to Spain, in particular he toured several European countries avoiding France. As you know, earlier this year he went to Spain. It was probably the first time that a Chinese leader was on the record as saying that relations must respect European interests. There is an acknowledgement by China today that there is a danger for China itself in the asymmetry of the relation. The other part of your question is that these come from specific policy choices or is it a result of free and fair market competition? There is no denying that China has made immense progress and that progress applies to productivity as well. That progress applies to moving up the scale in terms of qualification, in terms of technology. There is also denying that China, because of its demography and because of its socio and political system, has been able to keep a very low price on wages, for example, which makes it internationally competitive and competitive towards Asian exporters and even to other low-cost Asian importers. So part of this is as a result of a market that is still shaped by the Chinese political system in China. There is another side to the story. We negotiated WTO entry with China having the status of a developing economy and China was therefore able to conserve quite a few rights which we do not in the process. China can selectively protect its strategic industries under the definition of economic; it is not national defence. This is used in a very traditional mechanistic way to nurture key sectors and to reduce competition in these sectors. China is able by virtue of its WTO entry terms to go very slowly in terms of access to services, not to mention financial services. China has been able to avoid opening public procurement and of course you will find again, which I would not describe as completely tilted, which probably everybody practises, but which China certainly practises with talent, of hill barriers or second barriers behind the formal WTO rules. The result is that European firms that deal with China, or American or Australian firms, face a complex set of regulations and protections and in fact constantly need to have contact and authorisations from various levels of the Chinese State. They are not only dealing with their Chinese counterparts, they are dealing with the State itself in many aspects of their economic bargaining in China, whereas Chinese firms that go to Europe can count on an open set of rules and an almost wholly open system. I would make exceptions at the investment level where I think there are customary variants to Chinese investments in Europe. That situation applied to China in the 1990s. It applied to a country that has an 11 to 12 per cent trade surplus relative to its own GDP. Does it apply to a country that now has managed to concentrate the Asian exporters’ strength towards the EU and the US? I believe it is questionable. There is an element of policy choices. The policy choices have been made a decade earlier with WTO entry terms.

**Chairman:** Professor, I have two supplementary questions from Committee Members. In order to get through the rest of the questions I am going to ask Members to keep the supplementary questions very tight and also we will have to keep the responses concise as well.

**Q577 Lord Hamilton of Epsom:** You make the point about barriers to Chinese investments in strategic industries in Europe. There are also barriers to British investment in French strategic industries which the Chinese would probably take as an example of why they should not free up too much of their industries. Dealing with the trade imbalances in your paper, there seems to be an accumulation of very large numbers of euros by the Chinese as a reserve fund. What effect is that having on the euro and what is the future of those balances? Are they just going to grow as they have in the United States? Where do you see them going?

**Professor Godement:** Europe is not at all in the US situation vis-à-vis China. We do not have pumps recycling our deficits and China’s surpluses back to us. On the other hand, Europe is in what I would call a wealth trap. The wealth trap is that our overall trade deficit is not tremendous; it is very limited. It is much more limited than the financial deficit that we have with China. What is happening now is that we are compensating for our trade deficit with China by the surplus exports which Europe is still making elsewhere, although even there Chinese competition will slowly eat up some of those surpluses. One of the European problems is that if you look at it from a macroeconomic point of view it is sustainable. You can very well afford to have €170 million trade deficit. As to what becomes of this, let me tell you that the bulk of it is transferred into dollar holdings, not kept in euros, and perhaps that is fortunate for the euro because we do not have the depth of financial market that would allow us to absorb Chinese liquidities without having a constant re-evaluation of the euro. The result is that we do not have the mutual dependence, the mutual synergy that exists between the US and China, and it is crucial for the Chinese merely to keep the European market open but there is very little reciprocity in the process, unlike the situation with the US where, I am sure you realise, China has to pay a great deal of attention to what has
become of its currency holdings and its investments in the US economy.

Q578 Baroness Symons of Vernham Dean: Professor, if we could turn from bilateral trade to trade in third party countries, surely Europe is at a constant disadvantage because we negotiate together, as we did under Pascal Lamy with the WTO entry, but then we compete against each other and wherever I go, particularly in the Middle East, but the same is true of Africa. I find that governments, in giving trade concessions, whether it is in mining, gas or whatever it is, decide to go for one European company and one Chinese company, so we are competing against each other—the British against the French, the Italians, whomsoever—but the Chinese will always be able to get one of their companies in. I just wonder whether that was something that was thought about at the time of the WTO entry. You made the point about us not having negotiated as well as the Americans, but it seems to me we always do this at a complete disadvantage to ourselves vis-à-vis the Chinese.

Professor Godement: I am appreciative of your viewpoint but I will be slightly less affirmative because the situation has changed there too since the Eighties or Nineties. In the Eighties or Nineties the Chinese needed a lot of financing for any kind of trade deal for any kind of procurement. Today they have many choices. The game was played among the Europeans, the kind of competition described, with each State backing its preferred course. That was done essentially through preferential credit or aid. It is less obvious today because really the Chinese do not even need those preferential credits in many cases, so they have graduated from that. I do not think we can avoid a degree of intra-European competition among firms. What I see is that there is an asymmetry in who backs firms. In the European cases, for example, many firms will be left in front of a Chinese firm that has several administrations backing it and the pressure will be on technology transfer, for example, and the competition will be among European firms without any form of European support to resist those pressures. That is a typical example that has been cited by firms. That is where there will be an inequality. I want to have a quick word on what was said by the previous Member. Yes, we acknowledge in our report that investment is not wholly open in Europe. In theory, if you talk, for example, to DG trade people they will tell you that this is free; this is not an area in which we intervene. In fact, governments still have a lot of customary authority, but the Chinese have causes to complain in that part of the deal too.

Q579 Lord Chidgey: Part of the argument in your paper is that Europe is weak, arising from historical divisions, while China is increasingly strong and assertive. We have heard other evidence which takes a different view, suggesting a Chinese government overwhelmingly preoccupied with internal problems that struggles to make and implement consistent policy, and whose foreign policy is focused on a few imperative issues close to home. Are you overestimating Europe’s vulnerability to China?

Professor Godement: I do not think so. I am well aware of the other view which you have just described because I would say that this is the conventional view that has been had about China’s policy making for decades. My opinion is that this is now a relic of the past; that China is moving ahead and becoming more efficient at many levels of government action, particularly in international relations. Let’s look at the cadre, for example, of diplomats that China is now able to train, at their talent, at their international opening, this is really a far cry from 20 years ago. Let’s look at the ability with which their government machinery can coordinate various ministries and administrations when there is a problem. When there is not, or when a Chinese lobby is fighting another Chinese lobby, then I would agree completely with you, but I will give you an example that comes from my recent report. When the EU imposes an antidumping tax on a particular kind of Chinese export, and that is really only on two to three per cent maximum of China’s exports to Europe, we have it from a very reliable source that there was a kind of mobilisation network on the Chinese side that included both embassies throughout all Member States, ministries concerned, particularly for the category of export that was targeted, and a coordination level all the way to a vice prime minister. Can you think in the European system of such an ability to mobilise when a form of urgency is required? I do not think so. I think those who take examples from the difficulties of China’s domestic administration, particularly how much the centre has difficulty in getting itself obeyed at the local level and would transfer that experience to international relations are getting something wrong. Those who count on Chinese firms, for example, abroad not obeying the Chinese Government may be right at times of smooth sailing. I would say, when there is no crisis, but when there is a need the Chinese Government is perfectly able to control things. I would add that its civil servants are better compensated and have better prospects of career than at any time in Chinese history.

Q580 Lord Selkirk of Douglas: What priority does the current French administration give to China? What is the basis of France’s approach to China; and how consistent has France been in advancing its strategy on China individually and within the EU?
argue that this policy backfired in 2008. I do not believe, however, that we have come back to the previous system of relations with China. There is an element of realistic awareness on both sides and the relations will gradually, I would submit, become less political and more interest-oriented on both sides.

Lord Swinfen: Professor, the abandonment by China of the summit last December was seen as an attempt to punish President Sarkozy for agreeing to meet the Dalai Lama. Was it an error for the President to accept the meeting? What does the cancellation of the summit tell us about China’s relations with Europe today?

Professor Godement: To dispute your implicit interpretation, which I would very much like to do, is going to take some time so I will try to make some very brief points. On France’s and Sarkozy’s position towards China and the Dalai Lama issue, things were much more complicated. In fact, the Office of the President had announced as early as July 2008 that the President would meet with the Dalai Lama before the end of the year. This was a matter of public record. Secondly, Sarkozy’s public announcement in mid November, I believe, when the summit in Lyon was scheduled in early December, referred to admitting in a third country at a conference where other Nobel Prize winners were there. You might argue that it was not a formal State reception of the Dalai Lama; it was on another ground. By the way, if we want to come back through history, although it is never mentioned, even President Chirac has met with the Dalai Lama and has received him for dinner at the Elysee. This is a case when China, when it wants to single out a particular Member State, will try and pinpoint errors in diplomacy which have been made, will amplify them and will get others slowly to believe in those errors. I am not disputing the fact that the French official behaviour throughout 2008 was not a complete straight line; that it had its twists and turns, but the particular announcement on November 15 to a meeting after the summit was not designed to bring such a response. If I come to China’s response, I believe it has targeted Europe. I do not believe it has targeted France. I believe it was easy, for example, for China to hold the summit with Europe and to be brief or to curtail the bilateral summit with France that was happening at the same time. I would say that the proof of the pudding is in the eating. You just need to look at the next summit in Prague to understand what is going on. It is a short summit, only two hours, a five or six paragraph statement, very short, apparently at the initiative of the Chinese. It has been very difficult to round up the agenda before the meeting. The truth is that, for one reason or another, the Chinese have lost strategic interest or patience with a long and detailed summit with European leaders. Part of it is European weakness and a lack of coordination; part of it is a conscious Chinese choice.
to test Europeans on their will and to begin to play again at the Member State level to see what results it gets for China.

**Q582 Lord Anderson of Swansea:** Was there any perception that the European partners had failed to rally around France at this time?

**Professor Godement:** Very frankly, neither did we rally around Mrs Merkel, the German Chancellor, in September 2007 when she received the Dalai Lama in her office at the Chancellery; particularly the French looked the other way. I fail to remember whether there was any British statement; I think there was none at the time. That is why I have been emphasising since the start the weakness of the big three. You might almost sense that the intensity of the attack on France, the intensity of the offence with the December summit was such that in the end there was more show of solidarity towards France than there had been in 2007 towards Germany. I think this is a structural situation. It could happen to another Member State in the same circumstances.

**Q583 Lord Anderson of Swansea:** There must be some frustration at the divergent attitudes towards China within the European Union and the failure to evolve a collective strategy. Professor, can you help us with what are these divergencies? What, in your judgment, are the historic or other bases of these divergencies, and what are the prospects and the means to move them into a single policy? Added to that, to what extent, in your view, would elimination, such divergencies as can be used against the interests of the Union.

**Professor Godement:** First of all, I do not think the divisions are huge when you look at public opinion. There has been a spate of public opinion polls regarding Europeans’ attitudes to China and they do differ, but not markedly, from one country to another and they are very influenced by recent media events one way or another. I am not saying that public opinion always gets it right in terms of what is happening in the EU/China relationship, but I do not think the average Briton, French, German or Dane carries with him a philosophy of the relationship of his own state with China since the 18th Century. It is very much after the citizen of today’s Europe as consumer in part also. Where there are differences is in the policy establishment and their beliefs in different European States. We have an entrenched protectionist tradition which ascertains itself and therefore one could keep using antidumping to stop some aspects of the Chinese wave that is soft on Europe. We have an over-expectation in Eastern Europe that investments from China are going to help the situation improve and therefore an underestimation of the degree of economic competition. We have a traditional free trade attitude in Northern Europe and in the UK. What matters most is something that several interlocutors have told me while I was writing this report which is that attitudes to China are often decided less on the basis of interest but on the basis of philosophy, on the basis of belief, and that belief is often anchored in very old perceptions, very traditional perceptions of China, and we must move to change that. Will the Lisbon Treaty change everything? Certainly not. Is the Lisbon Treaty going to involve an industrial and technological policy, for example, to be able to deal with Chinese competition or to have a better bargaining hand in dealing with Chinese technology transfers, something which the Japanese and Americans do? We will not have it with the Lisbon Treaty. Would we have a coherent single European authority on investment and bond issuance, something which is very much in the press for other reasons today, which would therefore offer to the Chinese a privileged financial investment instrument such as the one the US has been able to offer? Certainly not; that is not in the Lisbon Treaty. What the Lisbon Treaty will give, however, is a mandatory coordination of the foreign policy establishment and a mandatory resolution of the gap between the Member State level and the Commission level among foreign policy establishment. You cannot believe how much when you travel through the big three you meet the same both in the UK, in France and even in Germany on the unrealism of going European and on the realism of furthering a national foreign policy route and then each of the diplomats in these countries is left to his own difficulty and to his own establishment difficulties in dealing with China. There is instinctual resistance with the present set of institutions against coordination. It is true at the working level and it is even true very often at the political level and, furthermore, because the political level changes because persons change even if you occasionally have individuals who want intra-European cooperation, they are likely to be replaced and the next generation has to be taught again. In that I will not disguise my European beliefs. I believe we need institutional moves that make it easier to cooperate.

**Chairman:** You had us intently listening there, Professor.

**Q584 Lord Jay of Ewelme:** Professor, you advocate an immediate review of EU policy on China based on I think you talk about a “new realism”. I just wondered what were the main areas of policy that would need to be prioritised or reviewed within that new realism? Secondly, what sort of instruments of policy incentives and leverage would need to be developed if we are going to move towards this new...
policy that you advocate? I then have a second question more specifically on human rights.

Professor Godement: First of all, you need to remember that in some 50 summits between the EU and China, never has the same policy priority appeared twice. We have managed over the years to change our priorities and to change our language to China. To that we add an immense shopping list even from the Chinese side which can extend to short term requirements on global governance. Something happens in Burma, something happens in Zimbabwe, there is Sudan, there is the Olympics, there is Tibet; it is a roving list of priorities that become the priority of the day. That also applies to human rights questions and I will come to that later. We have to focus on key priorities. The US is blessed with a strategic relationship with China. It always needs to discuss Taiwan, it needs to discuss the Korean peninsula and it needs to discuss the dollar currently. We need to have a shortlist. The shortlist, I believe, could very well include reciprocal access in China in certain categories of procurement and market conditions for the market economic factors and levelling these negotiations which have been discrete and which is getting nowhere because fundamentally what the Chinese prefer is a status quo. The existing agreement from 1985 which places very few requirements on them needs to be played out and it needs to be played out with sticks and carrots. The sticks are then thrown I would add in the direction of those who believe only in free trade as a role model that sanctions are sometimes necessary to persuade somebody else to move to free trade and somebody else to open up. There is a second priority for me which is very important which is having a very clear list of requests on global governance. Climate change is obviously emphasised publicly, but I think there is a big misunderstanding on Europe’s position on climate change because right now the relationship essentially relies on European funding, so whenever we trumpet our triumph on a joint project adopted with China, we should remember it is essentially out of EU funding, not Chinese funding, so in a way we have been very good friends in that aspect but we have not really prepared to sign up to this because it will cost them money. Do you think there will be a de facto G2 though and the United States and China will drive the economic agenda across the world and bypass the EU?

Professor Godement: There is a very big risk of a G2 that will bypass both Japan and Europe, largely for political reasons, largely because the Japanese is just an exhausted political system at this point with very poor public diplomacy and largely because Europeans are not collectively convincing. The Europeans do not have the big stick that the US carries. China is deeply worried about the consequences of a crisis for its own economic interests with the US. It is deeply worried about American monetary and fiscal policy. It is not worried as much about what is happening in Europe provided Europe stays open for business. We have less leverage because we have chosen to cut our leverage. There is a danger there.

Q585 Lord Hamilton of Epsom: When we were in Brussels there was great concern being expressed that we were moving away from G20, G7, G8 and we will then come to G2—the United States and China. We have since been told that the Chinese probably are not really prepared to sign up to this because it will cost them money. Do you think there will be a G2?

Professor Godement: I think it would make a very big difference. I am not predicting that Europeans will get other than marginal results with China on human rights because by now China has even enough leverage that it can fend off many pressures and human rights is one area where it wants to fend off pressure. We are currently leading a lose/lose game in two ways: in the first way we have managed to render confidential human rights dialogues and to get the issue out of the public domain. By the way, France in the mid 1990s was largely responsible so I can be particularly critical of my own country’s policy at the time. This has led to dialogues that run on empty, except if you believe that teaching Chinese officials about legal process will have cultural longer term influence. It is possible that it will, but in the short term on hard human rights issues there is no result. We have kept ourselves out of the possibility of public criticism. The game that is happening with the Dalai Lama today is not a game that is advantageous to Europe; not that I believe that it would put the Dalai
Lama immediately in a better situation with China if we were behaving otherwise. We are proving to China that European leaders will undercut each other and will potentially try to compete to be on the best terms with China by avoiding any form of public criticism. Bear in mind that this is not something that is done by the US. It is very seldom done by the US: they are able to articulate their policies and their criticism at the same time as they have a constructive relationship. In this there is a belief by many European heads of state, and I believe it is really playing out at the level of political leaders, that they will be rewarded individually by China for behaving better. I have seen no proof of this and since Denmark is in the news because it has been criticised because the Danish Prime Minister received the Dalai Lama, let me point out to you that Denmark, for the past decade, has had a remarkable policy of cooperation with China at many levels concurrently with its constant assertion of criticism on this type of issue and the Chinese seem to have been able to live with it simply because they know what to expect.

Q587 Chairman: Professor, because Europe seems to have this complete focus on Tibet, how does China interpret this? Does that mean that we completely lose any leverage on a much broader human rights agenda within China which everybody forgets?

Professor Godement: I agree, there is no reason to prioritise Tibet, and even the Dalai Lama per se. If you want my frank opinion, for example, the recent visit that the Dalai Lama did to France which he timed to coincide with the anniversary of June 4 of Tiananmen, that is a bridge too far, I would say. It is virtually several issues together and even the Dalai Lama should not do it. We should be realistic about the fact that results will not come in directly. We should in fact have a diversified human rights policy, not a single issue. By the way, Europeans in the past year have made a lot of adjustment to the Tibet policy. The UK has made an adjustment for the first time since 1913, I believe, and the French have also had a declaratory statement which clearly recognises the integrity of the Chinese territory and that Tibet is part of China. It is not as if we have not moved diplomatically on one side of the issue.

Q588 Lord Anderson of Swansea: Professor, even if we were to diversify our human rights policy and reduce the obsession with Tibet, is it likely that that would have any further results, for example, in the cases of individuals—catholic priests who are imprisoned and so on—or would the result be as negative as it is now?

Professor Godement: This requires more coordinated action. This requires a transatlantic understanding. I will grant you that at this point situations where public support for an individual in China can lead to a worse fate than if there were no public expression of support I believe, for example, Mr Hu Jia, the well-known human rights activist who was detained before the Olympics, has probably suffered because the Chinese Government chose to make an example of their ability to resist pressure. That is short-term, however. In other areas we can manage to have constructive criticism and to have views that coincide with segments of Chinese opinion. I have singled out, for example, in our report administrative detention—the right to detain an individual for four years without any kind of judicial hearing—which still exists in China but which is the object of debate. I have mentioned not the abolition of the death penalty, but a reduction in its usage, which is also an area of public debate in China. Chinese nationalists, SMB members and provincial SMB members, were the first to criticise the death penalty because they fear its widespread application. So there are examples where we can have a long term public attitude constructive, not necessarily able to take action on each case, but which will coincide with debate in China. I think that should not be given up. When we just say that China is going in the right direction but too slowly, which is the usual policy line these days, we are not doing a service to people inside China.

Q589 Lord Crickhowell: Professor, you have been dealing very comprehensively with most of the issues covered in the next question of which you were given notice. I want to put a rather different question. In the conclusion of your paper you say: “Most fundamentally, it is necessary that the European Union does not deviate from principle on some key issues such as human rights and so on,” although, as we have just discovered, it is not likely to make a very big difference in those areas. You then go on to say that: “The coming test for China/European cooperation is in the area of third party cooperation and governance and Europe must welcome China’s rising profile in regions such as the Middle East, Africa and Latin America and should strive to maintain and reinforce the international institutions and norms that are upheld in Europe.” Perhaps you could elaborate a little on that. Is it not likely that the best way of really making progress with China is to find those areas, such as global warming, where perhaps initially our involvement has been primarily financial, but at the moment when China is beginning to recognise the serious reality and is showing signs that it intends to do something about it, we should be seeking cooperation in those areas of shared concerns and shared interests and in the field of opportunity in technology transfer and change where China has a very big interest in sharing with Europe some of its skills.
Professor Godement: These are areas for cooperation and they have the advantage of not raising the same political concerns that exist in other areas. If I can take the example of energy efficiency and climate change, I would prefer to put it in terms of energy efficiency because that relates to economic realism and it is the only way to put changes in practice for anybody. China has made a move to a commitment in principle. It has not yet made a move to actual international agreements. It is still sitting on the line it had with the Bush administration with a lack of a precise target. It is probably waiting for the US to put its cards on the table for the new administration and Europeans who had a lead on climate change, who had a lead in cooperation essentially because we were financing these programmes, are in danger now of being again the weakest point in the triangle where the US and China would win the negotiation. In any case I do not think we should let out of political governance issues. I want to put your concern back to proliferation in Iran and to Africa. These are areas where in Africa China could be termed an ‘absentee landlord’ in some ways. It has a security problem in fact because it is not militarily present on the ground, except for weapon sales, and that situation will not last so we have choices to make facing Chinese interests. My advice on this is that we indeed give proof to China that we are ready to welcome its interests on the international scene and to share political and security action to protect the interests as we would our own provided China adjusts its views on governance and that not break completely separately at the international level. I think this is a very important change and this is the area where a bargain exists for Europe. For the US, you can talk about the Korean peninsula and you can talk about neighbours and you can talk about India, but we cannot. We do not have the leverage that the US has on areas immediately around China, so our areas of leverage are elsewhere. We need to talk about Iran. Up to now the pattern of Chinese relations with Iran has been the same as with Burma, Sudan or North Korea. Whatever the Chinese language, whatever the kind of nudging that China may occasionally have indulged in, essentially it has increased its economic relationships while we fought for a change in these countries. This is a fundamental difference of attitude. That does not mean that China wants to destroy the international order. I would suggest a term to qualify the risk in China’s attitude is something that was used about Japan in the Eighties and it is called ‘free riding’. To a large extent China today depends a lot on the international order because of the openness of its economy, but to a large extent also it is not yet contributing a lot and in particular leaving to the industrialised countries the burden of enforcement. That is a problem and I would suggest that we turn our attention to these areas and not only to more distant goals.

Q590 Lord Crickhowell: As you say in so many of these areas, if you take Burma, if you take the whole Afghanistan/Pakistan issue, in many of these areas China has shown no willingness to play a role at all alongside the other countries. Are you optimistic that you can shift China in these areas?

Professor Godement: No, I never mentioned Burma or Afghanistan. I think we will never shift China on Burma, so long in particular as Burma’s neighbours themselves do not shift. If Southeast Asia and India do not shift, China will never shift on Burma. Substantially neither India, nor Southeast Asia, has really shifted. Afghanistan is a much more complex strategic issue. When you are talking Afghanistan for China you are really talking Pakistan. China may cooperate with the Allies if it realises there is a grave threat to Pakistan’s integrity in the future and that I think would get China moving for its own reasons. No, I was speaking Africa because this is an area where we are the neighbours, where we are influential, where we are a partner. When we are talking Burma, when we are talking Korea, when we are talking any area east of Suez, we are talking of areas where we have no practical influence.

Q591 Lord Inge: The French approach to China seems to me to have been strongly influenced by its relations with America and the transatlantic relationship. Do you think that linkage still remains very important in its attitude to China, or do you think it is weakened or strengthened? What impact has it had?

Professor Godement: I am not terribly sure that I understand your question fully so I will answer from what I understand. French policy has always been on two levels: there is a political level of gamesmanship with China which also comes from a degree of political competition internationally. If you look at the defence and security policy, that has almost never been true. There may have been temptations at times. I remember living through the arms embargo debate, for example, in 2004/2005 and I always saw the French approach to China which also comes from a degree of political competition internationally. If you look at the transatlantic relationship allows you at least to be devil’s advocate at times to be an irritant in the political level and sometimes seem in fact animated by what the political level is doing. Then if I play the devil’s advocate at times to be an irritant in the transatlantic relationship allows you at least to be visible and allows you to have a dialogue, so there is a US responsibility. There has never been an official strategic debate about China or Asia with the European Union. There was one that started only when Europe began giving signs of lifting the arms embargo and then the US created an official transatlantic debate, so the situation is a bit more complex. Viewed from China, the official line is Europe has disappointed us. We were persuaded that Europe was going to disassociate itself from the US.
We were all for European construction because we believed it would give a new strategic personality to Europe. This has not happened. We now realise that an important strategic issue is Europe will always side with the US and therefore we have downgraded the political relationship with Europe. The two are linked. This is a recent judgment by China out of disappointment.

Q592 Lord Chidgey: You have already touched on some of the key issues regarding Africa. I think your phrase was that so far as China is concerned it is ‘free riding’ on Africa whilst the European countries, and France in particular, are taking on the responsibilities of an area which is of course an area where we have leverage, as you put it. Taking a more specific view, the European Union (France and Britain) are putting a great deal of investment into strengthening democracy, improving governance, transparency and so forth. I think you are saying that China is not contributing to that, but more importantly perhaps are China’s policies towards Africa undermining the work that the European Union and other international institutions supported by France are trying to create? What is the agenda?

Professor Godement: I do not believe there is a strategic agenda by China to undermine any kind of interests in Africa. We are not back to the Seventies. They have largely strategic interests when it comes to raw materials and energy. There is of course undermining simply because they offer easier terms on many details, and not only financial terms which are welcomed by Africans by the way and we should be alert to the fact that competition from the African point of view is welcome, but they are offering easier deals in terms of governance and some of those deals have been caricatured, such as the one that was passed between the Chinese Government and the Democratic Republic of Congo, for example, in the past two years. This is done from the point of view of practical competition; it is not done with a strategic aim. In some cases the Chinese become sensitive to security issues and may be ready to cooperate insomuch as they perceive a threat to their own interests. This may be happening at times, but overall I think we would love to make it more difficult for them to undercut terms of governance with Africa. That by the way is a difficulty that it can only be done with Africans themselves. We have yet to find proper echelon African regional organisations which the Chinese like to emphasise are notoriously weak— weaker than any other forms of regional organisation—so this is not an easy task to do. At times there may be leverage through financial issues, for example, debt. This has happened in the case of Congo. At other times, if you look at Sudan it is clear that when 21 Chinese citizens, mostly engineers, were kidnapped, the Chinese began paying attention to cooperation for restoring security within Sudan among guerrilla factions and the local government when they merely supported the government before; that is a change, but the change comes from their own interests.

Q593 Lord Anderson of Swansea: Bluntly, there are only two main European players in Africa—France and the UK—because of our colonial past which, alas, has included Fashoda and Mers-El-Kebir, but happily recently there has been a much greater cooperation between French diplomacy and British diplomacy in Africa. It began in about 1997 with Robin Cook and Hubert Védrine, and that has continued now with Kouchner and Miliband. Is it your view that there could be much greater cooperation between our two countries to the benefit of Europe in respect of Africa and of course then facing China?

Professor Godement: It is very important in security terms because we are the only significant outside actors and we have in fact more willingness to be on the ground than even the US, so that is of course very important. Preserving security in several situations in Africa is very important. From the economic point of view, from the point of view of what I have just mentioned, the contradiction between governance and easy credit terms, I am not sure that France and the UK can act by themselves. I think there should be action at the European level with others who see the situation differently because they do not have that historical past but we need to convince them, we need to have them on board a new compact, shall we say, for action in Africa, but in security terms you are right. It would be wrong to categorise the French as merely cringing on the arrival of Chinese interests. There are areas where the French are reaching out, as they have done in the Indian Ocean, they have done so between China and Sudan towards the Chinese to establish useful security relations. It is the beginning of a path which is a form of engagement. If I want to parrot the concept in our report, reciprocal engagement is where we also expect a change of attitude from China.

Q594 Lord Inge: Following up on the engagement in Africa, Professor, do you actually think that the Chinese are prepared there for the long haul and some of the security problems that could arise from this and do you think that Europe as a whole—you have talked about Britain and France—will be prepared to get engaged in handling some of what may become quite dangerous and difficult security situations?

Professor Godement: I do not think the Chinese are well prepared. I do not think the Chinese have thought out all the strategic and military implications of a huge economic and even human presence
throughout Africa. I do not think they are adequately prepared for the backlashes that might occur. After all, Asians were expelled from several countries of East Africa in the early Seventies and such backlashes could happen again. I believe they are confronting problems as they arise. The only area where they have a bit of advance is the diplomatic level of cooperation and perhaps the maritime level of security where they are now advancing particularly towards the Indian Ocean. The question is what attitudes do we take? Do we hope for a change of circumstance or do we believe, as I do, that in fact part of the Chinese presence in Africa is very welcome economically. It is an important factor that could complement what we are doing and what our interests are, but we need to cooperate more. We need to persuade the Chinese that we can be commercial competitors but that we are not necessarily political competitors if they change somewhat their terms, which could happen.

Q595 Lord Inge: If the security situation gets worse, which it could do in certain countries, and they are certainly showing more interest and sending peace-keeping forces, can you ever see the Chinese really being prepared to send what you would call peace-keeping forces to Africa?

Professor Godement: Peace-keeping is an area where China has token action purely in the blue helmet mandate, not as a distinct force which is still a prerogative mostly of western countries, but they could contribute more which would signal to African governments a change of attitude on China’s part. We are very, very far away from having direct Chinese or PLA action in Africa.

Q596 Lord Hamilton of Epsom: Professor, could I raise an issue with you of which you have not been given notice and that is you are quite critical in your paper about EU aid to China. You say that much of that aid has actually gone on infrastructure and light industry which the Chinese really could have paid for themselves. There is a strange juxtaposition when Europe has this massive trade deficit with China which is actually giving them aid with the other hand. There you say that that aid should be redirected. I have two questions: how much does EU aid to China amount to and is there not an argument for phasing it out all together?

Professor Godement: The amounts are not significant if you compare them to trade and to the trade deficit. If you aggregate those Member States who have aid programmes in the EU programme you probably have less than US$1 billion per year; you probably have close to that but not more. I would emphasise that after 1989 and after Tiananmen, Europeans needed a conscience to give aid so they began redirecting aid to underdeveloped sectors of Chinese society to good causes and more recently the justification for aid is often programmes that indirectly help us; for example, typically the energy and climate change situation. It is not as if all aid programmes were misdirected. The problem is simply that we would get far more money for our resources now if we got China to cooperate with us in third countries where our interests mesh than in China itself where our money is just a drop in the ocean. That is why we call for redirection of aid predominantly towards third countries. The only other policy option I would recommend is a totally unrealistic one because it would require European industrial policy. Both the Japanese and to some extent the US through credit still retain the facility to aid sectors or firms directly or indirectly; we do not. EU rules are particularly strict on this so our aid cannot really contribute to help European firms; it is often in other sectors. If there was a policy change at the European level that would be welcome but I think that under the present conditions of the European system it is probably unrealistic.

Q597 Baroness Symons of Vernham Dean: It was interesting to hear today on our national news that China is giving US$50 billion of aid to Africa. It does seem, to take up Lord Hamilton’s point, peculiar that we are giving our aid to China and then they are handing on aid to Africa, but I leave that for a moment. What I really wanted to ask you, Professor, was in your paper where you deal with peace-keeping and regional integration you say that “China by far prefers state to state bilateral agreements or interstate cooperation within the Shanghai cooperation organisation,” and you then go on to mention counterterrorism. It is an important subject, one we have not touched upon, so forgive me for raising it now. Where do you see the prospects between the European Union, either on a bilateral basis of the big three or, preferably as the Union itself, having a dialogue with China about counterterrorism which is, after all, a topic which is of key international importance at the moment?

Professor Godement: I cannot refrain from a very quick answer on the US$50 billion to Africa. It is called aid but in fact it is linked credit to deals—roads, for example, leading to mines which have been conceded to Chinese firms—so it is aid within trade; it is not aid as we would define it.

Q598 Baroness Symons of Vernham Dean: In a way that makes it worse for us. It makes me feel crosser about it than ever if that is the case because we, as you rightly say, do not link aid with trade. In Britain we may not do it.

Professor Godement: It is a wrong description to categorise it as Chinese aid; that is the truth of the matter. Turning to your question on
counterterrorism and potential cooperation, I am fairly sceptical but I am not privileged to intelligence information and who is the terrorist particularly in and around China, but I am a little sceptical of the notion of a link up between various groups of terrorism and of a continuum between the subversive threat or the opposition threat that exists within China and the wider terrorist menace. China has really been able to contain the immediate general terrorism from Pakistan and Afghanistan and has done so quite extensively. If you read through Al Qaeda literature you will never find a mention of China; you will never find a mention of—very rarely, I think there has been one—of Eastern Turkistan. They are careful and probably rightly so since they have to live in a state of balance with the Pakistani army and the Pakistani army is so close to China. I believe that China has set itself up very cleverly after 2001 as another victim of terrorism and it has got us to cooperate on what are essentially police lines but it is not directly threatened presently by terrorism as we are, so there is a limit to the cooperation. I am not saying there should not be any but I am saying that we should not perhaps expect too much. The situation will change radically if Chinese interests were directly threatened. The Chinese have invested US$3 million in the world’s second copper mine in Afghanistan and right now there are coalition troops defending the copper mine that made a deal with China. Toppling the regime in Pakistan would be a catastrophe for China. This is no longer terrorism; this is a major geopolitical level of threat.

Q599 Chairman: Professor, thank you very much. Unless there is anything that you particularly feel that we have not covered or any points that you would like to make, that really wraps it up.
Professor Godement: I have one very short point. I would very much like to emphasise that much of the burden for improving the relations falls on the European side for streamlining European institutions for doing away with the mess of 27 Member States having superimposed dialogues. Take climate change: there are five bilateral dialogues with China on the climate change issue, plus the EU dialogue. Streamlining, coordinating, arriving at a compromise among ourselves on our interests and on our values is a prerequisite to better dealing with China.

Chairman: Professor, thank you very much indeed. It has been a very useful session.
forces—to a situation emerging in the mid-1980s, indeed prosecute on conflict, primarily with its land borders over which China did not long feel secure. Threats emanating from internal land borders—notably the Soviet Union and its republics, India, Vietnam and of course borders over which China did not feel secure—were the sources over which it was more concerned in terms of strategic environment, as the Chinese perceive their strategic environment today than it was ten or 15 years ago and indeed their primary threats emanate from an entirely different strategic environment, namely its East; from, in their view, threats from the United States potentially, from a Taiwan independence movement and Japan. This presented to the Chinese a completely new and different strategic environment which demanded an entire rethink in doctrine and importantly, in response to your question, to the types of weapons and technologies that would be required to respond to these perceived threats. In short, China is moving from a highly mechanised, human intensive, land-based military force to one that has to fight what the Chinese call limited high-tech wars under informationised conditions. That has demanded a change in their armed forces and in hardware in terms of their capabilities. A more immediate and I think more concrete explanation for their advances in military capabilities is Taiwan itself and the recognition in the late-1990s with the emergence of a more robust Taiwan independence movement, with the emergence of a more robust Taiwan identity and of course with the democratisation process there, and particularly with the ascension to power of President Chen Shui-bian in 2000, there became the very real possibility that he would make a serious effort to achieve de jure independence and permanent political separation from the mainland. That is entirely unacceptable to the Chinese leaders and the principal mission of the People’s Liberation Army is to make sure that that does not happen.

Q601 Lord Inge: There has been a real change in the size, the capability and the ability to project power of the Chinese armed forces and what I am not clear on is the reason they have made these dramatic changes. In the past it was for internal defence; now they have a real capability to project power and they still seem to be keeping a very high level of defence spending. I would be interested to know what you think are the roles of those armed forces.

Dr Gill: Let me begin first of all by thanking the Sub-Committee and the Lord Chairman very much for the opportunity to speak here. To answer your question, I think I would note maybe one longer term trend and one nearer term expediency. The first longer term trend is that over the past 20 to 25 years as the Chinese perceive their strategic environment they see a major paradigm shift in the locus of the most important threats. That, in a sense, is almost a literal 180 degree turn in a way from an overwhelming concern with what we might call threats emanating from internal land borders—namely the Soviet Union and its republics, India, Vietnam and of course borders over which China did indeed prosecute on conflict, primarily with its land forces—to a situation emerging in the mid-1980s, late-1980s, early-1990s where, as the Chinese perceive it, their principal threats emanate from an entirely different strategic environment, namely its East; from, in their view, threats from the United States potentially, from a Taiwan independence movement and Japan. This presented to the Chinese a completely new and different strategic environment which demanded an entire rethink in doctrine and importantly, in response to your question, to the types of weapons and technologies that would be required to respond to these perceived threats. In short, China is moving from a highly mechanised, human intensive, land-based military force to one that has to fight what the Chinese call limited high-tech wars under informationised conditions. That has demanded a change in their armed forces and in hardware in terms of their capabilities. A more immediate and I think more concrete explanation for their advances in military capabilities is Taiwan itself and the recognition in the late-1990s with the emergence of a more robust Taiwan independence movement, with the emergence of a more robust Taiwan identity and of course with the democratisation process there, and particularly with the ascension to power of President Chen Shui-bian in 2000, there became the very real possibility that Taiwan would make a serious effort to achieve de jure independence and permanent political separation from the mainland. That is entirely unacceptable to the Chinese leaders and the principal mission of the PLA is to make sure that that does not happen.

However, they understood that if they were called to defend the motherland, as it were, and respond to such a contingency, they might not be ready, especially given the condition of the Taiwan armed forces and of course the potential for US military intervention. As a result again this has been a very important impetus for their modernisation effort. I will just make one more point. I think it is fair to say now that within a relatively narrow contingency of a Taiwan crisis the Chinese military is far more capable today than it was ten or 15 years ago and indeed their capacity surely complicates both Taiwan and American and other potential allied responses to that contingency. In terms of broader power projection...
beyond what I might say is the first island chain out past Taiwan, I think it does get more complicated and it is a far longer story before we can begin talking about China as a peer competitor or really being capable of projecting sustained military force beyond Taiwan.

Q602 Lord Inge: It is quite clear that they have a projection, if you like, for their increased effort in Africa. I have no idea of the scale of it. Is that for protection of their people? What do you think it is? Dr Gill: The two most important military projections of Chinese military power in recent years have been a significantly ramped up contribution to UN peace keeping activity, but again this is not undertaken really through PLA air force lifts or other massive logistical operations. They fly on chartered jets just like most UN peacekeeping forces do and are flown basically by commercial airliners to their activities. The other point is the deployment of three naval vessels—one destroyer and one frigate and tender vessel—to take part in the loose international coalition of navies patrolling the Gulf of Aden. That is significant. China has never, in its contemporary history, projected its naval forces so far and for so long. They are demonstrating the capacity, which is interesting.

Q603 Lord Anderson of Swansea: Dr Gill, the genesis of the People’s Liberation Army obviously was a revolutionary army drawn from the peasantry with specific objectives and that determined its recruitment, its organisation, its hierarchy in terms of the officer class and its doctrines. To what extent has the new technology and the new force projection totally obliterated those origins or are there still remnants of those origins remaining? Dr Gill: That is a great question and I think you do put your finger on what remains, in my view, a continued limitation upon the PLA as a true power projection force on a par with other great powers (the United States and I would even include the United Kingdom in that). Part of the reason for that is that the People’s Liberation Army—note the name—remains very much a land-based mechanised force in spite of the interesting changes that have taken place over the past ten or 15 years. China still has the largest standing army in the world. The latest figures I have are 2.185 million soldiers, 1.6 million of which (about two-thirds) are the army, land-based forces. There are only 250,000 persons in the navy; about 300,000 or so in the air force and the rest in domestic paramilitary forces. So it really does remain very much a traditionally land-based army-centric military; it is difficult to point to any significant air force leader or navy leader who, in the past 30 years, has taken a lead role in determining doctrine and new thinking. Perhaps the best example is a gentleman, Admiral Liu Huaqing, back in the 1980s who did at least begin to launch the process I was describing about looking to China’s east. It is also interesting just to note—at least symbolically interesting—that the People’s Liberation Army Navy is the name of the maritime forces and the People’s Liberation Army Air Force is the name of their air force. There is a reason for that. Those two services are not considered to be equal—at the same level—as the PLA; they are about a half step down in terms of the service hierarchy and that too speaks to a continued dominance of what we sometimes call the men in green as opposed to the men in white or the men in blue. There is an analyst of the Chinese military by the name of Dennis Blasko who has developed an interesting pyramid concept. In his view perhaps only about five to ten per cent of the overall PLA—a significant number when you consider how large the total is—really represent and have achieved this doctrinal concept of being able to fight and win limited local wars under high-tech informationised conditions. The remainder remain less well-equipped, less well-trained, less well-educated. The vast bulk of the army remains in many ways as it was even ten or 20 years ago, but we are still talking about a force of between 200,000 to 300,000 and growing; better educated, more sophisticated, technologically savvy and prepared to prosecute those more limited potential contestations close in to Chinese territory.

Q604 Chairman: Dr Gill, you have used the word “informationalised” twice and I have to admit that I am not clear exactly what you mean by that. Dr Gill: It is a term that the Chinese have put forward and we have had to bring into our lexicon as we analyse the PLA. “Xinxi hua” means “informationalised” or “informationised”, but what they are talking about is the greater introduction into their operational capabilities of what we might call in English C4I (command, control, communications, computers, information, surveillance, reconnaissance); in other words innovation of a more information based, IT based capability. This is a relatively new idea so we do not want to over-exaggerate the degree to which the Chinese have achieved this, but what is important is that they understand the need to do so. You can count on the PLA over time to do what is necessary to introduce a more sophisticated information base for their armed forces.

Q605 Lord Hamilton of Epsom: If you look at the West the sort of step-change in capability has come from the development of electronics and the accuracy of missiles and bombs and so forth. Where are the Chinese on all this? I get the impression that if they went to war with a sophisticated enemy they would
have great problems actually establishing any superiority in the air, for instance. Is that true?

Dr Gill: Yes, as I understand it that would be true. Let us just compare them to some other potential adversary; let us just speak of the United States, for example. China does not have anywhere near, if any, space based ability through satellite, real time guidance or even real time battlefield awareness that can be derived from satellites which the United States has (or even other major powers would be able to have). That is a big draw back and I think it does, as you suggest, underscore our need to be cautious and realistic when we talk about where Chinese military modernisation is going. Most Chinese would argue that their intentions here are probably not—surely not in any near term scenario that is worth talking about—to become a peer competitor of the United States or of Japan; their near-term intentions do not appear to be the kind of power projection force which we could say has been part of American or British military doctrine, but rather what they would like to call active defence. That is to say to achieve a capacity where a potential adversary would surely think twice and may even wish to avoid getting into a confrontation that might escalate. The Chinese could level some very serious damage to a potential adversary, especially in conflicts in or close to Chinese territory. Would they win a particular conflict? That is obviously contingent the particular circumstances, but they could surely do a great deal of damage and that is, I think, in some ways where they wish to be at the moment. In other words active defence and more of a deterrent capacity to prevent potential adversaries from taking steps that China does not want them to do. That is especially true around the Taiwan scenario.

Q606 Lord Chidgey: Dr Gill, you mentioned a few minutes ago in reply to Lord Inge’s questions about the projection of power that for the very first time China has projected naval power in collaboration with the multi-national force in the Gulf of Aden. Part of the ability to project power, as I understand it, is also the ability to supply it. We know of course about the bases that have been built in Sri Lanka and elsewhere as a sort of chain through South Asia. I happened to pick up earlier this week a programme on English language Chinese news in Europe highlighting in great detail the arrival in the port of Salalah in Oman of the supply ship and being celebrated by the local Chinese investors, the fact that they were doing this operation of being able to load up the stores and food. Is this part of a policy that they have relations with Gulf States to be able to supply their projected power or is there something else that I am not reading into this that the Chinese specialist would see? Or is just a straightforward commercial transaction?

Dr Gill: I guess I am in the camp—and I think there is good evidence for this—that we do not want to over-exaggerate this sort of string of pearls notion or that China is somehow establishing special basing arrangements with various partners’ regimes et cetera across the Indian Ocean and towards the Gulf of Aden. It is my understanding that China relies very much upon normal, commercial forms of logistical support, even including DHL and FedEx, just like American and British forces sometimes do today in peace time. That is entirely normal. In peace time China’s naval vessels are welcome to call into virtually any port and pay for the fuel the food just like everyone else. War time would obviously be a different situation and quite frankly I think that those countries that might be prepared to offer Chinese naval vessels safe harbour and supply would be very few indeed at a time of war. So we should not overstate the potential for the Chinese navy to establish formal wartime basing arrangements across the Indian Ocean. I would just add that in a sense this reality, as I understand it, if war were to come it would probably be good news at least for Western allies precisely because China would find it very difficult to sustain a naval operation much beyond its borders for this reason.

Q607 Lord Crickhowell: I have one follow-up question to Lord Hamilton’s question on technology. We are hearing that China is becoming quite good at making efforts at cyber-technology, getting into the systems of the West which is a potentially aggressive way of dealing with things. Could you comment on their capacity and what you think they are doing in this field?

Dr Gill: I will have to preface my remarks by saying that I am really not much of a specialist in this area although it is obviously one of increasing importance. If the Committee is interested I would recommend taking a look at the work of people like Michael Chase and James Mulvenon both formerly of the Rand Corporation and other think-tanks in the United States. This is clearly an area where the Chinese are putting in significant resources. Again it is in some respects a reflection of conventional weakness rather than an aggressive offensive capacity or intention. In other words, it falls very squarely within this notion of asymmetrical warfare, using what limited resources you have to find the vulnerabilities of a potential enemy and trying to complicate or deter actions of a far more powerful and more technologically sophisticated adversary through comparatively simple and less costly means. Cyber security and cyber interference is clearly one of these efforts where the Chinese are putting a lot of energy and effort and I think it is one of increasing concern, especially for the US military which is so
heavily reliant upon information technology for its activities.

Q608 Lord Jones: In the relationship of China and the EU would you be able to say what the key security issues are? In the relationship would it be for the Union itself to relate to China or would you expect a specific Member State to take a lead in matters like this? How can we, in the Union, make our policy more coherent and more effective?

Dr Gill: Traditionally I would say that there has not been a well-developed or very sophisticated security relationship. Maybe we can try to define a little bit what that means, but there really has not been much in the way of a security relationship as traditionally defined. There are good reasons for that. The European Union has no alliances in the region and has no particular security commitment or treaty arrangements of a traditional sort comparable, say, to the United States. Some Member States arguably have a greater presence in East Asia—like France and the UK—where China might be a concern. Among the various dialogues which the EU carries out with China the only two which you might be able to pigeonhole as security related would be the ones concerned non-proliferation and perhaps space cooperation. There have been some efforts and some overlap, but I would not call it necessarily a sort of structured and regularised dialogue. For example, the EU, you will recall, was a member and contributor to the Korean Peninsula Energy Development Organisation (KEDO) which was an earlier effort to try to bring North Korea into compliance with its non-proliferation obligations. The EU big three, that is to say Germany, the UK and France, are involved in the six party effort to engage Iran, which includes China, on Teheran’s non-proliferation commitment. There is an interesting set of overlaps. I would say, going to a more traditional and regularised effort, I would look to certain Member States. The UK for example, France and Germany do have on-going and regularised security dialogue with China. All that said, I think it would be a good idea for the European Union to try and establish a more formalised, regularised and even separate and discrete effort to engage China on those security issues where the European Union and China have an obvious mutual interest. Many of these would probably be less traditional in nature—maybe we would be talking about energy security or environmental security—but I think it is worthwhile to engage China. The high north I think is going to be an issue of increasing security relevance for at least the Nordic members of the European Union. Of course there will remain the on-going question (which I suppose we will get to at some point today) related to the arms embargo and the question of high-technology trade and investment with China and its impact on Chinese military modernisation. I will just make one more point. To the degree that the European Union is able to establish such a better defined security dialogue with China it probably ought to be placed in a broader East Asian context. It should include, at least in the deliberations in Brussels, careful consultations with other key friends and allies in the region, namely the United States and even Japan, South Korea and Australia so that progress or lack thereof that might take place in a EU-China security dialogue, not that it is coordinated strictly with friends and allies but that it is simply done in a consultative way. I think that is going to be a more successful effort with China.

Q609 Lord Jones: In the medium term perhaps it would not surprise you if it was the ‘Troika’ in the practical sense that did something ahead of, say, the EU’s generality.

Dr Gill: I think you are certainly more familiar than me with the difficulties the EU has in developing and expressing and implementing a coherent approach to a range of foreign policy questions, and security issues are particularly sensitive. I think you are right, it makes a lot of sense I would think for the major EU parties to push ahead and to try to engage China more effectively on certain security questions.

Q610 Lord Jay of Ewelme: I wonder if you could just turn to the United States’ appreciation of China’s security policy and what you see as the main components of their security strategy. In particular, has there been a shift in the US approach to reflect the shift which you outlined earlier on in China’s own appreciation of the shifting threat? How does the US view the strategic modernisation that you described earlier on? Is there, in a sense, something of a constant here in US policy or are we seeing a shift under President Obama from that which we saw under President Bush?

Dr Gill: I would generally say that we should expect continuity rather than any shift. There has been, I think, rather good continuity across the past two or three administrations. Let us just date it from the late-1980s when there was a significant break off in the nature of the US-China security relationship, primarily as a result of the Tiananmen Square events but also with the end of the Cold War the strategic reality of a rising China and one that was intent on developing its military modernisation and potentially threatening friends and allies in the region with which the United States has treaty commitments and other security relationships. I am thinking of Taiwan, of course, particularly but also even Japan. At the beginning 1990s, at the end of the Cold War,
what we see is a somewhat complex ambivalence—some might even suggest contradictory evolution of policy and strategy in the United States. On the one hand, at a sort of diplomatic, political and economic level, we see deepening integration, deepening understanding across the two sides of mutual interest and a serious effort on both sides to make the core of the relationship one of common interest and cooperation. Even though the Bush administration entered office in January 2001 with discussions of China as a strategic competitor and the early months of that administration were marked by the EP-3 incident over Hainan Island, nevertheless I think the Bush administration, in part led by the president himself, worked very hard to assure that the US-China relationship did not devolve in the direction that some in the administration might have preferred, one towards greater confrontation. The second Bush administration term had put in place, I think, the framework which has characterised the relationship over the past 20 years, one of true efforts on diplomatic, political and economic grounds to establish deeper engagement and common interest. But on the other hand the relationship is also marked by what we would call military hedging in which both sides, militarily speaking, do look upon one another as potential adversaries in the future and are preparing for that. I have talked already about how the Chinese are thinking about this. You asked about the United States; yes, there is an on-going shift of forces, simplistically put, moving permanently based, relatively vulnerable American soldiers and equipment further away from China, but bolstering U.S. capacities in Guam, for example, and strengthening other military partnerships in the regions such as with Singapore and Australia and of course Japan which could then be activated in case of some military contingency with China. For the two sides, I would say it is a very contradictory situation in which you see the deepening of political and economic relations on one hand but what some have termed a kind of strategic mistrust, especially in the militaries of the two sides, about what might happen.

Q611 Lord Jay of Ewelme: Do you think that the mutual economic interest in the medium term will be stronger than the potential security distrust intentions?

Dr Gill: I do. I think that while it will be very difficult to dispel the strategic distrust at least in the near term it will be a relationship that will be unlikely to turn into conflict between the two sides because there is a broadening sense of mutual interest. I think the major flash points that could have devolved into conflict are moving in the right direction now, Taiwan being the obvious case. It is possible, unfortunately, that we could find ourselves in an inadvertent situation with loss of life, potential loss of equipment and maybe even a major incident between the two militaries, for example like we saw over Hainan Island in 2001 and as we have seen increasingly in the South China Sea as the two navies, sometimes quite literally, bump into one another. That could turn into a dangerous situation but I would see that as an inadvertent rather than an intentional circumstance.

Q612 Lord Chidgey: Dr Gill, I think you have actually gone some way to answering the next question but perhaps you could pull these points together. Concerning the US and China’s interaction on questions of regional security challenges in Asia, can we have a response to the concept of whether the two sides have in fact reached mutual accommodation on issues such as Taiwan and North Korea? As I say you have touched on this, but could you be more specific. In that context, how does the EU fit into that relationship? Are all three pursuing the same goals?

Dr Gill: I would have varying interpretations of the situation regarding Taiwan versus North Korea. Mutual accommodation is probably a little bit too strong, but I think there has been reached a mutual understanding at least about the situation in Taiwan and perhaps most importantly the conditions in Taiwan itself have been overwhelmingly the key to helping support a mutual understanding between the United States and China to avoid conflict there. This was maybe most marked in a high profile way by the summit which took place between Premier Wen Jiabao and George Bush in December of 2003 in which the president very publicly at the White House with the premier at his side said that Taiwan should not take any unilateral action which would disrupt the status quo. This was really a warning to the president of Taiwan. It was very public with very strong words from a conservative American president which underscored the strategic reality that Taiwan should not seek to create a situation in which two great powers like the United States and China would come into conflict with one another. So on Taiwan yes, there seems to be a sort of modus vivendi, a mutual understanding in some ways over the heads of the leaders and the people of Taiwan that the two great powers will do everything possible, including trying to shape developments on Taiwan to avoid a situation in which Taiwan would take steps which would lead the two major powers into conflict. North Korea is a different situation. Part of the problem we have there is precisely that the United States and China probably have the same broad strategic goals and aims, which explains why the six party talks can take place and why China has been, I would say, a relatively productive, cooperative and constructive host and partner. But how we achieve those strategic goals is where we differ. How do we get to a de-nuclearised North Korea? How do we get to a place
Indeed, just last month Taiwan was granted powers around the world to encourage China to be EU itself join with the United States and other helpful that European Member States as well as the international community. I think it is very, very would be able to make a contribution to the a non-state participant where Taiwan, I think rightly, state but would nevertheless be as an observer or as Assembly where its participation would not be as an international organisations such as the World Health organisations that the pro-independence envelope. The European Union has also been quietly supportive in the past of e Union has come out on-going consultation across the Atlantic, for example, between Brussels and Washington about Asian developments as well as with countries like Japan, I think the Korean question ought to be an important part of those discussions and I think the European Union can make an important contribution to informing decision making in places like Tokyo and Washington.

Q613 Lord Anderson of Swansea: You have been talking about regional security challenges in Asia and have referred only to Taiwan and North Korea. There is a pretty significant regional security challenge of great importance to Europe going on right on China’s border in Afghanistan and Pakistan. Our Australian witness a week or so ago talked about the importance of Indonesia, a huge Moslem state. There are other pretty significant regional security challenges there of great significance to Europe but you haven not talked about them at all. Could you make a comment about those challenges?

Dr Gill: I am glad you brought that up because I realised when I was commenting earlier about a potential European-China security agenda I neglected to talk at all about NATO (although that is not directly a EU body obviously but nevertheless many EU Member States are also members of NATO). NATO is now engaged in its largest and most complicated out-of-area operation in Afghanistan and we are, more than ever, in a situation where what has been an on again, off again and relatively low level dialogue between China and NATO now probably needs to be stepped up considerably and greater efforts undertaken to engage China via NATO. Speaking of Afghanistan in particular, I think it is important to note that China is, to my understanding, the number one foreign investor in Afghanistan, primarily in extractive industries, so has a stake—a very big stake one would imagine—in the stability of that country. We are well aware of China’s concern that countries like Afghanistan and potentially other central and south-west Asian countries could become havens for separatist movements in China’s Muslim regions of its north-west. Of course in Pakistan you have what amounts to China’s closest ally, if not formally so.
There is no treaty between those two countries but nevertheless many of the other accoutrements of alliance are surely present in that relationship. It would be a good idea to the degree possible for both key NATO Member States and importantly I think NATO/Brussels itself to explore a lot more actively with China, where China stands on a lot of important issues and what sort of areas we can identify for cooperation. We should not have very high expectations of that and probably at best, at least in the near term, we could hope for some various forms of diplomatic and political consultation and agreement, maybe some exchange of information and intelligence potentially. However, just as in North Korea, China will be very reluctant to take pro-active and high profile positions. They would probably not wish to contribute troops, for example, or even undertake logistical support activities either via China, or, like Japan, be willing to provide naval support for example to ISAF activities in Afghanistan. Rather I think we need to look to China for guidance, for consultation. Potentially intelligence sharing; obviously various forms of development assistance is something China would probably be open to; potentially training of military and police forces but that immediately raises all kinds of political sensitivities in European societies about engaging Chinese military and police. I think there are areas we ought to be exploring at least. Maybe we can save the discussion about South-East Asia or Indonesia for another time, but I think right in front of us are Pakistan and Afghanistan and China needs to be a more active partner in our thinking about this region.

Q615 Lord Anderson of Swansea: Counter-terrorism?

Dr Gill: The closer you edge towards hard security questions I think the more difficult it becomes for the China leg to want to engage more effectively in this trilateral process. It just becomes too sensitive. Counter-terrorism from the start envisions potential intervention and military action across borders. These are activities that the Chinese are not comfortable doing. Shared intelligence potentially; that is another area. However, this is another area that is politically sensitive in European and American societies because of differing views we have about China’s treatment of its ethnic minorities. How would it work? I think realistically speaking the strongest leg is clearly the transatlantic leg. EU-China relations generally speaking have gone into something of a downturn in recent years and the second strongest leg of that triangle would be the US-China relationship I think in many respects. Perhaps as a start one thing we could clearly do would be to strengthen the transatlantic aspects of cooperation on issues of concern which relate to China and where China’s cooperation and participation might be welcome, and then reach out to the Chinese on various issues to see where they want to come in.

Q616 Lord Anderson of Swansea: On specific issues?

Dr Gill: Yes, maybe on Afghanistan, climate change and the like. We have a formal multilateral mechanism other than the UN Security Council that involves European countries, America and China. Other than that I do not see a formal multilateral mechanism emerging; it is not something China is prepared yet to do.

Q617 Chairman: Would the United States even think of involving the EU in a three relationship? Would it even occur to the United States?

Dr Gill: That is a good point because obviously the EU itself I do not think has yet achieved the level of coherency and unity in security policy that would really allow it to be a more active and direct contributor on hard security issues. Until that happens—we may hope it will some day in the future—then I think you are right, the United States is more likely to turn to certain EU Member States as more effective partners.
Q618 Lord Inge: It sounds a great idea but the devil is in the detail.

Dr Gill: Yes.

Q619 Lord Crickhowell: In a recent policy paper you called for a renewed transatlantic dialogue on China and careful attention to comparative advantage in engaging China. What is the agenda for that dialogue? What do you mean by comparative advantage? What do you see as Europe’s comparative advantage?

Dr Gill: That may be overly diplomatic language and I am happy to try to elucidate. First of all, in calling for a renewed and strengthened transatlantic dialogue about China or vis-à-vis Asia my concern is to continue the dialogue which already exists where Washington, Brussels as well as certain key Member States do carry out regularised discussions. This was borne of the arms embargo imbroglio which broke out in 2005 so in a sense a silver lining at the time on a dark cloud. As the arms embargo issue has waned as a concern in transatlantic relations I think so too has the dialogue itself. I think the Americans may have seen the dialogue primarily about making sure the arms embargo was not lifted but my belief is that there are other significant and important issues concerning Asia and China over which the transatlantic alliance should have more regularised and high level discussions. I am not sure where things stand under the new administration but over the later years of the Bush administration the level of representation from the US side at least slowly declined as part of these discussions and overall the interest on the part of the American participants generally declined as well. I do not know where the Obama administration stands on this, but I think it is important that we try and encourage the two sides to keep this dialogue at a relatively high level and to make sure that problems like the arms embargo or other as yet unforeseen surprises can be avoided, and to make sure that the two sides do engage. What then might that entail? Here is where we might get to the question of comparative advantage. Very simply put I think that the United States can and will continue to play a role on the security agenda which will be defined mostly by a hard security capacity, that is to say through U.S. military activities, through deployments of forces and through formal alliance relationships to maintain a kind of hedge, a kind of security relationship with China which helps ensure that China’s stated intention of a peaceful rise does indeed take place and that that rise can unfold hopefully in an environment that avoids conflict and integrates China both from a military perspective and of course economically and diplomatically. Europe can play—and does play—a very important role in what we might call soft security questions which have the same goals, that is to say the integration of China in a stable and constructive way to the international community, but which uses different tools and different instruments to see that happen. For example, working inside China to help that country address the major domestic, social, economic and even political challenges that they face in China, that will assure that China’s rise, China’s emergence, China’s transformation can happen in as smooth and constructive a process as possible. European activity can help that. Clearly China’s peaceful transformation will primarily be determined by the Chinese people and the government themselves. But, working with Chinese authorities, outside assistance, for example, can help assure that environmental degradation does not lead to instabilities, or assure that civil society organisations can play an increasingly important role inside China. In short, to make effective contributions in a way that China becomes more open, more pluralised, more just, more equitable and that that process unfolds in a stable way. I think the European Union and its Member States have had enormous experience within their own region as well as with other countries around the world and in many ways far more, frankly, than the United States and can make a great contribution within China as well in this regard.

Q620 Lord Crickhowell: I was going to say you really only use the word “economic” as a sort of casual aside. You did move a little further and talked about the economic affairs within China, but surely in the middle of the greatest world recession in our lifetime in which Europe and America have similar trade imbalances to China and China is now a hugely important economic power, is this a field of great joint interest?

Dr Gill: That is broadening the definition of what we mean by security issues very wide which I agree we should. We need to integrate economic issues and conditions into any discussion of security and you are quite right, there we find the foundation for common interests between the United States, Europe and China which overall will remain the single most important contributing factor to what I see as a generally stable and constructive set of relationships across these three relations going forward.

Q621 Lord Swinfen: Dr Gill, is the EU taking the regional dimension sufficiently into account in its relations with China on security questions? Should the EU place greater emphasis on building partnerships with regional powers in order to manage China’s growing influence in East Asia? You have already been talking around this but you have not answered that particular point.

Dr Gill: We touched on that very briefly earlier. On the point of whether the EU is taking the regional dimension sufficiently into account, my sense is
probably not enough yet. That is a factor both of the broader concern we all have about EU coherency and unity as it develops foreign and security policy, as well as a comparative lack of strong security and military interests in this region on the part of the EU (Brussels certainly and the vast majority of EU Member States). The answer to the first question would be no, not enough. Should they do so? I think there ought to be a greater effort placed on consultation. If and as the European Union wants to expand its engagement on security questions in Asia, it should not do so solely through the channel of EU-China relations. Even more importantly it needs to do it in consultation and effective dialogue with key partners in the region (the United States being number one; Japan is also very important; Australia, South Korea and others) simply because these countries have a wealth of knowledge and understanding and experience in engaging China on security questions and could help inform any EU approach and the EU too has important insights to bring to those other partners. The risk is that we see China as some sort of unique and overwhelmingly important actor out in the region to the detriment of maintaining and building other important relationships out there.

Q622 Lord Swinfen: You have mentioned most countries in that part of the world, but you have not talked a great deal about the EU’s relationship with India and China. You have mentioned Pakistan, you have mentioned Korea, Japan and Australia.

Dr Gill: Part of the reason there is that I am not as familiar with the European Union’s relationship with India. I would only say very briefly that I think we would be unwise to think that there is a sort of near term or immediate strategic rivalry emerging between China and India that might lead us to decisions to side with one or the other. My sense is that the China-India relationship is the best it has been in decades and the two countries see it very much in their interests to try to deepen and improve that relationship over time. It is very premature and unwise for outside powers—whether it is the United States or the EU or EU Member States—to somehow try to engage India, for example, with the intent of containing China or counterbalancing China. This gets into complicated territory and it is unnecessary to do so.

Q623 Lord Anderson of Swansea: The arms embargo since 1989, debated in 2004/2005, although it has gone off the boil so far as the EU is concerned, we note that earlier this month on 12 June China’s ambassador to the EU Mr Song Zhe called it “an absurd political discrimination against a strategic partner”, adding that many Chinese diplomats and ordinary citizens also found the embargo bewildering. Is it your view that it should now be reviewed? Would there be the same opposition from both the US and regional powers now as in 2004/2005? Has China in fact benefited from European technology to advance its own military and strategic modernisation? In your judgment should the EU tighten its control on technological transfer or review them?

Dr Gill: This is a very complex and obviously politically sensitive question which we probably will not have enough time to get into all that deeply. I will just try to touch on what are my key views on this. Firstly I think the arms embargo is a woefully misunderstood aspect of EU-China relations, primarily misunderstood in Washington which has led to a lot of the political difficulties we have seen. As you are all well aware the arms embargo is a seven word phrase in a larger political statement make by the European twelve in the immediate aftermath of the Tiananmen crisis in June 1989. It is not an arms embargo in the traditional sense. It does not in any way include a list of proscribed technologies or weapons which normally one would consider to be a part of any serious arms embargo. Indeed, arms have been traded with China under the so-called arms embargo from Europe to China since 1989. First of all we have to understand that this is not really an arms embargo. However, unfortunately in my view, the arms embargo is interpreted entirely differently in Washington and entirely wrongly for what it actually is and is not. It has become a highly charged political issue, at least it was in 2004/2005.

Q624 Lord Anderson of Swansea: As a symbol or a reality?

Dr Gill: I think there is a reality in the minds of persons in Washington and that accounts for the strong reaction that one always finds in certain quarters about the lifting of the arms embargo. My view, at least in principle, is that it ought to be possible to put in place—already we have seen a movement in this direction—a more universal code of conduct and accountability on EU Member States which restricts the flow of weapons and technologies to all potential recipients on the basis of certain criterion which would also include China, just like any other potential recipient, which would be tighter and more effective and ultimately more in line with European interests to prevent the flow of potentially sensitive weapons and technologies to all countries, including China. That ought to be possible.

Q625 Lord Anderson of Swansea: It has already occurred.

Dr Gill: It has occurred but it has not occurred in the context of “lifting” the arms embargo. So what you have in a sense is an improved situation in that there probably are now greater proscriptions upon the potential export of weapons and technologies to
China but you still have this political problem of the arms embargo which the Chinese, rightly I think, find very offending. You have the political problem with Washington should the EU ever try to lift it. It is possible, I think, to lift the arms embargo, but not without a lot of time, energy, consultation, the proper ground-laying. But whether Brussels is prepared to put in that kind of energy in I do not know. The task would be to convince the Obama administration and especially Congress, that the new EU mechanisms in place to govern arms exports are far more effective than the so-called arms embargo and that lifting the embargo, while it probably may send some political signals to which persons in Washington would object, can be done in a way that receives concessions from China on certain issues.

**Q626 Lord Anderson of Swansea:** If there were, as you outlined, a refinement of that policy, making it perhaps broader, in your judgment could it be sold to the US and also could it be sold to those regional critics of China?

**Dr Gill:** The most important constituency that would have to be sold on this would be in Washington I think. If Washington were convinced I think that while there would be some concerns elsewhere, as in Japan for example. Nevertheless I think Japan would probably accede to these decisions and the thinking as it unfolds in Washington. However, that is a big obstacle; I think it is extremely difficult and would require an enormous amount of time, energy, consultation and building of the case. Given everything else that needs to be done and the extremely complex foreign relations agenda which the EU already has this probably will remain in the too difficult pile.

**Q627 Lord Hamilton of Epsom:** I always have slight difficulties when you have British and French defence manufacturers desperate to boost their exports. They rather ignore the issues that people who might end up going to war with the Chinese probably do not include the United Kingdom or France. Has the EU de facto got the opportunity of lifting this unilaterally? Surely the leverage of the major American defence contractors is so great and the discrimination that could be used against them, have they really got the freedom to do that?

**Dr Gill:** No. As I say, the obstacles are very, very high. In theory it should not be all that difficult to do and to put in place a more restrictive set of limitations upon trade of this nature with China and other countries but it is politically difficult because, in my view, of the misinterpretation of what the arms embargo really means in Washington. As you note, the potential for other forms of punishment from the United States, especially as transatlantic defence cooperation is deepening, especially for UK companies. It would be very risky and I think weighed in the balance have to be those political and economic potential risks versus the continued unhappiness of the Chinese being called a strategic partner on the one hand but on the other hand, as the target of an arms embargo, being place in the same category as Sudan, Zimbabwe and Burma.

**Q628 Lord Chidgey:** You touched earlier in your discussions with us on China’s space programme in the context of armaments and missile guidance and so forth. Could you give us a more specific view on where you think China’s space programme is and how advanced is it in real terms? Should the EU be concerned about this? Is it a threat or an opportunity? What is your assessment of the China and EU cooperation in the Galileo satellite navigation programme in particular?

**Dr Gill:** China is the third nation to put men into space. They have the intention to go to the moon. It looks as if, if present trends continue, that they will be the next nation to reach the moon before the United States which now has a re-invigorated effort apparently to try to get there by 2020. I think that answers at least in some way how advanced the China space programme is. It is very important and very significant and they are investing heavily. We should recognise the remarkable achievements that China has made on this score. Obviously it does have a strategic purpose beyond the political and the economic because we know that many of the same technologies necessary to have a space programme of this capacity have military applications, whether in terms of long range missiles or in terms of guidance or in terms of space based assets that can have military applications. I think the EU must carefully assess the degree to which it cooperates with China on space related technologies. It is my understanding that cooperation has proceeded on Galileo; the Chinese are a significant international partner in this programme, including an investment of financial support, provision of scientific expertise including activities in China, to provide some components, for example, of some of the Galileo and other non-Galileo EU-China space related satellite cooperation for weather satellites, geographic mapping satellites and the like. So there is significant cooperation at a technical level but it is my understanding that the really important technologies—the things that are of high intellectual property value, high financial and even potentially military associated value which the European partners are developing for Galileo—are being black boxed and for either military or commercial reasons these doors are not open to the Chinese. To the degree that this is a concern to the Sub-Committee, there are obviously persons in the Galileo programme you could probably talk to to give you a little bit more detail on that. At a broad
level the space programme in China is a military programme. What I mean by that is that it is primarily operated and executed by the PLA and the space related parts of that force. Engaging with China on space cooperation means you are engaging with the Chinese military; that is a reality. You do need to be cautious if that is a concern to make sure that either commercially or militarily sensitive secrets or technologies do not end up in hands you do not want them to.

Q629 Chairman: In the space area one or two years ago they shot down one of their own satellites and it caused very strong international reaction there. Was that a part of the same strategy on the cyber side of finding ways to disrupt potential communications of potential enemies? Is that what that was about? What did China feel about that very, very strong international reaction to having done that?

dr Gill: There are different interpretations but I think it is fair to say that this was primarily an operation undertaken by the PLA. It is not clear just how consultative the PLA was with other parts of the government, for example the foreign ministry which was going to have to take all the heat in response to the action. I think this was an effort by the PLA to demonstrate a certain capacity and clearly a signal to countries who are very reliant, like the United States, upon space based assets for their military activity, that in relatively inexpensive ways China can counteract some of the advantages that more powerful countries could have.

Q630 Chairman: To come back to the positive side of Chinese integration, can China be considered a responsible international stakeholder in terms of such issues as non-proliferation (which you mentioned earlier), disarmament, Iran and North Korea, arms transfers and peacekeeping. Really it is a question of its willingness to engage with the global community in those aspirations.

dr Gill: I like to say that China is becoming a more responsible stakeholder. Of course maybe a question we have to ask ourselves before that is: what is responsible and whose stakes are we talking about? That is obviously up for debate but I think it is fair to say that broadly speaking over the past 20 years Chinese foreign and security policies on such things as non-proliferation, certainly with regard to North Korea, Iran and certainly on peacekeeping and arms transfers, China has taken decisions and has implemented policies that are becoming more convergent with other major actors in the system, especially the United States and European powers. I think that is a fair thing to say. Have they gone as far and as fast as we would like? No, and there will be difficulties ahead. However I am struck, when you think about where China was on non-proliferation 15 years ago or where China was on conventional arms transfers 15 years ago; China was almost non-existent as a peacekeeping contributor ten or 15 years ago. China very much resisted getting involved in any kind of six party or four party process in response to the first North Korean nuclear crisis back in the mid-1990s and look where we are today. There are almost 180 degree changes on most of these questions and at least a more constructive effort. I think this is really based on a realisation in Beijing that it indeed does have a strategic stake in assuring that these either regional problems or broader international challenges like non-proliferation are dealt with. Its interests as an increasingly globalised player are at stake. The challenge here is to try to ensure that this relatively positive trend continues and we are seeing where those difficulties arise like on North Korea; I think we are going to see it on Iran. Just how far China is really prepared to go is still in question but I would say the trends are right.

Q631 Lord Anderson of Swansea: Dr Gill, you began by giving the Committee the size of the People’s Liberation Army normally working within its own borders. Presumably in training terms of trading and experience it is in their interests to contribute to regional international peacekeeping operations. Are you able to say from your contacts how other countries view the quality of that contribution, the efficiency of that operation and how do you see China’s participation in UN and regional peacekeeping operations developing?

dr Gill: I am presently engaged in a year or two long study on Chinese peacekeeping activity which has included visits to places like Haiti, to the Democratic Republic of the Congo and Liberia where China has significant peacekeeping contributions on the ground and I would say universally, in speaking to UN military and political leaders staffing the UN offices in these countries, there is great praise and appreciation for China’s contributions.

Q632 Lord Anderson of Swansea: What about cooperation?

dr Gill: Yes, cooperation at various levels. On the one hand in terms of being operational across the board, disciplined, hard working, making very important contributions in certain areas. For example all of the logistical, trucking and transport needs of the UN operation in the DRC are undertaken by Chinese transportation troops. If they were not there presumably they could find someone else to do that role, but it is a critical role in a country like the DRC. Operationally there is high praise and also, interestingly, it is very important for the UN Department of Peace Keeping Operations (DPKO) to have such a significant investment by a permanent member of the UN Security Council. China and
France trade places as being the largest contributors of troops among the P5 so it is really important from the political perspective to have the Chinese so deeply engaged and making a real contribution. The big step next for China—I think we may see it hopefully in the near term—would be to make a greater contribution in terms of infantry and potential combat troops. To date China has contributed things like medical missions, transport missions and engineering corps (road building, building construction, other basic infrastructure, and the like). The question is whether China is prepared to actually put its men and women into more serious harm’s way and have to enforce peace mandates. That is something they have so far shied away from but in conversations with the Chinese and with UN officials it is apparently something that the Chinese are prepared to consider under the right circumstances.

Q633 Chairman: Could I ask how you think that ties in with small arms transfers to Sudan and Zimbabwe, for instance?
Dr Gill: Some people would argue that there are broader political issues at play here. That is probably true in a way. China does have an increasing interest and concern about its relationships in Africa, not only for economic reasons but I think more broadly about the stability of the regions there for political reasons to establish stronger relationships and, I suppose, making a contribution on the peacekeeping side is a part of that. Sudan is an interesting case because there China did play an important behind the scenes role. One can argue how much of that was forced upon them because of the so-called genocide Olympics movement which made China take a more pro-active stance with Khartoum, but it was also for quite practical reasons. Khartoum was not prepared to allow certain countries to make contributions to the UN force. China was an acceptable country to the Khartoum Government and so China, thankfully I think, was prepared to step in and make those contributions. Khartoum is still resisting the ultimate realisation of the mandate there but Chinese troops are active along with African Union partners in at least preparing the way (building barracks, runways and other facilities) in anticipation we hope of the full mandate being realised and those troops have come under some harassment and into some harm’s way. I do not think we should see it only in a cynical light; the Chinese contribution is real and I think they do want to see good outcomes in Sudan.

Q634 Lord Inge: I would agree with every word you have said about that, the whole change and the way they have now got their peacekeeping act together and the contribution they are making. I do not want to be cynical but I may be sceptical. What do you think is behind the reason for this change? They have always been interested in Africa and the minerals et cetera they can get out of Africa, so what is the reason for the change?
Dr Gill: I think we can point to a lot of potential motivations. One is, obviously, as China does become more globally active it has a real stake in doing what it can to bring some stability to important countries in Africa, for example the Democratic Republic of the Congo or Sudan, where it has significant economic investments and interests. But I think Beijing is also smart enough not to look at it just so narrowly but to recognise that instabilities in places like the DRC and the Sudan are just not good for a country like China which is increasingly actively internationally. There is that interest and secondly I think that China is a big believer in the United Nations and the role that it can play as a multi-lateral actor to help bring development and stability to the world, in some ways counterpoised to unilateral activity of the United States or other major international actors. I think Beijing does see its interests served through a strengthening of the United Nations where China obviously has a bigger voice, it has a stronger role in determining the directions and outcomes of UN actions. That is important, I think. I also think China’s increased peacekeeping activity is in part motivated by the fact that the PLA has not fought a war in 30 years, since 1979. You could argue that with the border skirmishes with Vietnam into the early 1980s there was some action on the part of the PLA but that was 25 years ago. Hu Jintao, China’s President, has called for the PLA to pursue “new historic missions”, to use the Chinese terminology. A part of that is necessitated by the fact that that PLA needs to have activity and to modernise itself and to be engaged in performing its mission, and peacekeeping is part of it. They do gain from their interaction with foreign militaries, from their experience on the ground, so there is a military intelligence function as well which plays into part of their interest for undertaking peacekeeping.

Q635 Lord Inge: Do you think it is also looking at the economic returns?
Dr Gill: I suppose to the degree that UN peacekeeping operations and China’s contribution to them can bring stability to important countries where there are economic stakes—like the DRC and Sudan—I think probably. I think it is one of a multitude of motivations behind this pretty remarkable decision of the past ten years to ramp up their peacekeeping activities.

Q636 Chairman: Dr Gill, thank you very much. I do not know if there is anything you felt we have missed out; hopefully not.
Dr Gill: I think we have exhaustively covered a range of subjects.

Chairman: Thank you very much. I know you have come over from Sweden to give evidence, so thank you very much for a very in depth discussion.
THURSDAY 2 JULY 2009

Present Anderson of Swansea, L Hamilton of Epsom, L Inge, L Jones, L Selkirk of Douglas, L Swinfen, L Teverson, L (Chairman) Williams of Elvel, L

Examination of Witness

Witness: MR STEPHEN PHILLIPS, Chief Executive, China-Britain Business Council, examined.

Q637 Chairman: Mr Phillips, thank you very much for joining us this morning on our inquiry into EU and China. Clearly trade with China is a major part of the relationship but we have looked at it rather more broadly and because there is another EU sub-committee which looks at trade specifically we have not treated it as the major plank of what we are doing, but it is clearly a important element and we very much welcome you here. This is a public session and is webcast I believe. We will be taking a note as well and the transcript will be sent to you in a draft form for you to correct if there are any inaccuracies. I do not know whether there is anything you wanted to say initially or whether you would like us to go straight into questions which I think you have had sight of before.

Mr Phillips: By way of introduction maybe I could just explain my role in life. As you know, I am the Chief Executive of the China-Britain Business Council. Our role in essence is to help more UK companies do more business in China. We have been doing this for more than 50 years. We do it through offering a range of practical services to businesses in all stages of market entry—pre-market entry, whilst they are entering the market, post-market entry, helping them expand beyond where they already do business in China. We have a network of eight offices in the UK and 11 offices across China, which is one of the largest networks of a commercial nature of any country in the world in China. We also deliver a number of services for UK Trade & Investment—the government trade promotion arm—in a model that is unique to China. Finally I would mention that I am also the Chairman of an organisation called the EU China Business Association which is an association of like associations across the EU. Through that role I do engage with the Commission and other EU organisations promoting trade from the EU to China.

Q638 Lord Anderson of Swansea: What relationship do you have with the commercial section of the embassy and in the various consulates general?

Mr Phillips: It is very much a partnership model. In the context of the delivery of government services in China in effect UK Trade and Investment has outsourced the provision of the practical services to CBBC, so the market research, the programme arranging, the delivery of events and seminars, and the commercial inquiry service is handled by CBBC. The teams in the embassy and the consulates are focussing now on work that only government can do, so market access, lobbying and trade policy type issues. In effect the CBBC offices behave a little bit like Post would behave in other countries.

Q639 Lord Hamilton of Epsom: Who finances you?

Mr Phillips: We have three main sources of funding: our contract with UK Trade and Investment; we are a membership based organisation; finally the portfolio of CBBC services is the third major revenue stream. If you look over the last five years it is roughly a third, a third, a third; obviously year on year it changes a little bit.

Q640 Chairman: I will start off with the main questions and ask you what are the main features of and issues in the economic and trade relationship between the EU and China from your perspective? In what ways does the China-Britain Business Council seek to promote the interests of British firms in relation to China? We are obviously interested in the EU China relationship during this session.

Mr Phillips: Let me just say that I preface all of my comments with the fact that it is from the perspective of helping UK companies do business with China but I think by extension that really applies to helping EU companies. Certainly our sister organisations across the EU have a very similar experience to ourselves. The first part of the question is very clear but there are many dimensions to answer it in detail. What I have tried to do is put what I think are the main features of and issues into five broad areas. The first area is from a commercial point of view. China is incredibly complex. You cannot really treat China as a single market and it is much more likely that it is digestible as a series of markets at least. It would be quite useful in fact to make an analogy to the EU. China has 33 provinces, each the size of an EU country. There are actually quite a lot of parallels between looking at the EU as a single market and China as a single market;

1 More precisely provincial level, including provinces (22), autonomous regions (5), special administrative regions (2) and municipalities (4).
it really does not work, you have to drill down into a greater level of detail. Secondly I think there is a challenge that modern China is not terribly well understood by the business community in the EU or indeed the wider community. I think there are very old and outdated perceptions of the country and certainly in the media there is very limited coverage of the business environment in China. I think that means that opportunities can be missed by business. Thirdly, I think a major challenge is that China is changing so rapidly. There is a very fast changing legal environment and regulatory environment; socially it is changing quickly; the nature of the market place itself is changing very quickly. It is very difficult for businesses to keep abreast of those developments but if you do not keep abreast of them then you are likely to lose out on the opportunities.

Certainly that is one of the jobs of the CBBC, to help UK companies at least understand what those developments are. Maybe later on I will touch on some of the work that we have been doing. Another major feature that I see is that there is quite a strong perception that China is for the big boys, for large corporates and that it is very difficult for SMEs. I really do not believe that that is the case. We certainly see a lot of SMEs having success. It does require patience, tenacity and a degree of passion to engage with China and that implies quite a lot of time commitment and resources in terms of human resources, travel budgets and so forth. However, small businesses can have a great deal of success in China and that is one of the big changes over the last five years or so. Many companies still find China quite daunting; there are a lot of challenges. We did a study last year of 140 businesses and the top five challenges they listed were: restrictive regulations and limitations around entering particular sectors, language and culture, human resources (that is finding the right people in China to run their businesses) and bureaucracy. Those first four were of approximately equal importance. Then there were two other issues: cost increases (a lot of the coastal provinces in China are now more expensive than they were, so the cost advantage has changed and businesses are having to deal with that) and the other equal fifth was competition. China is now an incredibly competitive market place with a lot of domestic players and a lot of international players going in. It is actually quite a fierce playing field.

Q641 Lord Swinfen: Mr Phillips, you likened China to the EU with the 33 different districts. Is commercial law the same throughout the whole of China or does each area have differences in commercial law?

Mr Phillips: The overall legal environment is similar. At a provincial and municipal level there are different regulations. What is also different is that the interpretation of national level regulations and law can be different at different levels of the structure and that is actually one of the biggest issues and challenges companies face. They think they may have cracked an issue in Shanghai but then they go to another city, try to do exactly the same thing and the advice they get from the local government there is that that is not how it works. There is this variance in terms of interpretation and enforcement of regulation.

Q642 Lord Jones: In what sectors are EU businesses seen as successful in penetrating Chinese markets and how will this change over time? Will there be a growth in joint ventures? I do know there are joint ventures, but do you think long term those can be to the detriment of Britain or Europe insofar as the Chinese build on them and then exclude us?

Mr Phillips: First of all, in terms of the sectors where European companies are having success, it is surprisingly hard to actually get statistics on a country by country basis and the sectors. Anecdotally Germany has major investments in manufacturing, automotive and chemicals; Holland’s top three are manufacturing, consulting and agriculture; France have engineering, nuclear, cement and retail; the UK are in banking and financial services, advanced engineering, oil and gas and increasingly in creative industries. The shape of the Chinese market is definitely changing and they are looking every increasingly for more sophisticated technology. They are demanding more sophisticated services as well as the Chinese population becomes more affluent. In financial services, for instance, insurance products are now becoming more helpful. I think as the healthcare sector reforms then forms of private sector healthcare will be in demand. It is changing more to a modern economy that we would think of. The question of JVs is an interesting one. Perhaps I should divulge that I am a project financier by background so I actually quite like the JV model personally. However, in the context of China there remain a number of sectors where there are restrictions on the business model. In certain sectors you have to go in via a JV. These include mining industries, particularly in gold and aluminium, although there are exclusions in certain parts of China for that; aircraft manufacture; the manufacture of certain parts that go into power plants whether thermo, hydro, wind and so forth; in the water resources sector and also in the telecoms and post sectors where Chinese regulation requires that there is a JV, very often with majority ownership of the Chinese party. For some companies I think that is a challenge. JVs are not always as harmonious as they could be and I think certainly in the automotive sector there have been some examples of where JVs have not gone as well as the foreign
companies would like. Generally speaking, if companies can they would prefer to go down the wholly owned subsidiary route and there are now two different legal structures in China that allow that, but only in permitted sectors. So you have this slice of industry that is very restricted. Whether that will fully open up in the short term I think is debatable.

Q643 Lord Jones: That is a very comprehensive response. I do know that in the aerospace industry Europe Airbus are now collaboratively manufacturing in China.
Mr Phillips: That is correct.

Q644 Lord Jones: I am wondering whether, in the long term, that is hurtful to us here insofar as we know that to sell into China you do have to collaborate and give them the chance to produce the product in their own country. Long term is this not going to be detrimental to Europe and to Britain insofar as Britain has a big aerospace interest?
Mr Phillips: I certainly appreciate where the question is coming from. It is a difficult commercial decision whether to partner or to manufacture in China versus simply to sell in. In aviation China is the largest civil aviation market in the world and is likely to be so for the foreseeable future. China has plans for its own regional jets so perhaps commercially it makes more sense to be manufacturing in China, to be seen to be contributing to China and consequently then getting the orders and taking the dividend stream back to a European HQ. It is not easy to say whether it is a threat or not; there is a very complex set of judgments to be made.

Q645 Lord Jones: I have here a book review from the Sunday Times and I quote: “The People’s Republic of China is a fast-rising power and the rest of the world had better take note. China’s challenge to the democratic world is perhaps greater than the Soviet Union’s ever was, because of its economic success. The mixture of autocracy and capitalism is an attractive model.” Is that your experience? This, by the way, is the review of a book by a Marxist, a quite famous man who writes in the Guardian, Martin Jacques.
Mr Phillips: There would not be much that I would disagree with in that assessment.
Chairman: We will not record you as being a Marxist! Lord Williams?

Q646 Lord Williams of Elvel: You did say that the UK had taken considerable interest in the banking sector. Is this a residue of the Hong Kong settlement or is it something more than that?
Mr Phillips: I think it is only partly that. Clearly from a banking point of view it is a major market. If you look at the commercial banking side many Chinese companies are looking to internationalise, globalise and even looking to list overseas. If you look at the private banking side you have this huge number of very affluent Chinese who require private banking services and then a very large swathe of affluent Chinese—but not super rich—who require foreign banking services and are willing to pay for that type of service. The market in itself is very attractive. Hong Kong was a sort of stepping-stone for getting into the markets I think.

Q647 Lord Williams of Elvel: Would you in general regard the Chinese banking system as being efficient?
Mr Phillips: It varies from bank to bank. The major banks in China are state owned and have been state run. They have very complex and very large networks and that brings with it a degree of inefficiency. They are investing very heavily in technology to try to address these issues and there is quite a lot of cooperation between international banks and Chinese domestic banks to help them improve the way in which they work.

Lord Anderson of Swansea: Is it your experience that the Chinese see joint ventures as an interim stage on the way to full Chinese ownership? If there are disputes between partners do our own business people have confidence in the integrity of the Chinese legal system and arbitration procedures.
Chairman: I think we are going to come onto dispute resolution in question six.

Q648 Lord Anderson of Swansea: Perhaps you could answer on the interim stage then.
Mr Phillips: In my own experience I do not believe that Chinese partners go into a joint venture with the intention of ousting the foreign partner. I think the most common mistake in joint ventures in China is a misalignment of the expectations of the Chinese side or the foreign side and that is why joint ventures fall apart at some point. The net result may be that the Chinese partner takes over the whole business but I think equally there are examples, particularly post-crunch, with the foreign entity actually taking over the whole business.

Q649 Lord Hamilton of Epsom: Returning to the banks, there is some suggestion that these banks will actually lend to anybody who is prepared to create jobs and are less worried about business plans. Are there accidents waiting to happen there and are we building up a bad debt position on many of the Chinese banks?
Mr Phillips: Could I clarify the question?

Q650 Lord Hamilton of Epsom: There have been very loose criteria in terms of lending. If you are prepared to create jobs then they will lend you money. They are not really interested in the business plan,
they just want to know how many jobs you are going to create and therefore there may be enormous bad debts being built up as a result of the lending in the initial stage not being very sophisticated.

Mr Phillips: Certainly credit in China has been loosened and growth very dramatic over the past twelve months or so.

Lord Hamilton of Epsom: Even prior to that.

Mr Phillips: Prior to that there was an incredible tightening of credit which was really slowing down the economy. Pre-global credit crunch the Chinese were actually quite worried that the economy was running away with itself, they were worried about inflation. The Chinese government do use the banks as a policy tool but they had reined in credit very tightly. Then there has been very much an expansion of credit quite recently. Speaking personally as a banker, that would tell me that some way down the track they will have problem debts coming out of the woodwork. I think that is an inevitable consequence of fast growth of credit.

Q652 Lord Swinfen: Mr Phillips, do European companies have shared interests in their dealings with the Chinese? What channels exist for European businesses to make their concerns known to the Chinese authorities? Are there issues over corruption and local bureaucracy for European companies?

Mr Phillips: I think there are shared interests and they transcend national identity. The EU Chamber of Commerce every year prepares a very comprehensive set of position papers and there are a number of cross-cutting issues applying to all the sectors, particularly pertinent are market access, transparency, transparency in decision making—IPR and environmental sustainability issues. One of the things they picked up in their last report was a growing sense of a bit of domestic protectionism: special interest groups in China lobbying as well as a tendency to favour local companies. Those would be the cross-cutting issues applying to all sectors. Then within sectors the issues for EU companies are very similar whatever country they come from. In terms of channels for raising the issues, there are about five obvious channels, Directly with the Chinese side. That is very common on a company to company basis. You can clearly go through your national governments and in the case of the UK that can be done through the Embassy in Beijing. There are also more formal mechanisms. There is something called the Joint Economic and Trade Commission which is annual government to government talks where these issues can be raised at a ministerial level. A third way in is through the Commission and to get the EU delegation in Beijing to be lobbying on your behalf. Also bodies like CBBC can help companies behind the scenes in particular tackle issues they have on the Chinese side. Finally, the EU Chamber of Commerce in China is particularly effective on the lobbying side, particularly on the sectoral issues in terms of engaging with the Chinese. In terms of corruption and bureaucracy, corruption can be an issue. Our advice is always very straightforward: do not go there, do not do it. Bureaucracy is a major problem across the whole country. As I think I alluded to earlier it is exacerbated by different interpretations of regulations in different parts of China which adds to the overall bureaucracy.

Q653 Lord Swinfen: Is corruption a major issue?

Mr Phillips: It varies sector by sector. From my own experience in the banking sector, for instance, it was never something I came across. In other sectors, perhaps in the construction sector where globally it is probably more of an endemic issue, it may be an issue in China. Other companies may find when they are trying to deal with goods clearance and customs clearance that they may be asked to do something that is corrupt and in those instances our advice is not to do it. It is a slippery slope; if you do it once then you will be caught in this whole system of being asked to pay again and again and again, so do not go there.

Q654 Lord Swinfen: How do the Chinese authorities deal with it?

Mr Phillips: Certainly at a central government level the Chinese Government are very committed to cleaning up corruption across China. As I am sure everybody is aware, there can be very severe penalties for Chinese officials who are guilty of being involved in corrupt practices. The issue is being taken seriously but it is a problem. The party sees it as a major problem for their overall credibility.

Q655 Lord Inge: Is it an issue that is declining or growing?

Mr Phillips: I think it is probably declining. I certainly have no sense that it is growing.

Q656 Lord Jones: Is that as a consequence of severe penalties?

Mr Phillips: I think so, yes.

Q657 Chairman: Going back to finding channels over issues and problems that there are for businesses, are the Chinese authorities on the other side helpful generally at trying to sort things or is it walking through treacle or whatever? Is there a positive view towards European companies trying to move forward or is there a deaf ear at the other side?

Mr Phillips: It really depends on the issue that is being raised. If it is in a sector or in an area where the Chinese feel that they have their own house in order then lobbying can be very effective very swiftly. If it is in an area perhaps where they feel they have a lot of
work to do in terms of sorting out their own industrial structure and they are worried about competitive threats from global entrants, then maybe it is more like walking through treacle and it can be a much more protracted process. One thing that you can find on these more tricky issues is that you are shunted from one ministry to another; one ministry will say it is their decision, they will then say it is another ministry’s decision and so forth.

Chairman: A bit like a UK call centre! Lord Inge?

Q658 Lord Inge: If you knew of a company that you felt was using corrupt practices, what would you do about it?

Mr Phillips: A UK company?

Q659 Lord Inge: Yes.

Mr Phillips: From a CBBC point of view we would not want them as members.

Q660 Lord Inge: Would you tell them that?

Mr Phillips: Yes.

Q661 Lord Anderson of Swansea: Do your members have any concerns about the lobbying by the British Embassy in respect of so called sensitive issues? Would they prefer that those issues were dealt with by the European Union so that we are not harmed in any way as a result by the Chinese authorities?

Mr Phillips: I have no sense that business does not want the UK government to raise sensitive issues at a government to government level.

Q662 Lord Anderson of Swansea: They would not hide behind an EU shield.

Mr Phillips: I do not think so. I think there is actually an expectation that government will raise those issues at a government to government level. Clearly what business would wish to be avoided is any connection made between the sensitive issues and business; they should be dealt with not behind closed doors but in isolation from the business agenda.

Q663 Lord Anderson of Swansea: You mentioned that you have a number of sister organisations. You talked about your own branches spread throughout China. How do your structures and your numbers compare with those of Germany, France and Italy? Where do we stand in terms of the total number of people working on behalf of UK plc compared with our major European competitors?

Mr Phillips: If you add the UK Trade and Investment team, the embassy and the three consulates and the CBBC team in China the total head count is about 200. The German commercial effort in China has a total head count of about 190. The US currently has five commercial offices across China compared to a footprint of 11 for the UK.

Q664 Lord Anderson of Swansea: Do you know the numbers?

Mr Phillips: I am afraid I do not know how many staff they have.

Q665 Lord Anderson of Swansea: We are at the top in terms of people working for UK business.

Mr Phillips: Absolutely.

Q666 Lord Anderson of Swansea: On a related matter, clearly one of the problems with evolving a common EU approach is the competition between EU countries. Is this a real obstacle to evolving such an approach? Can you also say a little about export credit? Is there a concern among our own UK members that export credit is a fairly cut throat business or is there an attempt to align what is being offered by the EU countries?

Mr Phillips: Firstly on the export credit side, until the last 12 months or so I do not think it was an issue that had been raised with me for a very long time, but obviously in this more difficult trading environment access to export credit support has become much more of an acute issue. Certainly businesses looking for support, whether it be on the export credit side or other ways financially from the government at the moment, I think other countries perhaps are perceived to have better support on the export credit side than the UK.

Q667 Lord Anderson of Swansea: Does the European Union then try to have a degree of understanding to ensure that individual EU countries are not played off one against the other in terms of soft credit, length of credit and so on?

Mr Phillips: I have seen no evidence of that.

Q668 Lord Anderson of Swansea: Would you favour that?

Mr Phillips: I am not too sure that that would be practical from a business sense because companies clearly want to win business and having the EU put everybody on a level playing field probably is not quite what business wants because it wants some form of competitive advantage. I do not see businesses clamouring for that.

Q669 Lord Selkirk of Douglas: How do the British firms see the role of the European Commission in trade and investment negotiations with China? Do British firms believe that their interests are best protected through a common EU approach?

Mr Phillips: I think this probably varies company by company. At risk of a gross generalisation I think large corporates have a much better understanding of the role that the EU and the Commission can play, SMEs much less so. I think the reality at a day to day level is that businesses will use whatever route is best
for them to achieve what their end is. If that is using national government routes they will use them, in combination with using the EU or using the US if they happen to be exporting something from a US subsidiary. Businesses approach this in a very pragmatic manner.

Q670 Chairman: Do you lobby as an organisation into Brussels at all, given the fact that Brussels has a monopoly over trade negotiations?
Mr Phillips: We do but it is not something that we do frequently. CBBC members are consulted during the Joint Economic and Trade Commission process (which I alluded to earlier which is ministerial to ministerial dialogue) and then we will feed that through to the UK government. Occasionally we will take things to the EU but that is much rarer.

Q671 Lord Williams of Elvel: If you are thinking of investing in China—your firm or board of directors says there is a market out there which is good—what would you say are the main obstacles that you would identify? You have talked about the bureaucracy; would it be lack of auditors, for instance? Difficulty in resolving commercial disputes? Behaviour of the courts? What are the things would you identify as being the major obstacles and what can the European Union reasonably do about it?
Mr Phillips: The regulatory environment is probably the top issue and then a much softer issue are the language and cultural differences which come very high on the list. As I said, access to human resources and also the bureaucracy. What can the EU do to address this? Clearly on the regulatory side that is something where the EU can help in terms of lobbying and pushing for further change. Many of the other issues are almost routine issues that businesses need to deal with. The cultural and language issues are ones where organisations like CBBC can help companies overcome them.

Q672 Lord Williams of Elvel: Could you expand a little on the regulatory problems?
Mr Phillips: Maybe I could give some examples in a few sentences. Perhaps firstly I could answer the resolution point. It can be an issue and the issue is largely one of enforcement. Clearly there are practical ways in which you can prepare in your contract for dispute resolution, putting in the procedures that you wish to follow and putting in the arbitration body that you wish to use. When it comes to enforcement, one of the big challenges—this applies to IPR as well—is that local influence of the judicial system can come into play. That is a very real issue for businesses. In terms of specific regulatory issues, maybe just picking something up from the financial services sector, in banking there are restrictions on the number of branches, there is uncoordinated regulatory supervision and the approvals process for new products is very cumbersome. There are more onerous capital requirements on foreign banks. That will give you a flavour of the type of regulatory issues. In insurance again there are limitations on opening branches. There are restrictions on re-insurance that would not exist elsewhere. You cannot structure your Chinese operations under a holding company. These are things that make it less efficient for the business to run in China than it would if it were operating somewhere else.

Q673 Lord Williams of Elvel: What about access to capital markets?
Mr Phillips: In my experience I do not think that has been an impediment to entering the Chinese markets, bar perhaps in a very limited area where you have financial investors who do not have a typical route for the exiting of investment because you cannot use the domestic capital markets to do that. However, I think there is light at the end of the tunnel here. When Vice Premier Wang Qishan was in the UK a few months ago it was announced that foreign companies will be able to list on the Shanghai stock exchange and that may happen as soon as the end of this year. The market thinks that a few firms from Hong Kong will be tested first but the market equally thinks that maybe a UK company will be the first of a truly foreign company to be able to list on the Shanghai exchange.

Q674 Lord Hamilton of Epsom: You are talking about secondary listing; they would be registered in London.
Mr Phillips: Yes.

Q675 Lord Hamilton of Epsom: Turning to the revaluation of the renminbi, this was a great issue with the United States. Is this an issue with the euro and Eurozone? Can you also tell us what the renminbi has been doing? Exchange rates have been changing all over the world; the dollar has been going down and the pound is now going up. Where is the renminbi relative to all of this?
Mr Phillips: Twelve months ago it was 15 to the pound. When sterling was at its lowest, probably in February and March, it was down to below ten to the pound. For UK exporters clearly at that moment. A little bit of that advantage has disappeared. In terms of where the renminbi sits in terms of valuation, in the three years I have been at CBBC not a single company has ever raised the issue with me. I think businesses see FX movements as just a risk of doing business and they manage them as they otherwise would in another country. You can
hedge the RMB. CBBC has hedged for this year; unfortunately it has moved in the wrong direction for us but that is life.

Q676 Lord Hamilton of Epsom: What about the euro? Is it an issue with European countries?
Mr Phillips: I think it is much the same for European exporters. Their goods have been priced somewhat more competitively in China more recently. If you are looking to invest in China, however, it is obviously the other way round. It is swings and roundabouts and it really depends on the nature of the business you are looking to do.

Q677 Lord Hamilton of Epsom: Do you think the whole issue between the United States and China is one of neurosis in government rather than serious concerns in business?
Mr Phillips: I think there was a major political element there, absolutely.

Q678 Lord Williams of Elvel: How far do the Chinese authorities intervene in the foreign exchange market?
Mr Phillips: I do not think anybody really knows the answer to that question. As you say, clearly they have the wherewithal to intervene in markets in a way that could move markets, but the honest answer is that I do not know to what extent or how regularly or which body may or may not do it.

Q679 Lord Inge: You would surely see it if they made a major move, would you not?
Mr Phillips: The renminbi is not a freely traded currency therefore does not float. The renminbi is pegged to a basket of currencies and nobody knows exactly what the basket it. There are theories as to what the basket is and some theories that maybe the Malaysian ringgit is a major element of it.

Q680 Lord Inge: Can you discuss this with the Chinese? Do they talk about it? If you addressed that to them as question what would their reaction be?
Mr Phillips: I am sure there are many people who discuss it with the Chinese. From a CBBC point of view and a normal business point of view this is an up in the ether type issue.
Chairman: I think that is a fair answer; I do not think we should press you beyond what you feel able to answer. Lord Inge?

Q681 Lord Inge: You touched on this when answering Lord Williams’ question about he protection of intellectual property rights. Do you think that the Chinese take this seriously and the EU’s concern about property rights?

Mr Phillips: Certainly IPR is probably one of the most common concerns of businesses across the EU. It is a real concern. The legal environment in China is relatively sophisticated. Again where it falls down is on the enforcement side. The central government in China is certainly behind greater enforcement of IPR rights. Local influence can come to bear on interpretation at a provincial and municipal level. The reality of IPR cases in China is that the vast majority—well in excess of 90 per cent—are Chinese companies against Chinese companies and the greatest pressure for change in the system will come from Chinese companies wishing to protect their increasingly sophisticated IPR. Concerns also exist around broader IPR type issues. If you are looking to get products certified in China you have to provide a very extensive disclosure of information which is then reviewed by a panel. Very often sitting on that panel will be an expert from your Chinese competitor. There is quite a range of issues that do concern companies from EU. Companies definitely want the EU to keep bashing away at this point.

Q682 Lord Inge: Are some countries in the EU more concerned than others or is it just a general concern amongst them?
Mr Phillips: It is absolutely across the board.

Q683 Lord Hamilton of Epsom: Can we look briefly at the arms embargo and the transfer of defence technology? That has been insisted on Europe by the American. Is that quite rational? Would there be a great development of defence capability by the Chinese if that embargo were lifted?
Mr Phillips: I have to say that is somewhat beyond my competence or expertise.

Q684 Lord Anderson of Swansea: What you said largely coincides with the evidence we have received from the EU Commission. Baroness Ashton says this, if I may quote, “China aspires to be a centre of innovation by 2020 but to do this and to foster domestic innovation it will need to ensure that investment by individuals and firms into R&D is safeguarded through effective IPR enforcement. There is some evidence that this beginning with Chinese businesses starting to act against breaches or IPR.” Is that your own experience?
Mr Phillips: Absolutely, yes. I forget the exact percentage but it is in the high nineties that IPR cases are Chinese cases versus Chinese so international versus Chinese cases are a very small minority of the cases in China.

Q685 Lord Williams of Elvel: Is China a signatory of the Berne Convention on IPR?
Mr Phillips: I am afraid I do not know the answer. I can check it if the Committee would like.
2 July 2009

Mr Stephen Phillips

Q686 Chairman: On a broader basis in terms of commercial law, do European companies operating in China feel relatively secure within the commercial legal framework that there is enforceability of contracts or that there is a process rather than a randomness to decisions?

Mr Phillips: I think companies are more comfortable than they were five years ago but the legal environment and the overall legislative environment is constantly changing so keeping abreast of that is a real challenge for companies. A whole series of policy documents that implement new regulations can be brought in overnight and you suddenly have to comply with these things. There are real practical challenges in operating a business.

Q687 Chairman: In terms of when that happens, is that at national level or does each province do that? Or is there a systematic delineation of who does what?

Mr Phillips: It can be at all levels. It can be at national level obviously then applying nationally but perhaps with different interpretation. At a provincial level new regulations can be introduced, for instance around the environment. Equally at a municipal level that can be the case. You have this whole cascade of different rules and regulations that apply.

Q688 Lord Anderson of Swansea: Once your member companies are aware of these regulations, do they have confidence in the integrity of the legal system, that is that judges will enforce those impartially between a Chinese company and one of your own members?

Mr Phillips: I do not think there is full confidence in the enforcement of the judgments. I think there are plenty of cases where the court will find in favour of the plaintiff, however actual enforcement just does not happen. There are real concerns around the efficacy of the legal system. I would also add more generally in China, from a Chinese point of view the contract is very much seen as the start of a relationship. British businesses and European businesses will see a contract as black and white, the rules of the game, whereas traditionally Chinese companies would see a contract as a starting point in an on-going discussion and relationship and it would be continually re-negotiated and chipped away at. There is a real mismatch of philosophy as well as at the legal level.

Q689 Lord Hamilton of Epsom: Can these disputes be settled in Hong Kong rather than in China or is there a demarcation? Do some of them have to be settled in China?

Mr Phillips: Contractually you can put in the contract whatever you like. You could say that you wanted arbitration in the UK or in Switzerland or in Hong Kong. I think over the years it has become less and less common to try to “force” arbitration offshore.

Q690 Lord Hamilton of Epsom: By offshore do you include Hong Kong?

Mr Phillips: Including Hong Kong, yes. There are a number of organisations in China, the foremost of which is an organisation called CIETAC, the largest arbitration commission in China and they do a good job. It is becoming less common but certainly as a banker we would very much require that the arbitration provisions were in an offshore centre and a neutral one normally compared to the parties involved.

Q691 Lord Swinfen: Has the EU been successful in its use of trade defence instruments and anti-dumping measures to ensure fair conditions of trade with China? Looking at it from the other side of the coin, has China been successful in their negotiations the other way round?

Mr Phillips: I have to say this is probably an area where I have not had that much exposure to with CBBC mainly doing work in China. I do not particularly see how the EU reacts to Chinese sales in the EU so probably I am not the best person to answer that question. In terms of how China does in the EU, just anecdotally I have heard that there is a project called Spice which is in the innovation area and I think Chinese applicants for funding are second only to the US under that particular scheme which I find quite fascinating. Chinese universities and students are very adept at moving round the EU system to get funding for research projects. The Chinese may be better at manoeuvring around the EU than we are around China.

Q692 Chairman: That is a very interesting comment.

Mr Phillips: That is anecdotal; I do not know the full details.

Q693 Lord Hamilton of Epsom: Which EU Member States are the biggest investors in China and in which sectors and areas of China is this investment concentrated? You have already said that China is becoming a competitor in the high technology sector, is that presumably something that is going to grow in the future?

Mr Phillips: I have to say that finding data to answer this type of question is actually quite hard. Based on Chinese statistics the UK remains cumulatively the largest EU investor in China with Germany coming in at number two. The UK has 6304 projects with a total investment value of just under 16 billion dollars; Germany has slightly more projects—about 100 more projects—and just over 15 billion dollars. The published figures probably underestimate British
investment. They do not capture investment, for instance, in the financial services sector. They also do not capture retained earnings or reinvestment of profits back into the business in China so they do not really give the full picture. If you look at more recent figures, for 2008 the UK was still the largest investor, Germany second and Holland third. I think Holland probably appears at the top because of corporate structuring and there can be tax advantages.

Q694 Lord Anderson of Swansea: Do these figures exclude Hong Kong?
Mr Phillips: Yes, these are from mainland China. In 2008 it was UK, Germany, Holland, France and Italy as the top five. The year to date to the end of May Holland was number one, Germany second and the UK is coming in at fifth but there are not huge variances in the absolute amount of those investments. On the sector side, it does not seem to be possible to get a breakdown by sector by country but if you look globally in terms of which sectors foreign investment has gone into, manufacturing is top, real estate, electric power, gas and water production, farming and forestry, animal husbandry and fisheries and then leasing and commercial services. It can be quite hard to tell which category the business is in.

Q695 Lord Hamilton of Epsom: What about technology?
Mr Phillips: Undoubtedly China is looking to move up the value chain and I think innovation is at the heart of what the Chinese Government want. Premier Wen was here in the UK in February and he said very clearly that for China to address the global financial crisis its companies needed to be much more innovative and if the Chinese Government tells their companies that they need to do it they will follow.

Q696 Lord Hamilton of Epsom: You have given us the EU figures but where do they compare with the United States? Are the United States miles higher?
Mr Phillips: I think the top foreign investors are probably Hong Kong, Taiwan, the US and Japan would be well ahead of any of the EU countries.

Q697 Lord Williams of Elvel: Most European countries acknowledge some sort of responsibilities to the wider world, as it were, both in labour standards, environment and so on. Does that sense of responsibility extend to their operations in China or do they simply leave that to the authorities to make them do something?
Mr Phillips: I think it is very much an issue on certain British companies’ agendas from what I see. I am aware that a lot of our members will look at the labour conditions within their supply chain in China quite actively. There is a reputation risk to their global business if one of their suppliers was found not to be working to decent standards. Equally, on the environmental side, heavy importance is placed upon meeting and exceeding regulations. The British Chamber in Shanghai last year had a very extensive programme of engaging British companies in CSR. The EU Chamber of Commerce also had a CSR forum. I think it is very much up there at the top of the agenda for companies.

Q698 Lord Williams of Elvel: Is that true of other EU Member States’ companies as well as the British?
Mr Phillips: Yes, absolutely.

Q699 Lord Anderson of Swansea: There were concerns some years ago that prisoners were being used as cheap labour for producing certain products for export. Is that a remaining concern?
Mr Phillips: I have not heard that said recently. Like yourself in the past I have heard of that but certainly not in many years.

Q700 Chairman: Mr Phillips, is there anything from your work and experience that we have not covered here that you think would be important to be contributed to this inquiry?
Mr Phillips: I do not think anything in particular. The questions were very wide ranging, but China is a vast subject matter.

Q701 Lord Selkirk of Douglas: Can I ask a general question which may be extremely difficult for you to answer? Do you think the largest biggest companies are focussing more on the growing economy in China than the economies in Japan and India? Do they see China as a top priority or do they put them roughly on a par?
Mr Phillips: I think inevitably it varies from company to company. In some companies understandably there is a resource constraint and sometimes, particularly with China and India, it becomes an either or: can you really focus on two big beasts at the same time? Really it does vary. If anything probably China has slightly more attention than India but that does vary.

Q702 Lord Selkirk of Douglas: In relation to Japan?
Mr Phillips: In relation to Japan that does not seem to be part of the equation. In terms of the discussions that I have with our members it is more about emerging economies. Should you be looking at China, India, Brazil or Russia and which of those is better? I think Japan is treated much more as a mature economy.

Q703 Lord Williams of Elvel: This is a very general question, one that is not in your brief. Given China’s absolutely astonishing growth record—they think they are doing badly if they are under ten per cent per
annum—would you agree that this must at some point introduce dislocation into the commercial system or do you think it could all go happily on forever?

*Mr Phillips:* That is very a very difficult question to answer. I would envisage that China will maintain that growth at or around the ten per cent probably for the next decade or even longer. I think the differences between the more developed and affluent parts of China and the very undeveloped areas means that there is a latent amount of human resource that will allow that machine to keep going for a period of time. Undoubtedly there will be blips along the way but I think that trajectory will remain for that period.

**Q704 Lord Hamilton of Epsom:** The Chinese set themselves a growth rate of this year of above six per cent. I heard the chief economist of Goldman Sachs quite recently putting it above eight per cent. Where do you stand on the growth rate this year?

*Mr Phillips:* Q1 growth rate for the whole of China came in at 6.1 per cent. However, as you say, a lot of the banks are now saying between eight and 8.5 per cent. The World Bank last week set their forecast at 7.2 per cent. That masks huge regional variations. I have just come back from central China and in Hubei Q1 growth was 10.1 per cent; in Anhui it was 11.2 per cent; in Hefei 13.9 per cent. Probably in some of the coastal provinces—maybe Guangdong where it has been hit very badly—maybe growth will be more on the stagnant side. The consensus at the moment is that they probably will hit the magical eight per cent or higher.

**Q705 Lord Swinfen:** In what parts of China are European businesses mainly operating? Are there any parts of China where they are hardly operating at all or not operating at all?

*Mr Phillips:* Thank you for asking that question; it is an area I did forget to mention. I think historically British business has focussed on the very largest cities in China. There are 274 cities in China with a population of more than one million. We did a major piece of research last year on looking at the opportunities in these regional cities and trying to match them with UK strengths. If members are interested I do have the report we did short listing 35 of those cities that match UK strengths. Increasingly the opportunity in China is in these cities that people have never heard of. Certainly from a Chinese policy point of view they are looking to develop the central provinces, the western provinces and the north-east and this is probably where most of the exciting opportunities are going to be for British businesses and European businesses over the next three to five years.

**Q706 Lord Swinfen:** Where are we not working? Are we basically round the coast?

*Mr Phillips:* The vast majority of the investment is around the coast. However, there are UK companies that are operating in some of the more remote provinces. If you go up to the north-west to Xianjiang and to Inner Mongolia there is a company of ours that does mining equipment with the great big excavators. They have presence in Inner Mongolia but that tends to be the exception rather than the rule.

**Q707 Lord Anderson of Swansea:** What about Tibet?

*Mr Phillips:* In the three years that I have been at the CBBC we have not had a company to my knowledge that has been doing business in Tibet. I do not necessarily see everything that CBBC businesses do.

**Q708 Lord Inge:** Would the Chinese have some objection to this?

*Mr Phillips:* I do not think they would; I think they would encourage foreign investment.

**Q709 Chairman:** One of the areas we have looked at in this study, as you would expect, is climate change. I know Britain has a number of connections in terms of climate change. Is there a wave of business coming out to China in the area of the green industries or those technologies, or is that something that is not really anywhere on the radar screen?

*Mr Phillips:* It is an incredibly important sector and clearly the UK has some strengths in technology, whether it is in wind or tidal energy and so forth, as well as technologies that clean up the environment either through emissions or cleaning up water and so forth. There are two national level initiatives with a city called Wuhan and a city in western China called Chongqing (the sustainable cities MOU) and it is looking to apply UK expertise in these areas to help clean up those cities, ensure that their future development is more energy efficient, greener. There is plenty of opportunity for UK business.

**Q710 Chairman:** In terms of one other issue that we have looked at, Taiwan, are there difficulties for businesses that operate both in China and Taiwan or is that just not something that is a problem in reality?

*Mr Phillips:* I do not think that is a problem in reality. There are many businesses that operate both on the mainland and in Taiwan. Clearly cross-strait relations are probably as good as they have ever been.

**Q711 Lord Hamilton of Epsom:** Taiwan used to have links into the United States. Are those still going to be maintained or is there a more direct link between China and the United States?
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What I can say is that the direct links between China and Taiwan are growing very extensively. There are direct flights now and clearly Taiwan companies have very substantial interests on the mainland.

Q712 Lord Hamilton of Epsom: So the links are getting stronger rather than weaker?

Mr Phillips: Absolutely. The commercial links are incredibly strong.

Chairman: I think we should bring things to a close there, Mr Phillips. Thank you very much indeed for taking us through the whole commercial and business side and no doubt we wish the British Chamber every success in China with all the competition you have worldwide and from fellow Member States. Thank you very much indeed for your evidence.
THURSDAY 9 JULY 2009

Examination of Witness

Witnesses: LORD MANDELSON, a Member of the House, First Secretary of State, Secretary of State for Business, Innovation and Skills, Lord President of the Council, examined.

Q713 Chairman: First Secretary of State, can I welcome you and thank you for coming along to our EU/China committee. Can I go through the housekeeping rules briefly? As you are aware, this is a public meeting which is recorded and will be transcribed and you will have a copy of that, in draft, to amend if you feel it is inaccurate.

Lord Mandelson: It is a pity we cannot have those rules applying throughout public life.

Q714 Chairman: I said amend things that are incorrect, not necessarily things that were not meant to be said!

Lord Mandelson: We could apply a broader rule, I think, to things which, with hindsight, would have been better left unsaid.

Q715 Chairman: Yes, we have had some of those issues during this inquiry, but hopefully not today. We are very keen, obviously, with your own experience on trade negotiations and your long experience working in this area, for you to be able to tell us what you think is important in terms of our own study and not be completely railroaded by the questions that we have got, which hopefully we can use as a framework. I do not know whether there is anything you would like to say as an opening statement before we start to go through some of these?

Lord Mandelson: No, I think it would be better to take the questions, because what I can offer you from my experience, I think, will naturally arise from the questions and you must lead me in any direction you want, obviously within reason. All I would say at the outset, just to state the obvious, is that China’s growing economic weight, and therefore its increasing political influence or power in the world, means that we have to come to terms with China as it is, in many respects, and not perhaps, as some would say, as we would like it to be. Obviously we have views on how we want the Chinese economy to be managed, its society to evolve, its democracy to be strengthened, and we are entitled to have those views and to express them with courtesy and diplomacy. The second thing I would say is that it is in our interests as a country to see China succeed, not fail. I found during my time as the EU’s Trade Commissioner that I was coming up against many people in different countries, not just in Europe, who regarded China as a terrible threat, wished that it would go away, that somehow you could put this economic and political genie back into bottle and that we could all live happily ever after. Forget it, it is not going to go back into the bottle. It is a major driver and motor of economic growth in the world, a hugely important source of investment in Britain and for Europe, it has large and growing markets into which we want to supply goods and services and, therefore, the idea that we might be better off if China, as I say, were to fail rather than succeed is a complete illusion and we have to shape and determine our policy accordingly. It does not make it any easier or simpler to deal with, by the way. I went to China probably more often than all other countries put together whilst I was Trade Commissioner. It was a rollercoaster ride—I am not pretending otherwise—but you have to deal with a roller coaster, you cannot just jump off it.

Q716 Chairman: In fact, I would say, and this is no time for a conversation, but during this inquiry probably it has almost been to the other extreme of a theme of “game over”: China is going to be there, the rest of us give up now. Let alone moving through G2, is it going to be G1, so in some ways it has been a very balanced look so far.

Lord Mandelson: I am a G20 man.

Q717 Chairman: Excellent. Perhaps I could start off with the fundamental question of whether Europe has clear strategic priorities for its relationship with China, what does China want from the EU (and what should the EU have asked for in return) and does the EU, coming back to your opening theme in many ways, really have any leverage as far as China is concerned in terms of its own agenda?
**Lord Mandelson:** The EU has huge leverage because Europe provides the market destination for a vast quantity of China’s exports which drives its growth, therefore maintaining and expanding its trade relationship with Europe, keeping our markets open to Chinese exports, is fundamental to China’s economic growth strategy, therefore the welfare of its population and all the political and social questions and issues that flow from whether that prosperity is going to be sustained, whether it is going to grow or whether it is going to roll backwards. So we do have great leverage, but we have much greater leverage as a country—and I am talking about our own country now—if we combine our weight with the rest of our partners in Europe, because China is Europe’s 500 million-plus market which gives us our leverage, our negotiating strength on a scale which way exceeds that which, if we were basing our strength on our own market alone, we would be able to wield. Therefore, we do have leverage and what we need to do is to use that leverage in its most basic and mercantilist way in order to make sure that China fulfils both the letter and the spirit of its own WTO commitments and obligations that it took on, after a protracted negotiation, into the WTO so that there is a genuine and growing market access for our exporters as well. At the moment, if you take Britain alone, China exports, I think, something in the region of four, four and a half times the goods and services that we are able to get into China’s market. This is not good enough. The reason why my own relations with Chinese state authorities, which were generally constructive and progressive, at times were extremely strained was because I felt that by means not so much of tariffs, but in more intangible and invisible ways through regulatory frustration, China was too frequently not honouring the spirit of its WTO commitments and was creating a huge set of barriers to our exports and presenting our exporters with something like an obstacle race in order, quite legitimately, to get our goods and services into the Chinese market. So there has to be a balance here. Chinese state authorities acknowledge that this trade relationship is unbalanced, they have said it is unsustainable and they have committed to finding ways to adjust it. I would like to see more ways adopted with greater rapidity pushed behind them than we have seen to date.

**Q719 Lord Crickhowell:** You paint a vivid picture of frequent and arduous visits. You talk about leverage. What do you feel those levers might be? By leverage we have got to pull one or two of them, but I am not quite clear what the levers are.

**Lord Mandelson:** The levers specifically include trade defence instruments, anti-dumping measures and associated instruments that we can resort to, obviously based entirely on the rules and standards which are prescribed by the WTO, but in a more general sense, in a wider sense, almost at an existential level, we have to bring home to them the concerns that many people have in Europe about the expansion of China’s trade, the imbalance that exists between China and Europe and the public reaction that might be provoked if the measures are clearly not being taken by Chinese authorities to rectify this imbalance and open their markets more widely and more quickly to our exports, the provision of our services, and I found that this was an argument that had resonance. It applies also to intellectual property and its safeguarding. If China’s proliferating output and export of copied goods were to go on without the state intervening, I always argued that would similarly provoke a reaction amongst European governments. Similarly, if they want higher value, more technology-based goods exported to China from Europe, they had to respect the intellectual property rights of those who were manufacturing and exporting those goods and pay royalty payments as well for the IP that they use. They do not do that sufficiently. So there are different ways in which this trade relationship is unbalanced, or fettered, or compromised and we have constantly to bring home to the Chinese state authorities that, were these...
conditions to continue without receiving proper attention and remedial action from the Chinese Government, then it would be much harder for us to sustain our policies of openness in Europe as a result.

**Chairman:** I think we will come on to that in some of these other areas when Lord Jay comes in.

**Q720 Lord Jones:** Lord Chairman, First Secretary, could the Union have a special relationship with China? Does it have one? Do you see in the future having a special relationship?

**Lord Mandelson:** Yes, it is a relationship born of economic necessity, mutual interest and a desire to free up trade to serve each other’s interests, but it is not simply an economic or mercantilist relationship that I am talking about. Our recognition, or our offer to China (and it is, I think, the basis of our strategic relationship or our partnership with China) is that we recognise and, indeed, accept and embrace China’s growing economic weight and trade prowess in the global economy, that China is a member of the WTO, it has taken on certain obligations and commitments, and with those too the rights that accompany those core elements. But there are also responsibilities that China has to take on as well as a country of growing political influence and power that we would like to see exercised in a responsible way within the framework of international rules and using its offices in co-operation with others to make the world not only a prosperous place, but a safer place as well, and where individual and democratic rights are freely exercised by people. I think in some cases, for example in the case of North Korea, you see China’s influence being exercised in a constructive and welcome way, but it is necessary to see that standard of responsibility being applied to all parts of the world.

**Q721 Chairman:** Can I follow up on part of question one which we did not cover. Using your own language the other way around, do you think China would wish the EU would just go away?

**Lord Mandelson:** Absolutely not.

**Q722 Chairman:** Would it rather get on and do the real business with Germany, the UK, France?

**Lord Mandelson:** Would it like to play off Member States against each other in order to create divisions in the European Union and differences in policy and attitude towards China? It is imaginable that thought might occur and, therefore, we have to maintain cohesion, and the only way in which we can deploy our economic strength and trade weight in the world is by being united in the policies that we follow. A departure from unity means weakness, which results in our being more vulnerable to others in the world.

**Q723 Chairman:** It has often come over in some of our evidence sessions, particularly since the arms embargo failure, that really China has written off the EU in many ways as an important player, in that they look to the EU as being something bigger certainly in importance as a multi-polar world but really it has not met that agenda and, therefore, really it does not figure highly in their political view.

**Lord Mandelson:** No, I do not agree with that at all. Economically and politically they look to the emergence of that multi-polar world to which you referred. They do not want to see a world in which one hyper-power is able to exercise unlimited power or control; they want the power of the United States being balanced by others, as well as their own position and that of other emerging economies and powers also being recognised within that multilateral framework of relations. So they do look to Europe as an important pole within that framework and they do to look Europe as a balancing factor with the United States, which is why we have to be careful not to be played off against the United States because we have similar, if not identical, values and interests as the United States.

**Q724 Lord Chidgey:** I wanted to come back, if I may, to the question we talked about earlier on about negotiations with the Chinese. We have already identified a number of interests which the EU has which really matter—WTO obligations, non-tariff barriers, intellectual property and copyright issues—and you have talked about the leverage which the EU has. I suppose my question, really drawing on your own very extensive experience, is whether you think the EU is robust enough in promoting and defending its interests in its negotiations with the Chinese or whether, perhaps, you could give one or two examples, from your own experience, of the best way of going about these negotiations and whether the EU has the right structures to be able to exert the leverage it has got effectively?

**Lord Mandelson:** Let me make a general observation. If we had the Lisbon Treaty in place, if we had a President of the European Council, if we had a High Representative conducting our external relations, drawing both on the weight of individual Member States as well as the clout of the European Commission, we would be a lot better off. Europe, in my view, punches below its weight in the world, particularly, but not only, in international economic matters. We need to have a single roof, if you like, for our external relations rather than a patchwork quilt of different areas of responsibility, initiative and silo operations, but not at the expense, obviously, of the proper national sovereignty that remains with EU Member States, and not as a replacement for the conduct of our own foreign policy. The fact is that China views the EU as one of its chief interlocutors.
That interlocution is weakened to the extent that our voice, our strength, our power, is fragmented rather than drawn together cohesively and coherently. If you take as an example the position that we have taken on the arms embargo, we can debate the merits and demerits and continued justification for that arms embargo, but the fact that there is a common EU position means that we do not have, as we might otherwise have, different Member States and the interests of their respective defence sales sectors being played off against each other. I do not take that example because I personally think that is the most important or necessarily the most justified position for Europe to take. We can argue the various merits and demerits of it. All I am saying is that if we want to strike positions then we have to place our unity behind them.

Q725 Lord Anderson of Swansea: I think one of the most well publicised campaigns on your part was the protection of the Italian shoe industry against China’s inroads.
Lord Mandelson: I thought you were going to cite the “bra wars”, which I remember in a summer of mine in Italy, as it happens, although I might just as well have been in my office in Brussels for the duration of August.

Q726 Lord Anderson of Swansea: What conclusions do you draw from those fights, campaigns, in terms of the style of negotiation which is most effective in terms of dealing with the Chinese?
Lord Mandelson: That you do not fight on all fronts, you pick your fights carefully and, when you do, you line up your troops and battalions behind them and do not allow cracks or fissures to grow.

Q727 Lord Jay of Ewelme: I am referring to what you were saying about the stronger position the EU would be in if the Lisbon Treaty were implemented. If it was and if there was a President of the EU, would you see that President taking the lead in the more important trade and economic negotiations?
Lord Mandelson: It depends to an extent on the personality; their strength, their charisma and the personal weight they are able to bring to that office. No, I do not see them taking over from the Commission the responsibility for the conduct of trade policy and trade negotiations, but you know what I am saying. Europe has got to be taken seriously. It has to pull its weight. People have to know that when they are talking to the European Union they are talking to the representatives of the biggest economic space of its kind anywhere in the world. A market which is indispensable for others to trade and that standing behind that weight is a political cohesion which they know they are not going to be able to divide and prevail over. And that requires individual personality, it requires machinery, it requires joined-up thinking between the Council and the Commission and it requires a deployment of our weight in international relations and negotiations which, I think, we do not rise to because we have not sufficiently got our act together in Europe sometimes, and the Treaty would help us overcome that weakness.

Q728 Lord Chidgey: Lord Mandelson, it is rather the same theme, I am afraid, but maybe we could get a little bit more specific. This is the question of to what extent China divides and rules by playing Member States off one against the other. You have already alluded, I think, to the arms embargo and so forth, but are there any specific examples that you can give where China has attempted to divide and rule and, in the same context, do we in the United Kingdom just suddenly show solidarity with our partners when they come under pressure for this sort of picking off grapes from China?
Lord Mandelson: I do not want to present a picture of some sort of sinister, over-weening force trying to prevail against our unity because, as I have said (and I want to emphasise this), China does acknowledge the EU as one of its chief interlocutors, respects our representatives and how we conduct our business, and respects the individuals who have to conduct that relationship. That was, in any case, what I found in my own relations in the time I spent in China with Chinese state leaders, but there will be times when diverging views will emerge between Member States on economic and trade questions. The arms embargo is one, the recognition and acceptance of China’s market economy status is another, a rather symbolic or emblematic issue, very important for the Chinese. It actually relates in a rather arcane way to the way in which calculations are made in the drawing up of duties for anti-dumping instruments, probably covers a fraction of a per cent of our trade, no more than one per cent, I suspect, but terribly important for China, and there are different views amongst Member States on how quickly China’s market economy status should be recognised, but we discuss it, we draw together. The role of the Commission is to get the Member States in one place and to present a single view—it is very important—but obviously China will use its influence with different Member States in order to get them into a more favourable position from its point of view. It is perfectly legitimate for China to do that and, equally, perfectly legitimate for the EU to make sure it is speaking with one voice, even if there are differences of opinion amongst us, and there will be different examples of that—shoes, for example, where that divided EU Member States literally down the middle and I had to work for two months to arrive at a common position; candles; steel goods—different areas will be ones on
which different Member States take different views. We have to make sure, because we have a common trade policy, that we line up behind it when we have agreed it. That, in my view, needs to apply the cross the board, and not only in respect of trade matters, but I think the best way to conduct this relationship, I suppose I would say this would I not, is that it needs to be done at a high level, in a coherent way and with give and take. There are some issues which are important for China, others which are more important for us, and that is why I designed within the EU, and finally got agreement with the Chinese authorities for, the establishment of a high-level mechanism, an HLM, which brought together, on an annual basis, the Chinese and the EU sides, China led by the Vice Premier, Wang Qishan, and by myself on the other. I had eight Commissioners in different areas, he had ministers on his side, and we would discuss a range of issues, not just trade and economic ones, but those concerning climate change, or wherever else it is that the world could see would be in a better place and both the EU and China, respectively, would benefit if we were able to reach a common view on these issues and a common approach. Of course we did not always succeed in doing so, but the dialogue was important, and it did succeed in moving on Chinese and EU positions in different areas on different subjects, because when China demands dialogue then, as I said, dialogue has to lead to deliverables. You are not just setting up a talking shop. Dialogue of itself has value, but it cannot be the only outcome, simply talking, and I would press them for conclusions and deliverables and actual concrete action that would flow from this dialogue. Sometimes I found them a bit hard to persuade, but, nonetheless, having a mechanism of that sort is very useful and much better than the alternative, which is, as I say, not to have a common agenda, to have fragmented voices, to have a sort of megaphone diplomacy or relationship between us, which gets nowhere.

Q729 Lord Selkirk of Douglas: Lord Chairman, may I ask the First Secretary of State how should the EU work with China and the United States to address the global imbalances, particularly financial imbalances, that have contributed to recent failures in the international economy?

Lord Mandelson: By drawing China into the WTO and other multilateral frameworks, but also now, I think, the G20, which is emerging as a rather important potential steering committee for the global economy, and by making an argument, as I did to China, that it will not, over time, benefit from these global imbalances and that it has to construct a different economic or growth model for itself in which domestic consumption is boosted both at the expense of savings and exports, because it cannot, and should not, rely on exports to the extent it does to drive its economic growth. I fully understand why savings are so high in China, it is because people do not have social safety nets and publicly provided services and opportunities. People want to save for their children; they want to save for their own security; they want to save for their old age. I perfectly well understand that, but policies that reduce China’s precautionary savings rates and boost domestic consumption would benefit China’s economic growth and its people. Also, allowing its currency to appreciate so that it curbs the inflation pressures which operate as a result of the exchange rate being kept at what many regard as an artificially low level would help stability and balance growth for China’s economy.

Q730 Lord Selkirk of Douglas: Do you get the impression that the Chinese Government tends to engage in long-term planning in preference to other forms of approach?

Lord Mandelson: Yes, in the sense that they have a view of how they want their economy to grow, how social tensions can be contained and how the political hegemony of the Communist Party can be maintained. Yes, they do plan ahead, but they plan not simply to sustain the status quo, they also plan for change, they plan for evolution, economically, socially and, I believe, politically, and I think the useful thing for us to do is to engage with Chinese leaders in a debate about what form that evolution will take. I think that is a better approach and one that is more likely to succeed in influencing China than adopting a confrontational, lecturing or hectoring stance, which I think is not received well and is not influential.

Q731 Lord Williams of Elvel: Can I come back to the exchange rate for a moment? The Americans have taken quite a tough line about this. As far as one can see, the European Union has not taken such a tough line. Do you think we ought to be more aggressive? That is the first question. Secondly, on the question of Chinese surpluses which are invested in dollar denominated monetary assets, by and large, this has had the effect of bidding up the price of monetary assets, thus lowering the yield, which has meant that banks and financial institutions have gone for riskier investments, and one of the risky investments are packages of subprime mortgages and other things, which have caused, or have been one of the causes of, the present difficulties that we are in. Do you see any mechanism by which the EU could help to solve this problem, i.e. do you see the euro as a possible mechanism as a reserve currency, implementing a policy of trying to allow the Chinese surpluses to be invested in euro denominated assets rather than dollar denominated assets?
Lord Mandelson: Yes, I do. Let me make a prior observation. I did not choose, in the very many opportunities I had, to grandstand about China’s management of China’s currency. I prefer to engage counterparts in a discussion. I do not think that standing up and demanding and lecturing is likely to have a beneficial effect. So I tended to the view, and it is one that the United States take too, I think, adopted too, to talk about these things and create an understanding amongst Chinese leaders why a different and broader approach would be beneficial, not just for the them, but for the rest of us too, why pegging the value of their currency to a basket of currencies, and not just the dollar, would be beneficial for the world and why they should look more than they have done in the past, but I believe they are beginning to do so now, to the euro as a good bargain, as a good investment for them, and they are doing that increasingly. I think that the conditions exist and the policy framework is available for them to make a quicker adjustment than they have chosen to date, but that is a matter for their judgment. There are other considerations they have within which they are entitled to operate, just as we are entitled to illustrate to them the imbalances, the harmful effects that can result from their currency management and which we would like them to take greater cognisance of, but to jump from that and to conclude that China is to blame for the financial crisis is a step too far. I know some would like to claim that these imbalances caused the problem, that imbalances have been created by China, therefore China is responsible for the problems in RBS and Lloyds, and what have you, but let us not go there, it is not justified or right and is frankly insulting, to China.

Q732 Lord Crickhowell: Secretary of State, earlier this week you were asked a question in the House about the relationship with global warming and trade issues, Copenhagen and the WTO. I do not know what has come out of the summit, but there have been, I think, reports in the press that perhaps China has not gone quite as far as some would like so far on the global warming point. Would you like to comment on that? This clearly has very considerable economic issues, the world trade issues, in the relationship. Is there something you would like to add to what you were able to in a brief answer on the floor?

Lord Mandelson: I think I would make a couple of points. The first is the obvious, which is that because China is now the biggest net emitter of carbon, all be it much lower per capita than the United States, it has to be part of the solution, it has a responsibility, it needs to play a constructive role in Copenhagen and the negotiations prior to that meeting and they have to work for a successful outcome rather than division and failure. I have no reason to believe that they will not be motivated by that desire; they have very strong views on what is fair and just. The second point I would make is that China (and I saw this in the world trade talks, the Doha Round) is feeling its way as it comes more prominently to centre stage in these negotiations. China no more wants to disengage or keep its distance from these negotiations and the exercise of its responsibilities any more than it wants to take on what it would regard as too big a burden of responsibility. China is very cautious about being pointed to as the pivotal country around which negotiation and agreement will revolve. So they both want to step up to the table but do not want to be, as it were, at the table with a huge spotlight or floodlight bathing them in that light and that exposure. I felt, over the four years I was conducting Europe’s part in the trade talks, that I saw a genuine evolution of China’s acceptance of responsibility, the confident way in which it presented its own position and the way in which it worked with others behind the scenes, both with ourselves and the United States, but also emerging economies like India, and Brazil, and others in working for success. I did not share the judgment and verdict of the United States that China was as much to blame as India for the failure of the ministerial trade talks last year. I would say, mostly, that we probably all played our role in the failure, all be it some more than others, but certainly not China alone or, indeed, China with India. The third point I would make, therefore, is this. If, in the context of the climate change negotiations in Copenhagen, China senses that we are using these negotiations in order to bring in policies of trade protectionism via the back door, this will provoke great anger, great resistance, it will be a huge spoiler in the negotiation that we have at Copenhagen, and, therefore, my advice would be that we should be very wary indeed, very cautious indeed, in linking climate change and border adjustment measures and trade measures, because we would not only blow up the prospects of success at Copenhagen but we would be in danger of triggering all sorts of retaliatory trade measures that would do us all great economic harm.

Q733 Baroness Symons of Vernham Dean: You have talked a lot about trade. Can we talk a little bit about China’s investment policies? Do you have concerns, or do you think that the EU should have concerns, about the enthusiasm with which the Chinese are acquiring some strategically important sectors? Primarily, let us deal first within the EU. There are, I think some people would argue, the possibilities down the road of political interference, something you were talking a little while ago about the concerns over political hegemony of the Chinese Communist Party in dealing with trade, the political interference with those acquisitions in the EU and also, of course, the whole question of the undesirability of some
forms of technology transfer, and certainly those would be seen in areas where you have responsibility now, of course, for defence exports as well as defence industries in the way that you do. Should we be concerned about what the Chinese are doing?

Lord Mandelson: I think my starting point is that we would benefit from China’s investment overseas and in our own economy. Since 2007 the UK has become the leading destination in the EU for Chinese investment and I welcome that. At the end of March of this year MOFCOM, China’s ministry of commerce, recorded the stock of Chinese FDI in the UK at 29 per cent of the EU total, and it is growing—actually this figure excludes investment in the services sector, so it is actually greater than that—and we are attracting investment now from the banking sector and most of China’s investment for state vehicles. I welcome that. Indeed, whenever I met the Chairman of the State Assets Committee in China, a not inconsiderable body commanding a vast wealth of resources, or the China Investment Corporation, its leading sovereign wealth fund, I would say to them, “Come to Europe, invest in Europe. The welcome mat is out”, and I say that in respect of Britain now, just as I said it of Europe as a whole. I think that these investments are commercially motivated, not covered with political design. Their aim is to get a good return for their investment. Unfortunately, they have made investments in various American banks that proved to be sharply disappointing to them, and I hope it will not discourage them from looking overseas, but the idea that China, through some ideological impulse, is trying to collar sectors of Europe’s or Britain’s economy by injecting their investment in various insidious ways is completely ludicrous. We want them and their surpluses and resources to be recycled across the global economy and, notably, our slice of the global economy. We want their capital; we need it.

Lord Inge: Perhaps not in the defence field. Take Africa as an example. Why is China able to deploy its weight and spread its influence right across that continent? Because what they offer is clear-cut: you offer the building of a new port, or a new road, or a new parliament, or a presidential palace for whoever is in office and you pull a lever, you press a button and that road is there in three months’ time, or that new parliament building is constructed as a result of armies of Chinese construction workers being flown over, descending on the country, being put up in living accommodation and getting it rolled out at breakneck speed.

Q736 Baroness Symons of Vernham Dean: Exactly. Lord Mandelson: We, on the other hand, like everything properly tendered. We like to look at competitive bids from different constructors, potential construction companies who are going to take on this work and, by means of a competitive process, we weigh up the pros and cons over what seems like an eternity and, finally, arrive at a decision as to which construction company will take the order for that particular piece of development aid to put in place that road, new port or new parliament building. Compare and contrast: would I have it any different? Of course not. I believe in competitive tendering. Would I, on the other hand, like to see Europe’s influence shored up by a little bit more speed and acclivity? Yes, I would.

Chairman: Excellent, thank you.
Q738 Lord Inge: By us?
Lord Mandelson: By us, and I think there would be means for us to screen, filter and control, for security reasons, which would provide a good policy alternative to a blanket embargo. Having said that, and embarked on that view, I cannot for the life of me put my finger on what the British Government’s policy1 is on this matter. I hope it corresponds to what I have just said.

Q739 Lord Inge: So do we.
Lord Mandelson: I am looking to Michael.
Lord Jay of Ewelme: I am afraid I cannot help you there.

Q740 Lord Inge: You are saying that actually it should not be a blanket arms embargo, what it should be is certain key things that we would not want them to have, but there are certain bits in the arms embargo that they could—
Lord Mandelson: I think China exaggerates what they are denied as a result of this embargo. I think it operates in a rather smarter way than they sometimes describe, but I think there is an alternative approach that we could and should take to a blanket embargo.

Q741 Lord Inge: Do you think that is because we are too tied to what the United States wants, or not?
Lord Mandelson: I would not put it in that way. There are other European Member States that take a tough view.

Q742 Lord Inge: Are you allowed to say which ones?
Lord Mandelson: No, because I cannot remember. I think we can take a tough approach but which is smarter and more intelligent.

Q743 Lord Inge: Is that the right answer?
Lord Mandelson: Sort of.
Chairman: We will conveniently move on to something easier—human rights.

Q744 Lord Swinfen: Minister, the human rights dialogue appears to have achieved very little. What in your view is the way forward for the EU? Should ratification by China of the International Covenant on Civil and Political Rights be a priority objective?
Lord Mandelson: I realise that continuing concerns about human rights in China will inevitably lead to criticism of the slow progress that our dialogue is making in bringing about much needed change in China. However, I think that there have been improvements and I think those improvements and the ability of outsiders to provide surveillance reporting of what is going on in China has somewhat improved, or somewhat liberalised, and I think that is an advance. The EU is currently reviewing what it can do to get better engagement and to move things forward in this field, but China, as you know, considers human rights and issues related to individual cases to be a matter for their internal interests and responsibility. They say it is an internal affair and they resist international interference. Prior to the Olympics, you will remember all the controversy surrounding the Olympic torch and the demonstrations. I always argued with my counterparts and different Communist Party interlocutors that I had in China that they are too defensive. If they believe, as they claim, that there is no encroachment or less encroachment or invasion of personal liberty and individual rights, then they should advertise the fact. But if they close parts of their country to foreign journalists, they cannot be surprised by the conclusion people reach that they have got something to hide, that there is major trespassing going on of people’s rights and unacceptable exercise of state power against those individuals, and that is what people will conclude and what people will say and report.

Q745 Lord Swinfen: Would you like to see them reducing their control over the Internet, for internal Chinese consumption I am thinking of?
Lord Mandelson: I would like them to operate in that, and in other respects, as freely as we do in Britain and in Europe, yes, I would, but I think that China is realising slowly that this whole situation has to change: both the treatment of individuals and the freedom to report human rights in China. I think that the current unrest in China is showing greater appreciation, or at least some realisation, that the eyes of the world are upon them, that there is a legitimate interest in what is going on—people want to understand what these tensions and this violence is all about—and I think that we have to maintain the strength, the intensity of our gaze, of our scrutiny, not in a confrontational way but in a way that makes them understand that human rights are universal.

Q746 Lord Swinfen: Does that mean universal throughout China?
Lord Mandelson: Human rights are universal throughout the world and they cannot be surprised if others in the world want to express views about what they see and hear, because they are underpinned, as I say, by universal values.

Q747 Chairman: We all understand why the European Union, particularly within the global context, has particular values around human rights, so it is impossible that these are not brought up, but

1 The British Government’s view on the EU-China arms embargo is that there is broad consensus across the EU that the time is not yet right to lift the embargo, but that it should rightly remain under review. The European Council reaffirmed their political will to continue working towards lifting the embargo in their December 2004 conclusions.
we are trying to get to the bottom of whether this really does make any difference and whether we should somehow accept pragmatically that that has got to continue and those messages have to happen, but, frankly, let us get on with the real business of climate change, of trade, of integrating China into the international community anyway, we will not worry about that, or are we actually having some effect through attrition, if nothing else?

**Lord Mandelson:** My view is that one cannot take place to the exclusion of the other, that the way in which we conduct this dialogue will influence how it is received and China’s response and that we have to have these things co-exist. Of course we cannot go to war with China over human rights if that leads to loss of our wider political, economic and commercial interests, but nor does that mean that we should remain silent, and we will not.

**Q748 Chairman:** Do you think it has actually made some practical difference over the years to the relationship?

**Lord Mandelson:** Yes, I do. Every time you point a camera or a microphone or have pictures flash across the television screens or across the Internet, China knows that the rest of the world is looking and judging and that this will affect China’s relationship with the rest of the world.

**Q749 Chairman:** Lastly, around the Partnership Co-operation Agreement, which is the standard way that, I suppose, the EU engages with other power blocks, is that the right context for Europe and China?

**Lord Mandelson:** Yes, I think we need a framework within which we address economic and political relations between Europe and China. I think it should cover the whole range of issues—I do not think anything should be off limits—and its negotiation is making steady but slow progress. These agreements sometimes appear to be rather time-consuming, slow-moving, rather bureaucratic approaches, but they do allow you to raise issues, to express a point of view, to find compromises across a range different areas of the negotiation which have a mutual benefit for both. If you did not order your negotiations and outcome in that way, you would have fewer benefits and you would be worse off.

**Chairman:** We are back to European orderliness, I can see.

**Q750 Baroness Symons of Vernham Dean:** That brings me back to human rights again, because we still have not finished 12 years of negotiation with the Gulf states on what started off as a free trade agreement and is now much more now a co-operation agreement, and they are very unhappy about the human rights clauses in that and I imagine we would expect the same with the Chinese in any agreement.

**Lord Mandelson:** I am sorry, there is a difference between a partnership and co-operation agreement, which embraces all these things, and a trade agreement which, in my view, should focus on trade. I think that the Government, of which I am a member, along with our partners in Europe, should look again at these so-called political clauses. They were born in a different era, they have limited relevance, they are a frightful obstacle and they have limited utility.

**Baroness Symons of Vernham Dean:** That is very helpful. Thank you.

**Q751 Chairman:** First Secretary, can I thank you very much indeed.

[**Lord Mandelson:** That too might be the policy of the British Government!]

**Lord Chidgey:** As of now!

**Chairman:** When you look at a copy of the transcript, it is only the things that you did not say that you can change! Thank you very much indeed.]
THURSDAY 29 OCTOBER 2009

Present

Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Roper, L
Selkirk of Douglas, L
Teverson, L (Chairman)

Examination of Witnesses

Witnesses: Chris Bryant, a Member of the House of Commons, Minister for Europe, Foreign and Commonwealth Office; and Mr Scott Wightman, Director Asia Pacific, Foreign and Commonwealth Office, examined.

Q752 Chairman: Minister, first, can I welcome you to the Committee and congratulate you on your appointment. It is obviously a very important one in terms of Europe and I am sure you are going to be very busy over the next year and months. I also welcome Mr Scott Wightman as well. When we talked just before the meeting I think you did not particularly want to make a statement of any sort beforehand, but perhaps you just want to introduce yourselves very briefly, particularly Mr Wightman?

Chris Bryant: I am Chris Bryant and, first and foremost, I am the MP for the Rhondda in South Wales and Minister for Europe. I also have in my responsibilities Latin America, Australasia, Consular Services, the World Service, the British Council, and a large chunk of the communications work that we do, and Europe includes, of course, Russia and the Caucasus, so quite a large area but I do not have China, so you had your pick of either me or Ivan Lewis and you have ended up with me, I am afraid. Scott Wightman is the Director of the Asia Pacific region in the Foreign Office. It is great to be here and we are happy to be of any assistance that we possibly can be.

Q753 Chairman: Can I remind you of the usual health warnings. The meeting is clearly being recorded and we are being webcast as well. You will obviously get a copy of the transcript following the meeting and you are very welcome to change any inaccuracies, although clearly what we cannot do is change anything you say, so the normal rules of engagement. The Committee went out to China, to Beijing and Guangzhou back in July, and it has been part of our major work during this year. Moving on, then, perhaps I could start by asking you this. Does, or should, the EU have a coherent strategy for engagement with China? What are the strengths and weaknesses of this strategy, and what do you see as the possible improvements that could be made?

Chris Bryant: It has a strategy and it has elements of coherence in it. It could be more robust and it could be more strategic and it could be more coherent, is our basic view. This is not something that solely applies to the relationship between the EU and China. I would say that in many regards, in relation to any foreign external relations policy, the European Union could do far better in terms of having a more coherent approach and that, in the end, must be in the British interest, because whether you are talking about climate change, Iran, Zimbabwe or Fiji, or for that matter in relation to energy security in Russia, it is absolutely vital for Britain that we secure robust positions, and it is far easier for us to achieve that if we have all our European allies talking in concert with us. Sometimes that is achieved just because in Suva, for instance, all the EU Heads of Missions say the same thing, but where the EU as the EU, and not just the countries that happen to have a mission in a particular country, can speak with one voice, it is far more effective. The message we have had fairly clearly back from our Chinese counterparts is they believe the EU could be more effective in its discussions with them. There are some structural problems—and maybe you want to come to these more specifically later—which are inherent in the way the EU does its work and which apply equally for China as in any other country, but they are writ large in terms of China because China is such an important player in the world economy and because China has alternatives. It can look to the United States of America, to Latin America, to relations with Japan and with Russia if it wants to if it is not going to get an effective relationship with the European Union, so it is vital that we get this right. If you look at a country like Sudan, for instance, the European Union has within its several different strands a desk officer for Sudan in the Council Secretariat, who will be taking a view and taking an interest; it will have probably somebody in the Development Directorate, it will probably have somebody of the Commission, and it will have somebody in the Exterior Relations Directorate of the Commission. We do not believe that that kind of mixed structure is in the end good for delivering a coherent message for the European Union, and that is why we are passionate supporters...
of the Lisbon Treaty which we believe will sort this out.

Q754 Lord Crickhowell: You rightly draw attention to Russia and the relationship of Europe with Russia. We, of course, did a report on the European Union and Russia. I think we detected in our visit to China some fairly fundamental differences which ought to make the relationship with China rather easier with Russia; we have not got, for example, a huge divide on energy policy, and I will not elaborate on that because you will know about it, or indeed on the questions of the “near abroad”. Mainly the efforts of the European countries separately in China are in competing on trade and matters of that kind which are not necessary fundamental breakers in creating any effective relationship. So I think I detect an ability, perhaps, to get on better with China than we have in the immediate future with Russia. There was one other point that came up in our visit. We have to be terribly careful about language when we use the phrases with which we are familiar, though sometimes not clear what they mean over here. For example, we were told the word “engagement” which comes into our relationship with China means something entirely different to the Chinese than what we think it means. Could you elaborate on whether you think there are any real fundamental difficulties in getting a coherent policy with China compared, say, with Russia?

Chris Bryant: I do not know whether a brief anecdote is allowable down this end of the corridor but I remember going to the theatre a few years ago to see a very difficult German play and there was a couple who had had a terrible row, and the woman turned to her husband as we were sitting down and said: “And the worst of it is that you are so blasted ‘patronising’” and he kissed her on the forehead and said: “It is ‘pat-ronising’, dear”, and I am just painfully aware that sometimes we, ie Britain, can seem to be very patronising in our relationship to China but also in our relationship to Russia. I think a very important measure of our success is whether we can change that perception over the coming years. This is also incidentally equally true for the European Union, and, Lord Crickhowell, you are absolutely right when you say that sometimes words are completely misunderstood in the Chinese relationship or in the Russian relationship. The Foreign Secretary is visiting Russia on Monday and Tuesday and I hope this visit will manage to take forward some of the issues that the Committee brought to our attention earlier. There is an additional complexity in the Russian relationship which all of you will be aware of in relation to the Litvinenko/Lugovoi row as well as the demands for extradition from this country to Russia of a series of different people, and in each of those cases the judge in this country has determined that the cause for asking for extradition is a political issue and not a judicial one.

Q755 Chairman: Minister, I would not be too seduced by Lord Crickhowell into going down the Russian route!

Chris Bryant: No, I am going to get back to China, but the point I was going to make is that nonetheless the issue of human rights is one that is writ large in both of these relationships, and there is one additional issue which is an industrial economic issue, which is far more significant in our relationship with China and potentially difficult, which is the issue of intellectual property rights.

Lord Hamilton of Epsom: Minister, you mentioned the whole question of Iran as an area where it would be very good if the EU came together on the position over that, which we probably reasonably have, but on the other hand it does not seem to have had any effect on China whatsoever. China, as I read in my newspaper, is waiting for Russia to move on whether sanctions should be imposed on Iran and then they will follow. So when we have come together what have we actually achieved in the EU?

Chairman: Lord Hamilton, you have a question later on which is specifically on—

Q756 Lord Hamilton of Epsom: I am going on to trade and things at that point.

Chris Bryant: I would quite like to answer it, if I could?

Q757 Chairman: We can do it now, yes.

Chris Bryant: We have set ourselves—and we have produced our own booklet, which is the first time we have done this for any one country—strategic aims in relation to our relationship with China. One of those key aims is trying to transform the Chinese position on how it plays its role as a global player, and one of those issues where we have a sharp division of opinion—although it is less sharp than it was maybe six months ago—is on the question of Iran and the development of what we believe will be a nuclear weapon. The Non Proliferation Treaty and the position of Britain, China, America, Russia and France in there is obviously a key element of the relationship we can have with China and is one of the reasons we particularly are able to speak quite directly. But when the European Union—and not just the three key countries that have spoken clearly on Iran but the whole of the European Union—speaks with an equal voice on Iran I think that is able to change opinions in China. It is difficult to achieve that because different countries in the European Union have different economic interests in Iran and therefore different levels of interest in whether they want to pursue human rights or other issues with the Iranians.
Mr Wightman: One fruit of the engagement that there has been with China between France, Germany and the United Kingdom, in particular alongside Javier Solana, has been the fact that we have managed to secure Chinese support for five UN Security Council resolutions in relation to Iran. It is absolutely right, there is a difference in approach; the Chinese are very focused on dialogue as being the means by which they believe the international community can deliver a more constructive relationship with Iran whereas European governments and the United Kingdom Government in particular believes a much tougher approach is the only one that will deliver.

Q758 Chairman: Perhaps, Minister, I can come back to the fundamental question again, which is really whether the British Government believes there should be a proper strategic relationship between Europe and China. I suppose that would be something more than a strategic level in terms of climate change, a strategic level in terms of trade. Should there be something more than that and should there be really that sort of high level dialogue that really tries to do something more than those two added together as the European Union?

Chris Bryant: Yes, there should, not least because it is possible that in the coming years there will be two big powers in the world, the United States of America and China. We believe there should at least be a third power which is the European Union, because that will be in the British interests. That is one of the reasons that we think the idea of having a large, effective, show-stopping President of the European Council will be important, but also a highly effective High Representative who is responsible for the whole of the apparatus in relation to external affairs within the European Union who will be a Commissioner and be responsible to the Council is a vital move forward, and we do not think it is good enough just to have 56 dialogues going on supported by an annual summit; one summit did not happen for the reasons we all know. We also do not think that it is good enough really to have only a working paper document rather than a formal Council measure, and that is why when the Lisbon Treaty is ratified I very much hope that we will be able to have a High Representative coming to the Council with a paper which brings forward a much more effective long-term, strategic relationship with China which would then go through a consultative process in all the different countries around Europe, in the national parliaments, and I think would end up delivering far more.

Q759 Lord Hamilton of Epsom: I would like to move on and away from this question. You have mentioned the United States and China; you do not mention India. We are talking about these countries because their economic growth is very substantial and that is why they are going to be very serious players in the future. There is not much evidence that the EU is going to grow at anything even approaching the same rate as India and China. Does it not worry you that the EU may well not be in this game at all in the future, for the simple reason that it just will not be growing fast enough and will not be making a big enough contribution to the wealth of global prosperity generally?

Chris Bryant: The EU will still be an enormous market; it will still be, I think, the second biggest market in the world, slightly depending on who ends up being in the European Union in the coming years, and we believe that it needs to match its economic power with its political power around the world. If anything, we would be critical of the fact that it has not managed to do so as effectively as it might. You are absolutely right to mention India. I would also add to the list Brazil, which is a very rapidly growing economy and is changing the geography of the world quite dramatically. Brazil now has a very close relationship with China, and China has made deliberate inroads across the whole of Latin America. I am always slightly hesitant about predicting what the world economies will look like in 20/30 years' time because I just look at Argentina. In 1910 everybody thought Argentina was going to be the fourth biggest economy in the world and it certainly is not anywhere near that now, and that is because of political decisions made inside Argentina, not because of anything else. So I would say in relation to China, yes, clearly there is significant growth, it is a very important player on the world stage, but if it gets some of its political decisions wrong in the next few years it could end up in the doldrums.

Q760 Lord Hamilton of Epsom: You could argue that the EU had got some pretty critical decisions wrong in terms of the economic model not being one that is even remotely relevant to the global market place we are moving in now.

Chris Bryant: I will leave you to argue that one rather than me!

Q761 Lord Hamilton of Epsom: Question two is really the divergences that there are. All the time we have been given evidence that when it comes to China they prefer to deal on a bilateral basis with countries in the EU rather than the EU collectively because they cannot get collective decisions from all the nation states that make up the EU. Is there anything wrong with that? Why do we worry about that? Is bilateral relations intrinsically worse than dealing with the EU as a whole?

Chris Bryant: No. It is just a question of belt and braces really. We want to have strong bilateral relations with China but we also think that there are...
areas where, if the EU speaks with a common voice, then it can be more effective. A classic instance of this is the issue I have already referred to of intellectual property rights, where there is a sharp divide between the Chinese understanding, and I have heard Chinese economists argue to me that their position is rather more like Adam Smith who never believed in copyright at all, but we would rather sharply disagree.

Q762 Chairman: Minister, would you feel that the balance is wrong at the moment in that individual European States can tend to undermine each other, whether it is around the Dalai Lama, trade negotiations or commercial rivalry between corporations? Is the balance right at the minute or is there something we can do to improve it? We found in China that there was not necessarily the greatest respect for European unity in terms of some of the issues, and that Member States were undermining perhaps the coherent strategic view. I would be interested in your views.

Chris Bryant: I am tempted to agree with you but then I think you might just ask me to give you examples.

Q763 Chairman: Or solutions, or where we can perhaps go on it intergovernmentally?

Chris Bryant: It is undoubtedly true that if you have 27 Member States then they will have different economic interests and they will, therefore, want to pursue them in slightly different ways. The art is to try and make sure that the sum of what we all achieve delivers more than the parts, and I think that is possible with a changed structure within the Union. But it also requires a changed willpower across all the countries of Europe and I think that those who see their best advantage merely in terms of bilateral relations with China are profoundly mistaken, because all that will happen is that the Chinese, quite understandably for their own reasons, will just pick each country off one by one, and nobody stands to benefit from that—in particular, I would argue, the smaller countries.

Q764 Lord Selkirk of Douglas: I think you have in part answered this question but I will ask it, if I may. Why does the EU not use its leverage and influence on China more frequently and more effectively? Chris Bryant: I have already suggested where we think the fault lines are. There is partly a structural problem, and we very much hope that when the new External Action Service is put together and once the High Representative has been appointed then Europe will be able to be more effective, in particular with regard to China, and we would hope that one of the first papers that a High Representative would bring forward would be in relation to China, but secondly, because of the point that Lord Teverson made, sometimes one country might want to soft pedal on its message on human rights because it is trying to get across a message on some economic deal, and we need to make sure that a united voice does not ever undermine any one of the different pillars of what we all have to achieve.

Q765 Lord Crickhowell: When Lord Mandelson was sitting there giving evidence—Chris Bryant: “Peter the Great” --

Q766 Lord Crickhowell: -- he repeatedly spoke about a leverage and talked about his own visits as a Commissioner, and I must say we came to the end of the meeting feeling that perhaps the leverage had not been very effective, on trade issues particularly, and again when we were in China we gained the impression that we could exert far more, and I am thinking here of trade, not other issues. After all, because Europe is China’s largest market we have quite a lot of powerful weapons if we choose to use them and we certainly got the impression that on the whole Europe is not using the leverage it undoubtedly could on trade questions. Would you agree with that or not?

Chris Bryant: Yes. We need to be more robust at times, but also it is about making sure we have a very clear strategic vision, and I think in the United Kingdom we have. We have produced a document which outlines the three key elements we want to be able to achieve out of our relationship with China, the first of which is obviously to make sure that we benefit out of the economic growth and industrial might of China; the second being in relation to how China develops its role as a global player. Both of those are absolutely vital for us and we think that is the kind of force and strategic vision that the European Union needs to bring to bear.

Mr Wightman: If I may, I think a lot depends on what one means by “leverage” in the approach one takes. There are those in Europe who argue that we should be adopting an approach of reciprocity; that we say to the Chinese, “If you do not open up here then we are going to close you down here in terms of market access”. I think the view of the British Government is that is an approach with China that just does not work. What we need to do is identify ways in which we can work more effectively in partnership together and convince the Chinese that it is in their own interest to address issues like intellectual property and then find a way of helping them. The next stage of economic development in China needs to take the Chinese economy to a high value economy, and in order to develop that they are going to have to develop their own system of intellectual property. Chinese corporations themselves are looking for protection against Chinese intellectual pirates at the
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Chris Bryant and Mr Scott Wightman

moment. But there are ways in which the EU can use the mechanisms it has, there are various trade defence mechanisms that are at its disposal to protect unfair Chinese competition and to engage the Chinese in a conversation that says: “Look, you need to understand that we have a political context in which jobs in Europe are under threat; the more that European citizens view Chinese competition as being unfair the harder it is for European political leaders to justify maintaining open markets”, but not do it on the basis of strict reciprocity.

Q767 Lord Crickhowell: I am not suggesting Europe should go protectionist, far from it. You keep coming back to intellectual property rights, and undoubtedly there are problems there, but I do not think we gained the impression on our visit to China that these were necessarily the central problems. There are wide problems of access and getting into particular sectors, for example, banking slowly, insurance even more slowly, where I think what I would argue is that the conversational approach, the approach prescribed by Lord Mandelson in his time as a Commissioner, has not been working and the problems will be tougher here.

Chris Bryant: It varies. For instance, in the high seas counter piracy work that the EU is doing off Somalia we co-operate entirely with the Chinese Navy. Doing that would have been inconceivable 10 or 15 years ago, or for that matter even five years ago. On climate change there would have been no advantage in merely preaching to China about the effects of opening new coal-fired stations if we were not able to prove some kind of benefit to the Chinese economy as well, and one of the things that has changed their position over the last few weeks—and I hope the summit that is still to come at the end of November in Nanjing will come to a further improvement of the Chinese position on climate change in advance of Copenhagen—is they now see economic opportunities to respond to climate change rather than the threats which many of us have been arguing for some time.

Q768 Lord Hamilton of Epsom: To follow up on Lord Crickhowell’s point about the banking sector, if there are enormous problems for the United Kingdom to get involved in French banks, surely the chances of the EU getting involved in Chinese ones are not going to be very great, are they?

Chris Bryant: It is certainly a difficult one to crack, and if I am allowed briefly to mention Russia again it is interesting that we have been able to achieve a much easier relationship with the Russian financial institutions than with Chinese ones.

Mr Wightman: On the general issue of market access what the EU needs to do is become much more focused and identify what its key market access priorities are and then have both the Commission and Member States focusing in on those. That is the way the EU can become more effective, and one of those would certainly be financial services.

Q769 Chairman: Just to conclude on this area, what we found over there amongst other things was that there was utter respect for the United States, and the United States uses leverage. That is its trade in many ways in world affairs. But as far as the European Union was concerned there was no such level of respect whatsoever. That does not mean to say there was no polite respect, but no what I would call geopolitical respect. Should we ever aspire to that, or should we just carry on being the world’s nice guys?

Chris Bryant: If you mean by “respect” fear --

Q770 Chairman: It is a mixture. You know what I mean.

Chris Bryant: The main reason obviously that we are not able to perform in the same way as the United States of America is that we are not the United States of Europe, and none of us in this room wants us to be the United States of Europe, and we each of us has very significant individual bilateral relations. California as an economy is bigger than many of the Member States of the European Union but I do not know what its direct relationship is with China. There are elements that are at our disposal that we have not managed to make as effective as we would want, but our Government is absolutely clear that we believe Europe could be more effective in its relationship with China.

Q771 Lord Swinfen: Mr Bryant, to change the subject slightly, should the China-EU summit meetings be more focused with better continuity and follow-up from one summit to the next? You have already mentioned that one summit was cancelled. In some policy areas, including climate change, the EU and Member States have a number of overlapping dialogues with China. Does the Government see a need for rationalisation of these dialogues to reduce duplication?

Chris Bryant: Yes, and it is not just the dialogues where we prefer to see greater coherence and consistency; it is also, as I have said earlier, in the structures, and we think one will help the other. But yes, we do.

Mr Wightman: I think it comes back to the mechanisms, as the Minister was saying earlier; that the Lisbon Treaty should give us more opportunity for using the new instruments and structures that will be developed to make more use of opportunities like the EU-China summit. At the moment the Chinese quite understandably find it very difficult when swapping from one Presidency to another every year when they have a Summit. If there is more continuity
and more focus on a limited number of strategic priorities then there should be more scope for using the summit and other high-level meetings to achieve more constructive and productive outcomes.

Chris Bryant: There is just one other element to this which is that we would hope that when the External Action Service is set up we will have secondees working within that from the Foreign and Commonwealth Office and some of those will almost certainly be Mandarin speakers who we would expect to be helping in the effort with China.

Q772 Lord Anderson of Swansea: The Minister has answered the question I was going to raise on the extent to which the External Action Service may well transform the dialogue, but what role does the EU Mission play at the moment. Is it a very secondary role?

Chris Bryant: I do not really know that much about the role that it plays at the moment.

Mr Wightman: The Commission delegation representation in Beijing has a very important role to play in areas where the Commission has competence, so classically on issues relating to external trade it is the Chinese’s main point of contact in Beijing. If the Lisbon Treaty comes into force and there is a new External Action Service established, the Commission representation will become the EU delegation. It will not have a leadership role amongst EU embassies but it will be, as the Minister said, in a much better position to co-ordinate the range of EU engagement, whether through the Council or the Commission.

Q773 Lord Anderson of Swansea: Will it be, in effect, a Permanent Secretariat at these times which will obviously be effective in helping to ensure greater continuity?

Chris Bryant: It will be a delegation but it will also be supported in Brussels by a single secretariat rather than by at the moment people in the Council Secretariat and in various different Director Generals’ offices in the Commission, and that will obviously be more effective and coherent and, to use a Valleys word, “tidy”.

Q774 Lord Hamilton of Epsom: Climate change has been mentioned and one of the things that has been a matter of concern has been the number of coal-fired power stations that the Chinese are building—I cannot remember whether we are on two a week now or more than that—with very dirty coal of their own with lots of sulphur in it. I think the Chinese are committed to putting in carbon capture on a power station. When do you see that coming on tap? When do you think the first power station in China will be working with carbon capture?

Chris Bryant: Scott?

Mr Wightman: You had extensive evidence from John Ashton on the subject of how we engage with the Chinese on climate change. The Chinese are interested in carbon capture in storage and they are co-operating with the European Union on the possibility of a pilot project. If we can secure agreement on specifically how that will happen we are looking at 2015 before a demonstration project can be up and running in co-operation with the EU.

Q775 Lord Hamilton of Epsom: So that is a relatively small prototype?

Mr Wightman: It is a prototype but the whole concept is it should be one of a number of prototypes that will be tested globally; there needs to be a global demonstration effort that could help us collectively bring down the costs of what otherwise is a very expensive but necessary technology.

Chris Bryant: And it is to some degree still unproven. One of the things that has changed the Chinese point of view on this is that a lot of international discussions have happened around the subject which have made it clear that anybody who has first player advantage in terms of carbon capture and storage technology is potentially going to be on to a major winner.

Q776 Lord Hamilton of Epsom: You say that the technology is unproven because the people we talked to in Brussels said that all the technology is proven and there was not a problem over this whatsoever, which I think is a rather naive view. We have no idea of what the costs of this are going to be.

Mr Wightman: I think the cost is the real issue.

Chris Bryant: The fact it works is not unproven, but whether you can make it add up financially is certainly questionable.

Chairman: This Committee is in correspondence primarily through DECC around the zero carbon project in China which we have dealt with over the last couple of weeks.

Q777 Lord Chidgey: Very quickly, Chairman, I was very interested on this comment on carbon capture but, Minister, are there other discussions going on within the EU or with the EU and China on transfer technology, or technological developments on a joint basis, clean coal technology, that sort of area looking at ways to reduce the footprint of China’s effect on climate change? I would have thought in terms of the EU and China working together this was an area we should be exploring with great vigour.

Chris Bryant: That sounds again a bit like a DECC question. Scott?

Mr Wightman: The answer is yes, it is an area of huge potential. As far as the United Kingdom is concerned at the moment we feel it should be just about the EU’s
top priority for the forthcoming summit. There is very useful and productive co-operation with the Chinese already on a range of issues relating to low carbon development, and we want to try to raise the level of the partnership we have with China so we can contribute at the summit to a positive dynamic going into the Copenhagen negotiations, by establishing a much firmer footing for co-operating with the Chinese on low carbon development, both in Europe and China. We are attracted to and have been working bilaterally with the Chinese on developing the concept of low carbon development zones and we would like to see this taken up at European level, such that European business would be able to take advantage of advantageous conditions in certain selected zones within China to develop energy efficient and low carbon technologies.

**Q778 Lord Chidgey:** But are we pulling together with partners in Europe, not to secure a market but to try and develop the technology in partnership with the Chinese, who have a huge problem here, of course.

**Mr Wightman:** One of the solutions to the whole challenge of technology transfer in the climate change negotiation is precisely this joint development of some of these new technologies, and I think we identified this concept of low carbon development zones as an opportunity to try and accelerate that process.

**Chris Bryant:** Lord Teverson, there is one area that slightly harks back to an earlier question. I do not think we should ever be naive about how difficult it is for Europe to come to a consistent and constant view on any one subject. The truth of the matter is China would love us in one sense to be like China, with one Government and with one political structure. The truth is there are elections in one country or another nearly every month of the year, so the waves of political thought do not break on the beach at the same time all across Europe, and that does make it remarkably difficult at any one time to create a single political body. There is no European people, there is no European Demos, if you like, and that is why I have always thought that the fact that the European Union is able to get closer to common positions is a phenomenal political achievement, but it requires remarkable political willpower.

**Lord Hamilton of Epsom:** Perhaps if we are going to have a European Demos we might elect the European President!

**Chairman:** I think we will leave that just for the moment!

**Q779 Lord Selkirk of Douglas:** Is the Minister aware that when we were in China it was made very clear to us that for China to be at the cutting edge of new technology was an absolutely top priority for them?

**Chris Bryant:** Absolutely. We will have a pavilion at the Shanghai Expo next year and it has been made absolutely clear to us that one of the key things we have to be able to show is that Britain is as interested in technological innovation and first player advantage as China is. Sometimes that is quite difficult because I think China’s view of Britain can sometimes be dominated by Shakespeare and Manchester United and not much else.

**Q780 Lord Crickhowell:** Lord Hamilton diverted us from institutions to climate change but I cannot really leave it where it was left, because when we were in China we found they were attaching great importance to this proposed co-operation on clean coal technology and it was an area where there really was great scope, yet this Committee had to issue a public statement just within the last 10 days expressing incredulity at the latest paper to come out of Europe on this question. We have been jaw-jawing about this whole thing for five years and the fact is that papers coming out of Europe and the British Government’s reaction to it do not seem to be giving any sense of urgency to the thing at all. We just said this as a Committee publicly; I found the answers that have been given on this really quite extraordinary. Here we have something of central importance, both the climate change and the relationship with China, and no one is doing a damned thing about it.

**Chris Bryant:** I am afraid I am not sighted on the paper that you produced, I will be very honest with you, I am not sure even when your visit was, but if there is further work that you want me to pursue with other Ministers in the Government I am more than happy to do so.

**Q781 Lord Crickhowell:** I want to move on but I do think it is slightly odd, incidentally, that this paper that the Committee has just issued, which is an important comment about this matter of central European importance, has not been drawn to your attention; I think it is extraordinary. However, let us pass back to institutions. We have dealt a great deal with the way it should be at the highest level, so my question about strengthening the capacity within the European Commission and Council in terms of knowledge and experience of China has partly been dealt with, but there are just two points I would like to pursue. One is the scale of the actual EU representation in China. They have quite a good team in Beijing but it is very small compared with what the British Embassy has, though, of course, we are dealing with visas and trade and so on; it is tiny compared with the American representation, I think they are a thousand strong or number close to that, and we were astonished when we went down to the central key economic areas like Guangzhou in the south where everything is happening that there was
no EU presence on the ground at all. Do you think there is perhaps a need for the EU representation to be thought of not just in terms of one or two key players in important sounding jobs at the centre, but of getting involved in what is going on on the ground? The other very interesting point that was put to us by the Chinese was the huge importance of trying to encourage this country and Europeans to go to China, get involved in education in China, and learn more about China, because the Chinese feel we are profoundly ignorant about China.

Chris Bryant: And China is probably right in feeling that as well. I do not want to be unrealistic about what the External Action Service will be able to provide by way of representation in China. Indeed yesterday afternoon when I was being scrutinised by the European Scrutiny Committee the opinion from Conservative members at least of the Committee was there should not be an External Action Service at all in any shape or form, so one is caught a little bit between the devil and the deep blue sea, but I think one of the most important things the EU will need to do once the Treaty is ratified and once the High Representative exists is to refocus its efforts. Rather than the piecemeal way in which all its representation has grown up around the world it needs to decide where its real focus needs to be, and we would argue very strongly that one of the places it needs to up its game and needs to increase its reputation is in China. We stand ready to help in this process with secondments from the Foreign and Commonwealth Office, but also I am aware that I have to win an argument with a very Euro-sceptic bunch of people in the United Kingdom who would argue there should be no External Action Service in China, Sudan or anywhere else in the world.

Q782 Lord Swinfen: What is the Government’s assessment of the EU-China human rights dialogue? What steps can be taken to make it more effective, and should the Chinese be allowed to dictate which NGOs participate in the dialogue on the European side?

Chris Bryant: Going back to the tone of the questions that we addressed right at the beginning of the session, I think that one of the dangers of human rights dialogue between the European Union and China, or for that matter whenever a high level visit happens, is that it can become a little bit formulaic and does not have any effect, it is not a real engagement, a real dialogue; the Chinese quite often do not view human rights in at all the same way as we do, they would argue that human rights are primarily a question of whether all the people have food to eat, a home to live in, and a job to do. I would argue—and I am sorry if this is a slightly biblical term—that human rights are a seamless garment; you cannot divide off the right to freedom of expression and the right to freedom of human rights, association and freedom of religion from the right to a home and shelter and clean water and all the rest, so one of the things we have tried to do bilaterally is we have tried to find lots of other ways of influencing the Chinese position beyond human rights, and sometimes that gets us into at least warm, if not hot, water with Chinese authorities, but nonetheless we think it is one of the important things we have to deal with. A classic instance is the question of the death penalty, which we are wholeheartedly opposed to. China accounts for something like three-quarters of the world’s executions every year, and we robustly put the argument, as do other European Union colleagues.

Q783 Lord Swinfen: What advice does the Government give to British commercial organisations working in China on human rights and the way in which they should operate? Does it give them any advice at all?

Chris Bryant: I hate to confess to not knowing something but I do not know. I am very happy to write to you with details. That would have been done by the UKTI.

Q784 Lord Swinfen: I would be very worried if you knew everything!

Chris Bryant: Sometimes I am worried about the things I do know, let alone the things I do not.

Q785 Chairman: Just to follow up on Lord Swinfen’s question, one of the questions we grapple with most, coming back almost to the question of leverage again that Lord Crickhowell brought up, is the question of whether we have any effect at all as the European Union in terms of how China practically manages its human rights?

Chris Bryant: Yes, I think we do, and I also think if we were to abandon this process that would have an enormously deleterious effect, but in the end we have always been of the view that the best way to open China up to greater political openness, transparency, freedom of the press and all the rest of it is open it up economically, and that in recent years has been proven successful.

Q786 Lord Hamilton of Epsom: Do you not think it is possible that we are not going to get anywhere on human rights and the best approach is to start working on the Chinese about the rule of law which is one of the main shortcomings of their system at the moment—if it was not for Hong Kong you just wonder really how much investment would be going into China—and then build on that, and then the human rights can come via the rule of law rather than battering their government around the head?
There are various educational programmes that the Commission supports, bringing Chinese students to European universities and promoting contacts at school level as well. Clearly, if resources were available, one would like to see that sort of thing increase but it has to be done within the margins possible.

Q789 Lord Crickhowell: I have two topics to mention. Tibet, we have found, is an absolute no-go area as far as the Chinese are concerned, and the thing that infuriates them is that they do not mind it being addressed in the sort of relative peace of these ongoing exchanges: what they hate is when it is suddenly brought up by presidents and prime ministers in great public arenas. It is quite clear to us that really it is a subject they are not even prepared to consider, let alone discuss further. But I would be interested if you have any views about the way the EU should handle that issue. On the subject of Hong Kong, we did visit Hong Kong and we found it was making a hugely important contribution to getting the Chinese economy and so on going, and the links were very close and effective, and we were also told by the British officials there that the local EU officials were very supportive on crucial questions of democratic principles and so on, and we were glad to hear that. Nonetheless, we found that the whole democratic programme seems to be slipping quite seriously and I wonder whether you therefore think this is an area which needs further pursuit by the EU in support of any British actions?

Chris Bryant: Firstly on Tibet I do not think there is a country in Europe that is going to let go of the issue of Tibet, and quite rightly so. Ivan Lewis visited earlier this year in September, and just before his visit there was an All-Party Group visit from the Houses of Commons and Lords, and the Chinese authorities gave every assistance to both those visits; I do not think we could complain in any regard in relation to that. We believe, as, indeed, does the Dalai Lama, that Tibet should be and is part of China; we do not support a separatist argument. Your question was that Tibet, we have found, is an absolute no-go area as far as the Chinese are concerned, and the thing that infuriates them is that they do not mind it being addressed in the sort of relative peace of these ongoing exchanges: what they hate is when it is suddenly brought up by presidents and prime ministers in great public arenas. It is quite clear to us that really it is a subject they are not even prepared to consider, let alone discuss further. But I would be interested if you have any views about the way the EU should handle that issue. On the subject of Hong Kong, we did visit Hong Kong and we found it was making a hugely important contribution to getting the Chinese economy and so on. The danger, as you have said, Minister, is that the ritualistic meetings at senior level become no more than that but we did, to be fair, see in China a number of micro projects by the United Kingdom and by the EU which I certainly found of value, and perhaps the best is not lecturing but rather by example. Can you, therefore, say something about people-to-people exchanges? I would have thought that the large number of Chinese students in this country who see the rule of law, who see a free press and so on, must take back a pretty positive picture of that and over generations that will have an effect, so what is being done at an EU level in terms of promoting people-to-people exchanges? For example in student exchanges and so on?

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Chris Bryant: Lord Anderson, you are an eternal optimist for which I respect you enormously and have for years, and it is true that often travel broadens the mind but sometimes, I am afraid, it narrows the mind. I am slightly overegging this argument; clearly we welcome the number of Chinese students who come to the United Kingdom and if they have a positive experience in the United Kingdom then I hope there are elements of the way we do things that they would take back, but I do not think we should ever be so arrogant to think that either their experience will always be good here. Undoubtedly a lot of Chinese students have faced considerable levels of racism in the country, and sometimes the message that they may take back is not quite as straightforward as the message we would want them to.

Q788 Lord Anderson of Swansea: So what is being done at EU level to promote people-to-people exchanges over a broad scale, and cultural exchanges generally?

Mr Wightman: It is an important element of the Commission’s approach to engage with China precisely to promote people-to-people contact, so there are various educational programmes that the
Chris Bryant: I would add that in relation to Hong Kong this is a classic instance where the European Union definitely adds value to what we can say—definitely—and I would add other countries in the world, like Zimbabwe, where sometimes what we can say is limited because of our historic relationship and the EU’s intervention can, therefore, be pretty decisive.

Q790 Chairman: That was something that came out very strongly while we were there, that obviously we have a rather more difficult position as the ex-colonial power.

Chris Bryant: Incidentally this is also true in relation to Iran because of our historic relationship, and the fact that we, unlike the United States, actually have a presence in Iran makes it rather easier for the Iranian authorities, when they want to stir up trouble, to stir it up against us.

Chairman: That leads very well on to the international security side, although not repeating Iran. Lord Hamilton?

Q791 Lord Hamilton of Epsom: I think you indicated that you had not had much success in terms of getting China on side over Iran. Would you say the same was true of the undemocratic regime in Burma, and, if I can add to that, the Chinese have their own Muslim minority problems and they have had inter-ethnic violence between Muslims and their own people in one of their states. Is there any dialogue at a different level, more of an intelligence level, where we have an awful lot in common? I think we are talking to some degree with the Russians about Muslim extremism. Do we do the same with the Chinese?

Chris Bryant: In relation to Burma, part of the difficulty obviously is that the Chinese authorities thought that the best way of maintaining order in Burma is to have a military regime and we do not believe that the best way of running any country is to have a military regime, so there is a fundamental difference of view. I would, however, say that there has been—how can I put this—some sort of tenderising of the Chinese position on this because in border areas in recent months they have been concerned to see that this has not produced stability and calm and peace in Burma, so there is a level of the anxiety in China which we would not have seen a few years ago.

Q792 Lord Hamilton of Epsom: Is there an opium trade going into China from Burma?

Mr Wightman: Yes.

Q793 Lord Hamilton of Epsom: So that must be a worry too?

Mr Wightman: It is a worry, and also there are interests in China who have vested interests in the expansion of that trade.

Chris Bryant: We obviously talk closely to others in the region, and I particularly want to praise the work that has been done by the Thai Government. When I visited Thailand and Laos in September the Thai Prime Minister was very keen to be able to go and visit Burma, but Burma I think has continued to prevent his visit, and that is a continuing source of anxiety to us.

Q794 Lord Hamilton of Epsom: On the question of Muslims and intelligence, is there anything going on at that level?

Chris Bryant: Intelligence between us and China?

Q795 Lord Hamilton of Epsom: On Muslim extremism, yes?

Chris Bryant: I would be very reluctant to talk about intelligence work we do. Obviously we had a bigger issue earlier this summer in relation to the five Uighurs who were released from Guantanamo Bay and went to Bermuda. That was a difficult moment in our relationship with China, let alone in our relationship with Bermuda, who had not warned us they were going to do this at all.

Q796 Lord Anderson of Swansea: There is no international terrorism aspect in respect of Tibet. There is, however, in respect of the Uighurs, and we found that our Chinese interlocutors were very concerned about our response to the riots and the problems concerning the Uighurs. I just wonder, and perhaps you could respond to this, Minister, whether, if we are to seek the co-operation of the Chinese in terms of counter-terrorism, we might be a little bit more sympathetic to some of the problems they face? They certainly were angry, I think, and puzzled at our failure to understand their problems in respect of the international terrorism aspect, perhaps exaggerated in relation to the Uighurs.

Chris Bryant: Probably every country in the world is upset that other countries do not understand their particular problems. Scott?

Mr Wightman: There has been some selective deafness on the part of the Chinese in relation to interpreting what was said by western governments at the time of the riots in Urumqi in July. In fact, certainly the UK Government but also the Presidency on behalf of the European Union made it very clear that we condemned the violence and the loss of life, and that there was no possible justification for the attacks on innocent people that were carried out by some extremists, but we have also registered our concerns to see that the rights of people who have been detained as a result of that through the criminal justice system in China should be fully observed. The
Chinese do have concerns about Muslim terrorism: I think they have been surprised at the way in which this has, in a sense, sprung up at them over the last couple of years. They thought they had an approach to the situation in Xinjiang and to the Muslim minorities which was successful and they have been really seriously taken aback to find there are deep underlying problems there, and I think at the moment they are at a bit of a loss as to how to address them. It is absolutely right that we should be looking for ways in which we can help them overcome some of the underlying tensions that have led to the violence.

Chairman: I should just say, and it is a serious point, that there are many countries in the world who say to us: “I do not know why you are criticising our human rights record when all we are trying to do is tackle international terrorism just as you have tried to”, but we would argue very aggressively that actually in South Caucasus, for instance, human rights abuses are significant and that is not at all the way we have tried to address the issues of international terrorism as they affect us in the United Kingdom.

Lord Anderson of Swansea: The point is simply this: there is a difference between Tibet and Xinjiang and we lose out if we fail to appreciate and sympathise with the Chinese problems in that area.

Q797 Chairman: Minister, perhaps I could complete this global government section and come back to the core part of it. One of the things we found when we were over in China is that China is very quick to tell or say to the rest of the world what it should be doing or its opinions, but should the European Union be thinking, or does the British Government think, that China is sufficiently stepping up to play its role in a way we would like to see in this global governance area—and it is a Security Council member, obviously—or is it still really seeing itself as the champion of the oppressed part of the world?

Chris Bryant: I have never heard it expressed in quite that last manner. I have heard that more from Venezuela than from others—

Q798 Chairman: That is true.

Chris Bryant: --- but it is a key objective for the United Kingdom bilateral relationship, and this also applies to the EU-China relationship, that we make sure that China plays a slightly different role on the international stage. It is a key partner for us in terms of the Non Proliferation Treaty and in terms of its permanent membership of the Security Council, and there are many areas where we believe it could play a far more effective role against its own set of interests, let alone against what we believe, whether you are talking about the Middle East piece process, about Iran and its nuclear intentions, or many other issues.

Q799 Chairman: North Korea?

Chris Bryant: Indeed, though we have seen changes in the way it has responded in relation to North Korea as well. So we would say that there are areas where we clearly have very sharp differences, and we try to work as closely as we can to turn that around.

Chairman: One of the areas we have been particularly interested in is the development area. Perhaps I could ask Lord Chidgey to lead us on that.

Q800 Lord Chidgey: Thank you, Chairman. This is a very broad area but I will try and be as specific as I can and then come to a test case, I think. Minister, what can the United Kingdom and the EU do to encourage the Chinese Government and corporations to increase the transparency of agreements that they have concluded with developing countries and governments? Specifically, what is the Government’s reaction to reports that China intends to conclude a major deal with authorities in Guinea-Conakry? Can I just add, rather topically, that the EU has just announced that it is supporting sanctions against China agreed by ECOWAS and the AU. How relevant is that when, if China is concluding agreements with Guinea of about $4 billion, I think, which probably includes arms supplies, China has been arming Guinea as well as the Russians, what is the relevance of ECOWAS saying it is going to impose an arms embargo in connection with the EU, when China is going straight forward and supplying them?

Chris Bryant: On the broader issue first, in one sense, because we believe that tackling the Millennium Development Goals is vital for world security and for a sense of social justice, money that goes from China to the least developed countries in the world has to be welcomed, and I think they invest more in Africa than all of the G8 countries combined, so we welcome that. But you can be giving money to countries for good reasons and for less than good reasons, not to say potentially nefarious reasons, and that is why we believe that transparency is a vital part of the equation. Indeed, it is not only Africa we are talking about but also large chunks of Latin America as well, as I saw when I visited Peru, Colombia and Venezuela earlier in the summer. We believe we have to engage directly on this issue because Britain has taken a leadership role, I would say, over the last 10 years in relation to development issues, and DfID is one of the most respected development organisations in the world, and that is why we have started a specific United Kingdom-China-Africa dialogue and addressed some of those issues very directly there. I will ask Scott to talk about Guinea.

Mr Wightman: We do not have absolutely clear details on the nature of the relationship between Guinea and China following the report, but the Minister of State, Ivan Lewis did raise our concerns
about the reports with some Chinese visitors when they were here a couple of weeks ago, and I think it comes back to the point the Lord Chairman was making about the expectations that the European Union, the United Kingdom and the Western countries have of China as it becomes a major world power. The Chinese do still like to see themselves as a developing country, but it is perfectly legitimate for other countries, given its increasing wealth, to expect it to begin to see that it is best to pursue its own national interests through the promotion of global common goods, and one of those is peace and stability and sustainable development in vulnerable African countries, and the way in which it is engaging in some African countries is therefore a cause for concern. We have been speaking to the Ministry of Foreign Affairs in Beijing trying to get more details about the nature of the relationship with Guinea. The fact that African countries in the region are expressing their concern and are taking measures greatly strengthens our ability to pressurise the Chinese Government to review any decisions they might have taken.

Q801 Lord Chidgey: A quick supplementary, if I may. That is very interesting but the point I want to hammer home is that on the one hand we have Chinese actively working with the UN refugee programme, they are, in fact, wearing metal UN helmets in that part of the world, they are working in Liberia concerned about the humanitarian conditions and so forth, but this all amounts really to nothing if politically they are not supporting, maybe even undermining, the efforts of the EU working with the AU and ECOWAS to bring the regime under some sort of control. It is just cutting the ground from under our feet. It is really vital and in our interest and the EU's interest that the sort of dialogue we need with China is for them to understand it is security of their investment interests to bring stability to these regions, rather than just consider it as a side issue because the investment programme is separate from human rights issues.

Chris Bryant: You are absolutely right, and the Chinese produced a White Paper in 2006 which gave very laudable aims for all their development work in Africa, and obviously if that is what they are doing then that is not contributing towards those laudable aims. You mention the African Union and I think that is a vital player in this, and sometimes the African Union has not been as effective as it might be in relation to human rights elsewhere, the most notable example, of course, being Zimbabwe.

Q802 Lord Anderson of Swansea: What struck me was the Chinese in Beijing were claiming that they had made a major move from being a regional player to being a global player and a good global player, and certainly Lord Malloch-Brown's visit suggested there would be movement in respect of Zimbabwe. However, in Guinea, even though the details may be unknown, what is clear is that there is several billions pounds worth of investment in a regime which has killed peaceful demonstrators and so on, but more importantly which has been condemned both by the African Union and by ECOWAS, so it can hardly be in China's interests to pursue a narrow economic resource position if they are to annoy the key regional and continental organisations, I would have thought.

Chris Bryant: There was a brief discussion of this as well at the General Affairs and External Relations Council earlier this week.

Q803 Lord Anderson of Swansea: Has there been any movement on Zimbabwe?

Mr Wightman: You mean in relation to China?

Q804 Lord Anderson of Swansea: Has China's position on Zimbabwe been modified as a result of pressure?

Chris Bryant: I do not know.

Mr Wightman: No, it has not. It is still maintaining its relationship with the regime. Obviously last year when there was a shipment of Chinese arms to Zimbabwe eventually the Chinese bought it back, but again interestingly it was more to do with the pressure they were coming under from African governments than from protests being made by western governments, and I think that is highly relevant to the situation we are facing in Guinea now.

Q805 Chairman: A very specific point which we have taken an interest in is the Extractive Industry's Transparency Initiative, and we are interested to understand what encouragement is being given towards that by the EU and the United Kingdom.

Chris Bryant: There is a slim likeliness of the Chinese endorsing it, I think, in the short term certainly. There is not a very keen awareness of these issues in China, unless Scott has newer intelligence than mine?

Mr Wightman: We explain to the Chinese the relevance of EITI and the advantages of it, but it comes back to the previous point as well, what we really need is for the African governments who have signed up to EITI to be encouraging China in their engagement to co-operate with not just the letter but also the spirit of the initiative.

Chairman: One of the things certainly Lord Crickhowell and I when we were in Beijing particularly noticed was how strongly positive DFID were about China's development in relation to EU, we were almost quite surprised at the missionary level they had about that, and perhaps we could move to the last question in relation to that.
Q806 Lord Chidgey: This may be a rather facetious question in a way but are there any examples of good co-operation between the EU and the Chinese Government or co-operations in African countries, and to what extent are the Africans themselves taking a lead in this co-operation agenda?

Chris Bryant: I am feeling slightly blind-sighted about this because Africa is not mine and nor is China, so this is definitely a question for Scott!

Mr Wightman: There is an incipient dialogue between the EU and China on African issues. I think this is an area where our bilateral relationship with China is enabling us to get into more interesting areas more quickly than the European Union has been able to so far, but the more we can make this a triangular co-operation the more demand there is from African governments to see the EU in some way involved in some aspects of their relationship with China, and the more fruitful the co-operation can be, I think.

Q807 Lord Hamilton of Epsom: I think it is rather more interesting than this. We have our own way of dealing with these failed states in Africa, many of which have enormous mineral wealth, and the Chinese have an amazing ability, because they control everything, to do a deal. Just take as an example the Democratic Republic of Congo, where they want copper and cobalt concessions. In return they are putting in a railway that is there not at the moment and a road that goes all the way around the country east and west, and that is something it strikes me China can do and almost nobody else can, and if that works—and it is a big “if”—it is of enormous benefit to the Democratic Republic of Congo. Should we not be thinking that perhaps they have the answer and we have not?

Chris Bryant: In one sense it is what we did in 1810 when we backed Bolivar in Colombia and we decided to roll out railways on the left-hand side of the road, as it were, all around Latin America. It is not all that different. Part of the advantage of having a heavily authoritarian political system is that you are able to apply every element of economic, industrial, political and financial might to one objective. I prefer not to live in that style of country and consequently we are not able to deliver in the same way. Whether the long-term advantage for the DRC is really to advance those kinds of relationships, which can end up being like client relationships, or not is for others to judge, I think.

Mr Wightman: Can I add that that is an interesting example of a trilateral co-operation. It is with the UK rather than the EU, but for that road building project which the Chinese are financing precisely to help extract the minerals, DFID are funding an environmental impact assessment to study the regulations and the conditions in which the road is constructed in co-operation with the Chinese, and to make sure the project is taken forward in a more environmentally sensitive way than would have been the case otherwise. It does demonstrate the potential, I think, for effective triangular co-operation.

Chris Bryant: But if you look to somewhere like Bougainville in Papua New Guinea where the biggest mine was a British-run mine closed down by violence because of the perhaps insensitive way in which the permissions have been granted and the way the extraction was taking place, it is not within our power simply to say: “Right, we will build a road from here to here.” I should also say in relation to Bougainville that I am hopeful, having met with the new government in Bougainville, that in the not too distant future it will be possible to open that mine again.

Q808 Lord Hamilton of Epsom: Would that be opened under RTZ?

Chris Bryant: Yes.

Q809 Lord Swinfen: On these major projects in Africa are the Chinese employing local labour or are they bringing in their own labour? I ask the question because the Chinese opened up a gas field in Bangladesh and not a single Bangladeshi was employed; they bought all their people and all their machinery from China.

Mr Wightman: You are right, by and large for these major infrastructure projects the Chinese import their own labour into the countries for the duration of the projects, so some of the side benefits and the developmental benefits one might expect do not accrue to the African economy concerned. Some of the African governments and African people are pushing back against that, and there have been incidents of violence against Chinese nationals working in African countries which are precisely linked to that phenomenon.

Chris Bryant: But that is one of the reasons why it is in the Chinese interests to take these projects forward, because it is an employment project.

Q810 Lord Swinfen: But they are doing the same with the agricultural projects that they are taking in Africa. I know they are taking all the produce from them to China, but are they using African or Chinese labour?

Mr Wightman: That, I think, is more local labour.

Lord Hamilton of Epsom: It has to be said, though, that if you do your construction project with Chinese labour you do not have the problem of bribery of the locals to get anything done.

Q811 Chairman: What I would like to do is just wrap up this session and make one comment. On occasions we have to have a broader perspective, one of the things is we came to see the difference between
Chinese corporations, Chinese government and provinces in this whole area, but when we talk about Chinese trading companies going in with those sorts of practices I think probably one could point to a number of European corporations, maybe in the oil industry, that go into development which have similar problems in terms of the way they deal with those economies and local populations, so I do not know that it is completely a Chinese problem. You are very welcome to comment on that but lastly, more on the strategic level, do you think, Minister, that Britain—but particularly Europe—as a major trading nation should start to be concerned about the commodity graph of China globally? Is that a real area of potential conflict for the future?

Chris Bryant: Just in relation to British companies --

Q812 Chairman: I said “European” actually.

Chris Bryant: But I am concerned with the British ones in particular, and my own experience from having been to Mexico and Venezuela and spoken to ministers from Bolivia and Colombia, which is an area I know better, trying to make sure you have an international company that can provide the financial investment that those countries need to be able to realise the value of the resource that is underneath their own land, but also that some of that financial value returns to the indigenous people and that the legal and political sensitivities are matched, is that that is quite difficult to achieve. The biggest difficulty we have to face is in relation to Mexico where the law still prohibits anybody other than Mexicans owning that which lies underneath the land, and you will not be able to extract the oil from underneath the Gulf of Mexico without foreign investment, so there is quite often a very difficult circle to square, I think.

Q813 Chairman: I was thinking more of Nigeria in particular, but we will not go further into that.

Chris Bryant: Sorry, we have strayed from Russia to Iran to, now, Bolivia. On the last question, Scott?

Mr Wightman: Do we consider it to be a worry? It is perfectly legitimate for the Chinese to secure, or aim to secure, access to resources which they need for their continuing economic development, and there is absolutely no doubt that the United Kingdom has every interest in seeing China maintain its economic development. What we need to try to do is to encourage the Chinese to understand that this is best done in co-operation with other countries and in cooperation with local governments, so that these resources can be exploited in as sustainable a fashion as possible, but that there should also be transparency in the way they go about their business and the pursuit of these commodities. And in all cases it is not the case at the moment that there is the level of transparency that we would think would be desirable.

Q814 Chairman: Minister, Mr Wightman, thank you for the session you have given us and the time of one and a half hours. This is the end of the formal part of our inquiry and we have now to write the report and come up with conclusions and recommendations, so thank you very much for a very wide-ranging debate, discussion and inquiry and the very excellent way you have managed to answer a very broad range of questions so early in this particular area.

Chris Bryant: I am grateful for having had an expert witness by my side.
Written Evidence

Memorandum by Baroness Ashton, member of the European Commission

1. What are the main features of and issues in the economic and trade relationship between the EU and China? How well has this relationship developed in the last five to ten years?

The EU-China economic and trade relationship has developed significantly in recent years. Trade in both directions has grown so that the EU is now China’s biggest export market and it is the EU’s second largest trading partner after the US.

Looking back over the last ten years, competitively priced goods from China have contributed to lower inflation in the EU and have resulted in more people having access to a wider range of goods and more companies having access to input and components at competitive conditions. In turn, China itself has proved to be an important and growing market for EU exporters. However, although the EU has a surplus in services exported to China, the overall trade balance is one of a deficit. Nevertheless, it is important to remember that many of the goods “exported” from China are from EU owned firms or factories to which production has been out-sourced for competitiveness reasons.

The last 10 years has also seen China’s accession to the WTO. This marked a key point in China’s integration into the global rules-based system of international trade. The EU was a major supporter of China’s WTO membership and still co-funds the “EU China Trade Project”—which is designed to help China adapt to its WTO obligations by, for example, building administrative capacity.

Membership of the WTO has given China a key role in the Doha Development Agenda negotiations, where it continues to play an active role in the negotiations aimed at securing a successful outcome. The recent financial turbulence has further highlighted China’s economic importance on the world stage, with China playing a key part in the recent G20 Summit and follow-up work.

Beyond the statistics, the EU-China economic and trade relationship is one which has matured considerably in the last 10 years. As with other trading partners, we have a well developed framework of dialogues at both working and political level which we use to tackle issues of concern or mutual interest. The latest of these—the High Level Economic and Trade Dialogue—took place in Brussels 7 and 8 May 2009. A large number of Chinese ministers and European Commissioners participated in the discussions that covered a wide range of economic and trade issues.

The transformation of the EU’s trade relationship with China over recent years means that we also need to upgrade the overall framework of our cooperation. With this in mind, we are currently negotiating with China an upgrade of the 1985 Agreement, which provides the current basis for our contacts, with a view to establishing a Partnership and Cooperation Agreement or PCA.

2. Has the EU made progress towards its objective of persuading China to open its markets to European goods, services and investment? What are the main obstacles to market access for European corporations and SMEs, and what can the EU do to address these?

Yes, we have made progress as can be seen by the growth in EU exports to China and the surplus we have in our trade in services. This does not mean there is no room for improvement. Indeed, market access issues feature regularly on the agenda of our meetings with the Chinese and the EU remains vigilant about China’s fulfilment of its WTO obligations.

We believe dialogue is the best option for resolving such issues and we have a range of sectoral and technical dialogues for this purpose. We also have dialogues at political level which tackle problems we have not been able to resolve at working level.

Nevertheless, in cases where dialogue does not bring results, and we believe that there is sufficient evidence that China is in breach of its WTO obligations we can—and do—resort to the WTO’s Dispute Settlement Mechanism (DSU).
The main market access obstacles, apart from those which are in breach of WTO rules, are non-tariff barriers. Even cultural and administrative differences—simply knowing your way around the system—can be a major hurdle, especially for SMEs. With this in mind, the European Commission is planning to set up a Centre for EU SMEs in Beijing later this year. This will be a sort of one-stop shop to help firms wanting to export to or do business in China. Of course, we are setting the Centre up after considerable consultation with both business, Member States and chambers of commerce so as to avoid any duplication.

3. How much progress has China made towards addressing EU concerns about the protection of intellectual property rights in China?

The protection of Intellectual Property Rights in China remains a major concern for EU business. Although China’s legal framework for IP protection has largely been aligned to the WTO TRIPS Agreement, much work needs to be done to improve IPR enforcement. This is important for China’s credibility as a major trade partner.

We have regular dialogue with China on IPR issues in which we raise not only specific problems but also the broader issue of the key role a sound and functioning system of IPR has in an economy. China aspires to become a centre of innovation by 2020 but to do this—and to foster domestic innovation—it will need to ensure that investment by individuals and firms into research and development is safeguarded through effective IPR enforcement. There is some evidence that this is beginning, with Chinese businesses starting to act against breaches of intellectual property rights.

As part of our long-term strategy for intellectual property with China, the EU provides technical assistance to China. In 2007, we agreed a project with the Chinese government on the protection and enforcement of intellectual property rights—the so-called “IPR2” project.

The aim of this project is to improve the effectiveness of IPR protection and enforcement in China through technical assistance to Chinese legislative, judicial, administrative and enforcement agencies and institutions. Special focus is put on enforcement capacity.

4. Should the EU continue to use trade defence instruments and anti-dumping measures to ensure fair conditions of trade with China? What mechanisms are in place for China-EU dispute resolution?

The EU’s policy in the area of trade defence instruments and anti-dumping is to carefully apply measures in cases where these are justified according to trade rules and international obligations. The EU acts in this area only after meticulous and individual scrutiny of each case. This applies to our trade relationship with China in the same way as it applies to any other trading partner. The strict and judicial EU approach ensures a very focused, disciplined, and fair application of our trade defence instruments. At the moment, the EU has 49 AD measures against Chinese imports, covering about 1% of the trade from China. Besides the EU’s trade defence instruments, the EU may, as a consequence of China’s WTO membership, also chose to resort to trade dispute settlement mechanisms within the WTO. This includes the possibility of resolving issues through consultations and panel decisions. It is important to underline that we believe that dialogue is the first best option for resolving such issues, and we have a range of dialogues with China for this purpose. But when dialogue does not bring results and we believe there is sufficient evidence for China being in breach of its WTO obligations we can—and do—resort to the WTO’s Dispute Settlement Mechanism.

5. What are the difficulties faced by the EU and its Member States in forging a common position on trade relations with China? Does China conduct its trade diplomacy with the EU mainly through the European Commission or the Member States?

The European Commission and the EU member states fully share the view that there are vast economic gains from continuing to enlarge our trade relationship with China. This entails that, on both sides, our economies must stay open and fair, so we can keep increasing trade with each other and the world.

The economic integration between the EU and China has developed significantly, and extraordinarily fast. Two decades ago, we traded almost nothing. Today, the EU is by far China’s most important trading partner.

Bilateral trade in goods alone nearly doubled over the last five years, reaching €326 billion/year.

But at the same time it is a fact, that part of our economic relationship with China is a trade imbalance of very serious magnitude. The EU’s trade deficit with China is the highest with any trading partner (€ 159 billion in 2007, € 169 billion in 2008). While the EU has a trade surplus in services (€3.9 billion), this is dwarfed by China’s surplus in goods. In goods the EU exports more to Switzerland than to China (5.8% of total EU exports in 2007).

The trade deficit with China is not necessarily a problem in itself. It shows that the EU’s market is open to China. And it shows that European consumers like Chinese products. In isolation, both are good and positive things.
However, the enormous trade surplus that China runs with the EU and others reflects a fundamental imbalance which is not sustainable in the long run. China’s economy has become too export-driven and thereby vulnerable. The imbalance also tells us that China’s own market is far less accessible for EU products, than our market is for China’s. China has huge savings and reserves that could be used to help the global economy to faster get back on track—including through China’s domestic stimulus packages that are aimed at boosting domestic demand and to finance domestic infrastructure projects.

6. To what extent do China and the EU share a common approach to global economic, trade and financial governance?

Both Europe and China have built their wealth on trade. The EU is the biggest and most open economy in the world with a single market of 450 million citizens. The economic development of modern China is also an impressive success story. And it has not only led to wealth in China, but also to an increasing understanding and appreciation of international free trade, and the value of open markets. China continues to play a constructive role in the WTO DDA negotiations and within groupings such as the G20.

7. Are you concerned by acquisitions in strategically-important sectors in the EU by Chinese capital? What safeguards are in place to protect these sectors?

The European Commission welcomes Chinese investments in Europe. There are surprisingly few given that European companies are world-leaders in innovation and technology, making them attractive for investors. China’s accumulation of wealth means that today some of the world’s biggest financial institutions are Chinese. Some institutions are linked to China’s government. We welcome their investments in Europe for business purposes. At the same time, there is international consensus that politics and business should not be mixed. So, its important that there is transparency about government controlled investments. We hope that more Chinese investors will take advantage of the open investment climate in Europe, and we think our companies should enjoy the same opportunities in China.

8. To what extent do the policies of the EU and US towards China over trade and economic issues converge—or conflict? Does China have a strategy for greater trade and economic integration with Asian and Pacific countries? If so, what are the implications of this strategy for the EU?

Foreign businesses in China are confronted with the same problems, for example in the area of intellectual property rights. As a consequence, the EU and the US tend to raise similar issues with the Chinese Government. There is a parallel picture too in the multilateral trade negotiations. The dialogues with China, which the EU, the US, and others have established, tend to focus on the same broad theme of furthering international trade liberalisation.

Over the last 10 years, China has focused much effort on its regional trade relations. Some developing countries in South East Asia have developed a significant trade as sub-suppliers to the Chinese economy, including to Chinese exports to Europe. This is a positive development suggesting that in the long run China’s economy will follow a pattern of supply, demand, and equilibrium. It is in the EU’s interest to see such trade furthered, and for the EU itself to increase trade both ways with South East Asia.

29 July 2009

Memorandum by Dr Nicola Casarini,* Marie Curie Research Fellow in the Robert Schuman Centre for Advanced Studies at the European University Institute Florence

Science and technology have become, over the years, one of the central issues for bilateral cooperation between China and the European Union (EU). Chinese leaders have always emphasized that enhancing S&T cooperation with developed nations is a crucial factor for sustaining the country’s modernisation process. Today, Europe is China’s most important source of scientific expertise and advanced technology. EU-China cooperation in S&T is beneficial for both sides: for the EU and its Member States, as it advances Europe’s role as a global centre in S&T affairs; for China, as it contributes to its economic growth and overall modernisation. Cooperation between the two sides has, however, evolved over the years, reflecting China’s own advances in S&T.

* Nicola Casarini obtained his PhD in International Relations from the London School of Economics.

* Part of the material contained in this report draws from my book: Remaking Global Order: The Evolution of Europe-China Relations and its Implications for East Asia and the United States which will be published by Oxford University Press in Autumn 2009.
1. CHINA’S S&T LEAP FORWARD

In the 2001 blueprint for Medium to Long-term Social and Economic Development, the Chinese government singled out science and technology as the “primary production forces”.1 The necessity of narrowing the gap between China and the world’s advanced science and technology nations figured among the main tasks. In 2004, the Chinese government adopted the 2020 Science and Technology Plan, with the objective of catching up with the developed countries and becoming a knowledge-based economy by 2020. In the outline of the 11th Five-Year Plan for China’s National Economic and Social Development, approved in March 2006, it was stated that China will launch a number of major S&T projects, especially in ICTs, energy, water resources and environmental protection, biotechnologies, healthcare, industrial re-engineering, new materials, and space technology. Calling for a “scientific approach to development”, the plan recognises that scientific research and innovation are key factors in increasing the overall technological level of industry and improving competitiveness across all sectors. Moreover, the Chinese State Council published an Outline of the National Programme for Long and Medium-term Development of S&T, indicating that the country’s expenditure on S&T would account for 2.5% of GDP by 2020 and that the annual R&D budget would be around US$ 110 Billion, similar in percentage to that of the developed nations.2 In 2008, China spent 1.45% of its GDP (up from 0.7% in 1998) on research and technological innovation (the highest percentage among developing countries). At the end of 2008, China would account for almost 3.5 million people engaged in various S&T areas, making this the largest S&T community in the world. Of these, around 1.5 million work on R&D related activities, putting China in second place after the United States.3 In 2006, according to the World Intellectual Property Organisation (WIPO), China deposited 5,935 patents, (up 56.8% from the previous year) ranking eighth in the world.4

2. EU-CHINA KNOWLEDGE BASED STRATEGIC PARTNERSHIP

Owing to China’s advances in S&T, there has been a gradual shift from unilateral receipt of aid at the beginning of China’s reform period in the late 1970s to the present environment of joint investment and research based on equality and mutual benefit, as in the case of high S&T projects such as ITER (the International Thermonuclear Reactor) and Galileo (the EU-led global navigation satellite system). Chinese leaders have highlighted on various occasions that cooperation in science and technology is a key element of the EU-China strategic partnership. In the 2003 China’s EU policy paper it is stated that: “It is essential to promote China-EU scientific and technological cooperation on the basis of the principles of mutual benefit and reciprocity, sharing of results and protection of intellectual property rights.”5 In its last policy document on China, the European Commission recognised that scientific and technological cooperation is one of the “flagship” areas in EU-China relations.6

Sino-European cooperation in S&T goes back to the beginning of the relationship and has greatly improved in recent times. The two sides launched their first science and technology cooperation programme in 1983. In 1998 an Agreement on Scientific and Technological Cooperation was signed and renewed in 2004 with the aim of linking research organisations, industry, universities and individual researchers in specific projects supported by the EU budget. A joint EU-China office for the promotion of research cooperation was established in Beijing in June 2001 to help Chinese scientists access the EU’s Sixth Framework Programme (FP6—2002–06). In 2005, on the occasion of the 30th anniversary of the establishment of diplomatic relations between the European Community and China, the two sides held a high-level forum in Beijing after which they signed the Joint Declaration on EU-China Science and Technology Cooperation: Building a knowledge-based strategic partnership. The Joint Declaration highlights eight areas as specific themes of common interest: (i) environmental protection; (ii) ICTs; (iii) food, agriculture and biotechnologies; (iv) transport and aerospace, including Galileo; (v) urbanisation; (vi) health; (vii) socio-economic sciences; (viii) other joint platforms such as GRID (Global Research Information Database). EU-China knowledge-based strategic partnership is intended to provide the overall framework for a wide range of initiatives to establish cooperation on projects of common interest that will bring together companies, universities, and research institutes, as well as promote an increasing mobility of scientists, researchers and students.

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4 Le Monde (Supplement Economie), 6 March 2007, p. vii.
5 China’s Ministry of Foreign Affairs, China’s EU Policy Paper, October 2003 (Title III).
More recently, there have been attempts to link the EU Seventh Framework Programme (FP7) for Research, Technology and Development (RTD) for the period 2007–13 and the Competitiveness and Innovation Framework Programme (2007–13) with China’s 11th Five-Year Plan (2006–10). The launch of the China-EU Science & Technology Year (CESTY) in October 2006 provided such an opportunity. China and the EU have also agreed to promote further cooperation in large science initiatives through early consultation (both in basic and applied R&D) and to open their research programmes to accommodate the increasing number of joint research projects. Chinese researchers are invited to participate in the EU-funded FP7 and to submit applications to the recently established European Research Council (ERC). In turn, China is attracting Europeans into projects under the Chinese National High-tech and Basic Programmes (P863 and P973) and joint calls are planned to combine funding under the FP6/FP7 and P863/P973 programmes, especially in research areas of mutual interest. To increase mobility within the scientific community and amongst university students, research institutes have been encouraged to provide better conditions for mobility as well as grant joint degrees for students studying on the two continents.

With the establishment of strategic partnership between the two sides in 2003, a strategic element would be added to already growing S&T cooperation. This was best epitomised by the political agreement on the joint development of the Galileo satellite system, viewed by Chinese leaders and officials in the European Commission as a “model” for S&T collaboration between the EU and China.7

3. EU-China Satellite Navigation Cooperation

The European Union and the European Space Agency (ESA), kicked off the Galileo project in March 2002. Galileo is a Global Navigation Satellite System (GNSS) that will offer both civilian and military applications once it becomes operational (which is now expected to be in 2013).8 It is deemed to be an alternative to the dominant US Global Positioning System (GPS), though the EU and the US have reached an agreement on the interoperability of the two systems in June 2004.9 Galileo is designed to encircle the globe with 30 satellites in medium earth orbit, comprising 27 operational satellites and three reserves, plus two control centres on the ground.10 According to the European Commission, the estimated cost of the project would amount to €3.4 Billion.11 It will provide users, ranging from aircraft and shipping to cars and trekkers, with a navigational fix accurate to within just one metre.

On 30 October 2003, an agreement was reached for China’s cooperation and commitment to finance 200 million euros (out of an estimated total cost at that time of 2.2-2.4 Billion euros) of Galileo. In the first phase (ie the manufacturing and launching of the first four satellites of the constellation) Beijing pledged to spend 70 million euros of which five million euros for the entrance fee. The Cooperation Agreement on Galileo between the European Community and the PRC provides:

“for co-operative activities on satellite navigation in a wide range of sectors, notably science and technology, industrial manufacturing, service and market development, as well as standardisation, frequency and certification”.12

In February 2003, a joint Sino-European satellite navigation cooperation centre had been opened in Beijing. The China-Europe Global Navigation Satellite System Technical Training and Co-operation Centre (CENC) would serve as a focal point for all S&T activities on the Global Navigation Satellite System (GNSS), as well as promote industrial cooperation with special attention given to development of applications. The CENC is jointly run by the Chinese Ministry of Science and Technology, the Chinese Remote Sensing Centre, the European Commission and the European Space Agency.

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7 Interview, Chinese Ministry of Science and Technology (MOST) and European Commission delegation in China, Beijing, August 2008.
9 Agreement on the promotion, provision and use of Galileo and GPS satellite-based navigation systems and related applications (between the European Community and its Member States, of the one part, and the United States of America of the other part), Dublin, 28 June 2004. On 26 July 2007, the United States and the European Union announced their agreement to jointly adopt and provide an improved design for their respective Global Navigation Satellite System (GNSS) signals. These signals will be implemented on the Galileo Open Service and the GPS IIIA new civil signal.
11 Ibid., p. 2.
Cooperation in Galileo is meant to facilitate European businesses’ entry into the promising Chinese aerospace market while also promoting the EU as a space power and a centre of gravity in international high S&T affairs. This form of collaboration is also benefiting China, as it allows Chinese companies to acquire know-how and advanced space technology while fostering Beijing’s space power internationally.

The EU-designated Chinese industrial partner for the Galileo project is the National Remote Sensing Centre of China (NRSCC). The NRSCC, a coordination body under the Chinese Ministry of Science and Technology, is mandated to choose domestic research institutes and companies to undertake relevant research and development of Galileo applications in China. In October 2004, the two sides signed a Technical Agreement for the first phase of the implementation, including manufacturing and launch, of the first four satellites and a substantial part of the ground infrastructure. The Agreement included details regarding the amount of money that the Chinese government would invest in Galileo (€70 million at that time) with the provision that these sums will remain inside the country and serve to build the Chinese infrastructure, components, and services for the satellite navigation system. Moreover, the Agreement contained clear indication that the rights of the technology developed while working on Galileo would remain the property of the National Remote Sensing Centre of China.

By July 2008 (when the publication of the ESA’s tender package for the second phase of the implementation would leave out Chinese contractors) around 35 million euros had been contracted to Chinese industries and research institutes for developing various applications of the Galileo system in China, including: Galileo Fishery Application (FAS); China Galileo Test Range (CGTR); Project of Location Based Services Standardization (LBS); Galileo Laser Retro-Reflector (LRR); Search and Rescue Transponder (SART); Early Galileo Service in China (EGSIC); Forward Link Service End-End Validation (EEV); Medium-altitude Earth Orbit Local User Terminal (MEOLUT). The number of projects and the amount of money invested so far would make China the most important non-EU partner in Galileo. Chinese officials at the MOST and CENC are adamant in recognising that without the active involvement of European partners and European scientific expertise/know-how, including technology travelling to China, the local sub-contractors (companies and research centres) would have been unable to complete the above projects. Among EU member states, French, German and Italian aerospace companies would be at the forefront of collaboration with Beijing. Since the late 1990s, European companies have sold telecommunication satellites and other space technologies to Beijing. Furthermore, some European commercial remote sensing companies (like their American counterparts) have been selling spatial imagery to China. According to analysts and official documents, some low-resolution micro-satellites have been sold by France to China.

4. China’s Satellite Challenge to Europe

Cooperation in the Galileo project is assisting China in fostering the development of its own, independent satellite navigation system. China has launched so far a number of navigation satellites (the high-resolution Ziyou-2 and the Dongfanghong series, multi-function geostationary satellites) which have been employed in numerous areas, including mapping, telecommunications, water resources monitoring, traffic and transport, fishery, resources prospecting, forest fire fighting, and national security. In September 2007, the Chinese government unveiled plans for a Chinese GNSS announcing the intention to convert its previous regional fishery, resources prospecting, forest fire fighting, and national security. In September 2007, the Chinese government unveiled plans for a Chinese GNSS announcing the intention to convert its previous regional


16 These claims are based on interviews conducted by this author with officials at the MOST and CENC in Beijing in August 2008.

remaining 26 satellites of the European satellite system. In the document, the tender would be limited to a select number of countries divided up in two groups. In the first group—the inner circle with priority access to the procurement scheme—there are all the 27 member states of the EU (as the procurement is entirely financed out of the European Community budget). In the second group—the outer circle—there are a number of countries which can participate to the tender if they are signatories of the pluri-lateral Agreement on Government Procurement (GPA) adopted in the framework of the WTO.

As China is not a party to the GPA, its industries and research centres would not be able to access the second phase of the public procurement for Galileo. The publication of the ESA’s document was a slap in the face for China which had always regarded space and satellite navigation cooperation with the EU as a model for Beijing’s international cooperation in big S&T projects.

The Europeans appear to be more and more wary of lack of significant progress in China’s legislation, and actions, toward enforcement of IPR and increasingly preoccupied that the Chinese would use European advanced space technology to develop their own satellite system and challenge Galileo itself. The Beidou is now expected to be completed with 30 satellites before 2015, with 10 or more new satellites scheduled to be launched in the period 2009–11.

The satellites put into orbit by China so far (as part of the Beidou system) seem to be using frequencies previously allocated to Galileo. Back in 2000–01, EU and Chinese diplomats would join forces at the International Telecommunication Union (ITU) in Geneva to obtain the frequencies for Galileo. However, while the Galileo project was slowed down in Europe due to problems encountered by the private-public partnership, the Chinese continued to work on research, manufacturing and service applications for Galileo in China as well as on their own system. Since 2006–07, there seems to have been an overlap between the Galileo Public Regulated Service (PRS) and some Beidou frequencies, in a situation where the Chinese system appears to be in a more advanced phase of development than Galileo, with at least 7–8 satellites in orbit (the last having been launched on 15 April 2009) against only two for Galileo. While US and EU policy makers (and technicians) have met various times to discuss the interoperability, and frequency compatibility, between their two systems following the transatlantic summit in Ireland in June 2004, EU and Chinese officials have not yet resolved their outstanding issues, including the question of signal compatibility discussed at the last bilateral technical working group in December 2008. As a result, while EU-China satellite navigation cooperation continues on the ground, the two sides’ policy makers are currently reviewing their collaboration in light of recent changes in their respective GNSS policies and programmes.

CONCLUSION

The case of satellite navigation represents a good example of the opportunities, and the challenges, inherent in EU-China S&T cooperation. The EU and its member states have substantial economic interests in developing S&T ties with China and collaborate on joint big science research projects such as Galileo. By doing that, they can promote scientific advances and take advantage of the seemingly limitless opportunities of the Chinese market with the overall aim of helping maintain Europe’s global competitiveness and socio-economic welfare position. Similarly, scientific and technological cooperation with Europe is highly strategic for the Chinese leadership in order to modernise, improve the country’s competitiveness across all sectors, and deliver higher standards of living to the Chinese population.

However, since the beginning of the reform period, China has made dramatic achievements in the development of S&T. Thanks to domestic efforts and international cooperation with developed nations—in particular the European countries—China has succeeded in gradually upgrading the scientific and technological content of its productions. As a result, Beijing is now in a position to seriously challenge Europe on high-tech sectors such as satellite navigation. This provides EU policy-makers with the challenge of how to develop further the cooperation with China in science and technology and, at the same time, seek to manage China’s emergence as a strategic competitor in high-tech sectors.

April 2009


19 On the pluri-lateral Agreement on Government Procurement see http://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm
Memorandum by Dr Chong-Pin Lin, Professor, Graduate Institute of International Affairs and Strategic Studies, Tamkang University, Taiwan, Republic of China

1. The Value of the EU Statement in 2005 Condemning the Chinese Anti-Secession Law

The wording of the Chinese Anti-Secession Law (ASL) indicated that its emphasis was more on the soft than the hard prong contained therein. Articles 1 to 5 simply reiterate the previous official stance of Beijing. Articles 6 and 7 deal with cross-strait exchanges and negotiations, and they amount to 385 characters in Chinese. Articles 8 deals with the controversial “non-peaceful means” and article 9 stipulates the remedy measures after launching them. They total 263 Chinese characters. Article 10 is only a formality regarding ASL going into effect as announced. Merely from a quantitative angle, one can see the weight is more on the soft than the hard.

In retrospect, it seems clear to me that the ASL was meant more to satisfy the “hawks” inside Beijing leadership, and to unshackle the elements in Beijing government for engaging Taiwan through extra-military means such as economic, social and diplomatic instruments.

I published an op-ed entitled “We should look at the ASL with cool defiance” on 15 March 2005 on Apple Daily, which was the day after Beijing promulgated the ASL. In it, I predicted that “Beijing will proactively launch soft offensives on Taiwan thereafter”. By the end of February 2008, 44 such measures including invitation for Taiwan fruit farmers to sell their products on the Mainland were recorded in my personal tally. Beijing published its official account over 50 after my account appeared in the media.

Therefore, in my opinion, the EU statement in 2005 condemning the Chinese Anti-Secession Law had an enhancing effect on Beijing’s soft approach on Taiwan which has become manifest since 2008.

2. The Importance of the EU Arms Embargo

The People’s Liberation Army has made strides in improving its hi-tech war capabilities. However, certain critical technologies have remained obstacles to be overcome. Based on the past trend of how China achieved technological breakthroughs, it may only be a matter of time that the PLA will catch up.

However, the embargo has slowed down such process which is vital for the regional security. The reason is that Chinese leaders now face tremendous pressure from within to incrementally relax the hitherto tight control on information flow. The severe natural disasters in 2008 and the 14 March Tibetan riot in Lhasa showed that the channel of bad news information flow upwards within the Communist Party was flawed so that the government failed to react efficiently. The result is growing public protestations which eventually will threaten the survival of the Party as the ruler. State news agency since early 2009 has been encouraged to report bad news such as the fire that devoured a landmark building in Beijing over the Chinese New Year. Political reform has been urged again by one advisor (Yu Keping) to Chinese leader Hu Jintao recently as one of the two wings of China’s development besides economic growth. For Beijing leadership’s own long term interest, some kind of political reform must come, which promises a more responsible Chinese government in domestic and foreign affairs in the long run.

3. The Space Issue, Specifically in Relation to Galileo

It is evident now that China’s space program has outpaced popular expectation in the context on Galileo. The only thing EU and the other powers can do is to nudge China toward a more cooperative and peaceful orientation, which is not totally outside of Beijing’s self interest in the long run. More and more leaders in Beijing have favored a less costly way of China’s rise as study commissioned by the government a few years ago showed that the decline of the great powers in the past 500 years was invariably caused by over-use of war as a foreign policy instrument. Chinese leaders who are students of Sun Tzu rather than Clausewitz are more inclined to avoid military conflict in advancing China’s great power ambition.

13 April 2009

Memorandum by Professor Flemming Christiansen, Chair in Chinese Studies, University of Leeds

Among the major difficulties of making meaningful statements about the European Union and China is (a) the huge diversity of players and interests involved, (b) the many linkages between Europeans and Chinese and between European member states, regions and entities and the Chinese state at diverse levels, its regions and businesses and civil society organisations, and (c) the diverse logics governing them. Given the need to calibrate a shared European Union vision and policy towards China there is a huge onus on the major member states, the European Commission, the parliamentarians both in the European and the national parliaments, as well as in particular government departments, businesses and civil society
concerned with China to find common ground where little existed before. It is to be hoped that this “Inquiry into the European Union and China” will be an important step towards creating an even more dynamic and meaningful interaction with China than we have witnessed so far. Yet, it may be too ambitious to wish to embrace the wide range on collaborations and other interactions with China and to regard the two sides as clearly defined entities, so all one may realistically hope for is that European political discourse in relation to China undergoes a reality check. That, so to say, obsolete perceptions be discarded, and understanding already amply available be recognised and drawn into a shared understanding of China among European decision makers.

In the following, my remarks on specific issues point at some areas that may be of use in this process.

1. China’s economic, social and political reforms since the late 1970s have been highly significant and have helped restructure China’s global involvement. Among the outcomes of the reforms, China has emerged as a developmental state with a particular structure. The “reform and opening up” (gaige kaifang) of the 1980s and 1990s, it is worth recalling, used “market mechanisms” (shichang jizhi) and a “socialist market economy” (shehuizhuyi shichang jingji) to regulate resource flows at micro-levels, while the economic reforms in terms of the deployment of major resources, institutional change, devolution of powers and so on were incremental, centrally planned processes, based on sophisticated structures of decision making. As a result, 30 years after, China strategically controls core state-owned corporations in raw materials, finance, energy, transport and telecommunications, several of which are globally active; the state also regulates a vast, competitive and expanding market economy of large and medium-sized companies that are Chinese-, foreign- or jointly owned and represent various levels of private and public investment; in particular at city-levels it encourages local, strategic public-corporate partnerships in housing, real estate development, local transport and so on; at local levels, an undergrowth of semi- and informal enterprises, privately or collectively owned, and often controlled by local town and township governments or village committees in patterns of so-called local state corporatism help generate wealth and employment. Farming, in most parts of China, is small-scale and economically barely or not at all viable, often relying on the incomes from other sectors to be possible. This pattern of the economy has proven very attractive to business in Hong Kong and Taiwan, involving these regions heavily in the overall economic growth by providing cheap labour, markets, and good business environments. Grain production and grain trade are devolved and decentralised, but demand and supply are strategically regulated through intervention funds at provincial level and granary stocks able to cushion even very severe fluctuations. The perception of China as ruthlessly pursuing neo-liberal economic agendas is exaggerated. While, for example, the reform of state-owned enterprises was not smooth, the processes and institutional frameworks used, as well as the social outcomes were rooted in cybernetic (planned process) thinking and forms of political control that allowed the deployment of multiple resources in coordination and had little to do with belief in the efficiency of private interest and free markets. Even so, the single-minded pursuit of growth in a socialist economic system can lead to great social injustices, and these did occur.

2. Serious social problems arising from the development in the 1980s and 1990s, in particular the immense gap widening between rural and urban areas, and the reliance on cheap rural migrant workers as “second-class citizens” for urban development set in motion a new set of policies in 2003. In the recent years a raft of measures have been brought in place to avoid social injustices, new poverty, poor labour conditions, and to ensure more equality of rights, and these are having a significant effect. The co-incidence of the effects in China of the new, rights-enhancing Labour Contract Law and the financial crisis in 2008–09 has, ironically, led to mass redundancies of migrant workers, many of whom seem to have been thrown back into informality and have often returned to villages, where there are less viable labour opportunities. The likely effect is that informal industries and labour relations will this be displaced to villages in more remote regions. The improvement of social and economic conditions and rights is thus an ongoing and evolving process.

3. These economic dynamics have to a large degree been premised on international demand for manufacturing products, and the recent economic downturn has, in spite of substantial resilience in the Chinese economy, caused many localised social problems; even so, the financial packages announced by Chinese authorities are poised to alleviate some of these outcomes.

4. Chinese food security is precarious balanced, as China feeds 21% of the global population on 7% of the arable area. China has in recent years been a moderate importer of grain (and a large importer of soybean); the Chinese balancing act is premised on a system of production contracts, minimum producer prices, input-factor subsidies, intervention funds and intervention stock. The 2008 global grain crisis was one of those events, where China’s “protectionism” buffered against much more grave global effects, and where the role of a planned, moderate importer was to prefer to a fully liberal global market.
5. China’s role as a major producer of manufactured goods, the need for increasing living standards that comes with a more formalised economy, and the current drive to develop rural infrastructure, rural health care, rural nine year compulsory education, as well as rural social insurance schemes, are all premised on continued economic growth. China will therefore continue to provide an open investment environment, which is increasingly tuned to the requirements of European (and North American) investors, providing higher levels of services, a well-educated workforce, and more competitive facilities for research and development, while the informal, sweatshop based production is increasingly squeezed out.

6. In keeping with these development priorities, China’s need to develop energy resources and procure raw materials for continued manufacturing will continue to grow. Its engagements in mining and energy prospecting in South America, Africa and Central Asia are well-known, and these will of course also increasingly translate into a larger security role (most recently in the anti-piracy activities off the coast of Somalia). Even if a large literature is emerging on this topic, very little detailed research has been conducted on the ways in which Chinese companies and individuals, as well as the Chinese state, are engaged in trading with and development of those areas. Most of the negative judgements that have been voiced about China’s engagement in Africa are, when reduced to their real substance, merely based on the effects of the terms of trade between Africa and EU/USA. The terminology of colonialisit “scramble” seems to fit oddly with the, prima facie, even-handed deals, the parity of interests in corporate context, and the risks Chinese traders are taking in Africa. More is needed to understand the nature of Chinese collaboration in parts of Africa regarded as highly controversial due to issues of governance and human rights; originators of such moral claims, in any case, tend to make them quite selectively as a matter of expediency.

7. The EU’s policies towards China promoting rule of law and various sets of rights, freedoms and forms of political expression have in China been embraced with a great interest, and they have been highly useful during in particular the 1990s and early 2000s to put on the agenda some of the major growth-induced social injustices that have since 2003 become a major field of innovative policy making in China. In particular, these policies have helped about a large growth in local and international NGOs dealing with community level governance, best practice, citizens’ advice, and have been part of designs of local elections and village levels, policies on community organisations, and so on. The dialogues have been helped by various initiatives, like EU investments in academic infrastructure in China, and one can say that there is a great potential for further academic and research collaboration. Among the issues to address is the rather bi-polar nature of collaboration, the lack of understanding of the wider Chinese context by many European participants, and the often slogan-like and limited depth of EU statements on the issues. More European research on social, political and economic developments in China, combined with much more intense research collaboration is needed in order to develop better communication and mutual understanding on underlying issues. Furthermore, schemes that would involve, for example, pairing of European parliamentarians and Chinese National People’s Congress delegates in longer-term series of collegial meetings and/or workshops on focused issues of social and political issues may be a helpful and creative way of achieving a better basis for dialogue; issues like climate change, environmental protection, world heritage protection, global human rights discourse, as well as international labour markets and migration would seem appropriate as a framework, dealing with some of the major challenges that face us all.

8. EU relations with China need to consider the core issues that are necessary for ensuring peace and prosperity. There is no doubt that the EU can facilitate much better commercial, civil-society, cultural and personal-level interaction with China, but considering the tasks at hand, it would seem that EU could benefit particularly from (a) developing joint projects in research and development for low-energy housing, energy-efficient transport, and renewable energy exploitation; (b) establishing joint advanced research facilities for advanced technology and global social development; and (c) establishing joint financial bodies or interfaces that can deal with global strategic investments in environmental protection and sustainable infrastructure. China is one of the few states in the world that has the capacity to play a leading role in developing such facilities, joining together with the experience of the European Union in facilitating large strategic projects, such a partnership would be of immense global value. Given the huge Chinese research and manufacturing resources, as well as the core role of China’s growing consumer market and industrial development, China must be an integral part in global collaboration in these areas, a collaboration that can only evolve through much more dynamic and less confrontational modes of collaboration.

9. China’s foreign policy principles, shaped historically in the last 200 years and keenly informed by the colonial experience and later the Cold War, have served it well. British, Russian and Japanese interest in territories declared to be under Chinese “suzerainty”, the Opium Wars (and the unequal treaties arising from these), the Treaty of Versailles (among other things ceding the previously German concession in Qingdao to the Japanese), plus the “Far East Clauses” of the Yalta Agreement, are significant origins of a policy that is intolerant of foreign interference and sees territorial integrity as a prime task of the state. Actually, given the low threshold demanded by the Chinese leadership in terms of Hong Kong, Macau, and Taiwan, it is
hard to see how these “questions” affect other states; and in a situation where political authority over these areas is exercised prudently, and where no legal plebiscite has challenged the existing status, most external misgivings about the status seems vacuous. It is a matter for the peoples in the regions concerned to decide on their fortunes, and not for foreign intervention. As for Tibet and Xinjiang, their status and role are of course of some concern. Issues dating back to Victorian and Czarist times, where ethnicity, language and religion play a prominent role, and where all sorts of interests are mixed together in a complex picture ought to instil caution among experienced politicians of Europe. Having had a share of intractable problems like the North Irish troubles, Basque separatism, Balkan wars, and the unrest among young Muslims and maghrebians in North English cities and French banlieues, it should be very obvious to most responsible Europeans that young angry monks attacking shops and public property in Lhasa in 2008 in the hope to get television exposure is only part of a much larger, deeper and more complex problem that the Chinese state cannot run away from. Strong sense of ethnic belonging, socio-economic change and economic development do not always go easily together. For the monks, cited as feeling strangers in “their own city”, are not that different from the Parisian maghrebians who feel that they are made to feel unwanted in the streets where they, their parents and sometimes even grandparents have lived since the 1950 or 1960s. Taking side easily in such conflicts or even questioning sovereignty on that basis is irresponsible; it would be much more positive if Europe could play a role by much better understanding the underlying issues and act helpfully and more discreetly to help bring peace and collaboration to these regions and their peoples. Under all circumstances, given all EU member states’ de facto recognition (be it stated or implicit) of China’s sovereignty, occasional (and often populist, media-centred) posturing by European politicians on such issues is highly counterproductive, and jeopardises European credibility in negotiations with China that address substantive issues. There is very good reason for the European Union to substantially support further research on ethnicity, nationalism, religion, and cultures of East and Central Asia with aims to (a) understand the complexities and political realities that involve major branches of Islam, several types of Buddhism, as well as other new and old religious movements in relation to both nation states and ethnic groups, and (b) how major regional powers, including for example Russia, India, China, Japan, Iran and Pakistan deal with and influence these forces. In so doing, there is a need for dissociating EU security discourse from narrow focus on hotspots like Afghanistan and Iraq, and to seek a much deeper, longer-term perspective, based on more detailed and circumspect and dispassionate research on the societies and cultures of the wider region.

In closing, I wish to emphasise that there is a deeply engrained trend in public discourse on China that harks back to the Cold War, a use of jargon that is out of tune with realities in China. In media reporting and sound bites by many politicians the prevalent simplistic and superficial judgements are a cause for great concern, as they stand is so stark contrast with lived reality in China and evidence that is amply available, that the large Chinese populations living in Europe are deeply embarrassed. In China web-sites like “anti-CNN.com” and a large opposition of extreme nationalists have an easy time lampooning bigotry, prejudice, ignorance and anti-Chinese racism committed by European politicians, commentators and media, using these as evidence of “Western” insincerity, irresponsibility and fickle character. While there is no doubt that there are issues to be addressed in Chinese society and politics, as there are in all countries of the world, it is clear that the European Union and politicians in the member countries must take a lead in basing their views on China on as good and solid a footing of evidence and experience as when they address any other political issues, like those in the USA, Canada, Australia or amongst EU member States, and that they do so with exactly the same care and awareness of consequences as in any other context. After all, few European Politicians would express concern about the Washington or Canberra regimes, or for that matter express rash opinions on the legitimacy of Quebec’s status in Canada, without an expectation to be challenged. If we want the global partnership that will achieve a common good for the world, certainly the first step is to engage in dialogue based on knowledge, and step back from obsolete ideas and prejudice.

17 April 2009

Memorandum by the Department of Energy & Climate Change

1. What are the main elements of the EU’s policy on cooperation with China on climate change? To what extent is this cooperation successful, and what are the obstacles to greater cooperation? Does the EU (EU institutions and Member States) have a common and coherent approach to cooperation with China on climate change.

An EU-China partnership is critical to moving to a global low-carbon economy: an alliance between the world’s fastest growing economy and the world’s biggest single market would potentially drive down the costs of low carbon choices by accelerating market growth.

The commitment of the EU and China to cooperation on environment and energy issues, including climate change, was underlined and given an institutional structure at the 8th EU-China Summit in September 2005. At this Summit and under the UK’s Presidency of the EU, a Joint Declaration on Climate Change was agreed,
launching the EU-China Partnership on Climate Change. This partnership provides a high-level political framework to further strengthen the cooperation between EU and China by setting out concrete new actions to tackle climate change. These actions are set out in the Rolling Work Plan:


This partnership fully complements the UN Framework Convention on Climate Change and the Kyoto Protocol. It strengthens cooperation and dialogue on climate change, including clean energy, and promotes sustainable development. It includes cooperation on the development, demonstration, deployment and transfer of low carbon technology, including advanced near-zero-emissions coal technology through carbon capture and storage. The EU’s policy on energy co-operation with China is to intensify collaboration on energy security with a view to creating a stable, secure, efficient and clean energy environment and to promoting open and competitive energy markets.

The EU—at both institutional and member state level—has regular high level dialogue with China on climate change. Twice yearly the Bilateral Consultation Mechanism discusses multilateral issues, presents new domestic climate change initiatives and reviews the Rolling Work Plan.

2. To what extent is China vulnerable to the adverse impacts of climate change, both in the short and long term? What are the main elements of China’s strategy for the mitigation and adaptation to climate change?

Like all countries China is vulnerable to the adverse impacts of climate change. The Intergovernmental Panel on Climate Change (IPCC) reports pronounced warming across the whole country during the past 50 years, leading to a number of observed adverse impacts. These include increases in flooding in both the North East and Eastern regions of China in addition glaciers in the Tibetan Plateau have been retreating more quickly in recent years than before, leading to an increase in the frequency of glacial lake outbursts, with associated mudflows and avalanches.

In parts of the country, the increase in temperature and decreases in rainfall, along with increasing water use, have caused water shortages that have led to drying up of lakes and rivers. Severe droughts and unregulated groundwater withdrawal have also resulted in sea-water intrusion in coastal plains.

The IPCC Fourth Assessment Report (AR4) (2007) supported by other research, indicates that future temperature increases in China are likely to be greater than the global average increases. If emissions continue unabated, temperatures in China could rise to about 2°C above pre-industrial levels by 2050, and 4°C or more above pre-industrial levels by the end of the century. As a result it is estimated that an additional 1 Billion people would be at risk from water stress by the end of the century, partly owing to salt-intrusion in coastal regions caused by over-extraction, sea level rise and increases in drought frequency. Such temperature changes could have a significant impact on human health and well-being, especially in Chinese cities, through increased risks of vector—and water-borne diseases, cardio-vascular and respiratory diseases; and heat stress..

China’s Strategy for the Mitigation and Adaptation to Climate Change


The National Climate Change Programme sets out a number of substantial mitigation actions on energy efficiency, renewables, and reforestation. These include a programme to improve energy efficiency in China’s 1,000 largest enterprises, which account for 37% of China’s primary energy and 50% of industrial energy consumption; retiring inefficient power and industrial plants; energy efficiency standards for buildings; and vehicle fuel consumption standards. The Programme also sets out targeted adaptive actions for agriculture; forests and other natural ecosystems; water resources; and coastal zones.

The programme provides for the implementation of a wide range of energy and industrial policies that, while focused on energy security, contribute to emissions reductions. The Chinese Government estimates that these policies will result in the mitigation of 1.85 Billion tonnes of CO₂ over the 2006–2010 period. (Around 36% of total EU emissions in 2006.)

The EU is supporting ongoing Chinese government work on a stronger cross-cutting policy framework for dealing with adaptation at national and provincial level.
3. What are the prospects for China committing to ambitious and binding targets for reductions in its greenhouse gas emissions at the UN climate change conference in Copenhagen in December 2009? Does the EU have a strategy to persuade China to support an ambitious deal?

The Chinese government have made a number of statements expressing the importance they place on tackling climate change and is participating fully in the formal negotiating processes under the UNFCCC. At the World Economic Forum in January Premier Wen Jiabao said to “We take the issue of climate change very seriously,” and set out his country’s stepped-up regulations regarding emissions.

The EU Position is that averting dangerous anthropogenic climate change requires the increase in global mean surface temperature to be kept below 2°C compared with pre-industrial levels. As a consequence the EU believes that developed countries as a group should reduce their emissions to 30% below 1990 levels in 2020. The EU has set the example by committing to a 20% reduction in its emissions compared to 1990 levels by 2020, irrespective of whether or not an international agreement is concluded.

The EU is willing to go further and sign up to a 30% reduction target in the context of a sufficiently ambitious and comprehensive international agreement that provides for comparable reductions by other developed countries, and appropriate actions by developing countries. Developing countries as a group should limit the growth of their emissions to 15 to 30% below business as usual.

The EU’s policy on climate change co-operation with China is to intensify collaboration with a view to, securing an ambitious outcome at Copenhagen, based on the principle of common but differentiated responsibilities. The EU—at both institutional and member state level—is pursuing a range of bilateral discussions with the objective of securing effective Chinese participation in an agreement at Copenhagen.

4. What is the EU doing to help China increase its energy efficiency at the national, provincial and local levels?

The promotion of energy efficiency is an important component of the EU-China Partnership on Climate Change. The Partnership supports EU and Chinese efforts to reduce the energy intensity of their economies, and incorporates the China-EU Action Plan on Energy Efficiency and Renewable Energies. The Plan’s objectives are to establish closer contacts between the EU and China and promote industrial co-operation aimed at increasing the use of energy efficiency and renewable energies. Progress is regularly reviewed by EU-China Summits.

A key delivery mechanism for the Plan is the EU-China Energy and Environment Programme (EEP) which aims to foster cooperation between Chinese and EU industries in China’s energy markets; strengthen the security of energy supply in both China and Europe; protect the global environment; and to ensure sustainable development. Energy efficiency objectives under the programme focus on the five areas of, energy policy development; standards; energy-saving potential in energy-intensive industries; energy efficiency in small and medium size boilers; and incentive mechanisms to promote energy savings in China.

These objectives are delivered through policy advice to national and local authorities studies and seminars, awareness-raising and capacity building through information exchange and training, and promotion of technology deployment through funding of feasibility studies and demonstration projects.

In addition, the EU-China Energy Conference gathers together high-level representatives from European and Chinese industries and governments every two years.

On 30th January 2009, the EU and China signed nine cooperation agreements aimed at developing global solutions to various aspects of the global financial crisis and climate change. Among these was the Europe-China Clean Energy Centre (EC2, previously agreed at the 2007 EU-China summit), a project which will create a permanent Centre in Beijing to promote the use of cleaner energy technologies and to support energy conservation and efficiency, thus assisting China in its transition to a low-carbon economy. The EU and China also agreed to set-up a regular dialogue on energy efficiency standards in construction.

In addition the EU has been instrumental in the creation of the International Partnership for Energy Efficiency Co-operation, a new high-level forum to co-ordinate international efforts to promote energy efficiency and to build capacity for the implementation of successful energy efficiency policies and programmes. The Partnership will be formally launched later this year and China will be a founding member.
5. At the 8th EU-China Summit in September 2005, a Joint Declaration on Climate Change was agreed, launching the EU-China Partnership on Climate Change. This partnership provides a high level political framework to further strengthen the cooperation between the EU and China by setting out concrete new actions to tackle climate change. What is the Government’s assessment of the progress made so far under the Partnership? What are the main challenges that it faces?

This partnership provides a high-level political framework to further strengthen the cooperation between EU and China by setting out concrete new actions to tackle climate change. These actions are set out in the Rolling Work Plan, as agreed in Beijing on 19 October 2006.

This partnership fully complements the UN Framework Convention on Climate Change and the Kyoto Protocol. It strengthens cooperation and dialogue on climate change, including clean energy, and promotes sustainable development. It includes cooperation on the development, demonstration, deployment and transfer of low carbon technology, including advanced near-zero-emissions coal technology through carbon capture and storage. In broad terms, the EU’s policy on energy co-operation with China is to intensify collaboration on energy security with a view to creating a stable, secure, efficient and clean energy environment and to promoting open and competitive energy markets.

The EU—at both institutional and member state level—has regular high level dialogue with China on climate change. Twice yearly the Bilateral Consultation Mechanism discusses multilateral issues, presents new domestic climate change initiatives and reviews the Rolling Work Programme.

The Partnership was created to strengthen cooperation and dialogue on climate change and energy between the EU and China. This work includes a strong focus the development and deployment of clean energy technology.

The UK Government believes that the Partnership is making good progress in achieving these objectives.

6. How important is the Near Zero Emission Coal (NZEC) technology for addressing the challenge of China’s rising greenhouse gas emissions in the future? What progress is being made in the EU-China “Near-Zero Emissions Coal Initiative”? How great are the scientific and technological hurdles that must be overcome before this technology can be incorporated into industrial installations on a large scale in the EU and China?

Global energy demand is projected to increase by 45% between 2006 and 2030; 40% of this increase will come from China alone. Coal fired power generation and heat related CO₂ emissions in China will increase by 2.4 times between 2004 and 2030 (IEA, 2006).

Carbon Capture and Storage (CCS) is the only set of technologies with the potential to address emissions from coal power generation.

The EU-China Near Zero Emissions Coal (NZEC) initiative was announced as part of the EU-China Partnership on Climate Change at the EU-China Summit in September 2005. It was agreed that both partners would aim “to develop and demonstrate in China and the EU advanced, near-zero emissions coal technology through carbon capture and storage” by 2020. More recently, at the UK-China Summit 2009, political support was announced to demonstrate CCS through the EU-China NZEC agreement by 2015.

Memoranda of Understanding were signed between the UK and Chinese Ministry of Science and Technology (MOST) in December 2005, and between MOST and the European Commission in February 2006, leading to the UK-China NZEC and COACH (Co-operation Action within CCS China-EU) projects respectively. Both projects are looking at options for CCS in China (although COACH focuses specifically on polygeneration), and will be completed in Autumn 2009.

The UK-China NZEC Initiative includes a range of Chinese and European partners working around the themes of knowledge sharing and capacity building; future technology perspectives; case studies for carbon dioxide capture; carbon dioxide storage potential; and policy assessment.

The UK-China initiative was launched by Vice-Minister Liu Yanhua and the British Deputy Ambassador to China, Barbara Woodward, in November 2007. Considerable progress has been made since the project’s start, both in terms of building important evidence on more technical issues, and in strengthening relationships between Chinese and European CCS experts. This has included capacity building activities such as a workshop for Chinese storage experts hosted in the UK by the British Geological Survey; a CCS study tour in the UK and Europe in March 2009 for Chinese policy makers to learn about CCS in a European context, including through visiting a pilot plant and talking to key experts in industry and government; and arranging for Chinese students to study in UK academic institutions with particular expertise in CCS.
Final results from the UK-China Initiative will be launched in Autumn 2009. They will include a final report exploring options to help shape and drive the activities necessary for establishing CCS in China, with an emphasis on moving towards an NZEC demonstration. More details of this launch event will be made available at www.NZEC.info, which also provides further details of the UK NZEC initiative. More information on the COACH project can be found at www.co2-coach.com.

The Support to Regulatory Activities for Carbon Capture and Storage (STRACO2) is a further element of the EU-China Partnership on Climate Change. By incorporating the Administrative Centre for China’s Agenda 21 (ACCA21), who are also involved in the NZEC Initiative and COACH project, their work aims to ensure that the development of a regulatory framework for CCS in the European Union is at least in part relevant to rapidly developing economies such as China. The programme started in January 2008 and will run for 18 months. For further information see: http://www.euchina-ccs.org/index.php

Building on these capacity building activities, Phase II (design of plant) of the EU-China NZEC initiative, which is being led by the European Commission, should begin in early 2010. In preparation, China and the European Commission need to agree an approach to the costs of demonstration, finance, intellectual property rights (IPR) and regulation. The project and site for the demonstration will also need to be selected. The European Commission is planning to publish a Communication on financing CCS in developing countries in mid 2009, which will set out a financial model for NZEC.

The technologies and processes of capture, transport and storage have been shown to work independently at pilot scale. The challenge now lies in demonstrating the combined technologies and processes at commercial scale and in different countries/contexts (e.g. Indian coal is not the same as Chinese coal, and storage potential is different throughout the world), and in improving the efficiency of the technologies and bringing down the costs.

7. Another goal of the EU-China Partnership on climate change is to reduce the cost of key energy technologies and promote their deployment and dissemination. What mechanisms and funding are foreseen in order to achieve this goal? What progress has been made so far and what are the main obstacles encountered?

Responses to questions 6 and 9 set out some specific EU-China activities which aim to significantly reduce the cost of key energy technologies and promote their deployment and dissemination. A full list of activities is set out in the Rolling Work Plan which can be found at http://ec.europa.eu/environment/climat/pdf/china/rwp_180808.pdf.

At the EU-China Summit in November 2007, the European Investment Bank signed a Climate Change Framework Loan of €500 million to finance projects in China that contribute to combating climate change. The UK, EU and China are working with other parties in the UNFCCC framework to agree the most viable means to finance the dissemination of key technologies.

Over time, the global development and deployment of lower cost, clean energy technologies, requires a global solution. The UK’s preferred approach is that a transformation in the carbon market and in particular greater use of sector based emissions trading and crediting mechanisms will play a key role in future finance, but there are many other options on the negotiating table. A further assessment of the future development of the carbon market is set out below in response to question 8.

8. What is the objective of the EU-China Clean Development Mechanism (CDM) facilitation project? How well is the project progressing, and what obstacles does it face? What Mechanisms are in place to ensure that the funding for the CDM is well spent and actually reduces emissions by the target amount?

The EU-China CDM Facilitation Project aims to strengthen the role of the CDM to help China’s path to sustainable development. It is being implemented by Chinese and European partners, supported by grants from the European Commission. The project started in February 2007 and will end in January 2010. Through a series of activities including policy research, capacity building and training programmes, the project focuses on China’s policy and regulatory regime for CDM development and will provide policy recommendations to CDM policy-makers in Europe and China. It brings together a wide range of stakeholders at public and private sector levels involved in CDM projects.

The project is progressing well, broadly in line with the work plan. The training programme component in Germany has been particularly successful, resulting in two Chinese organisations receiving accreditation qualifying them to audit CDM projects as Designated Organisational Entities. A major obstacle to delivery has been reaching consensus on how to improve the level of technology transfer. The forthcoming report on technology transfer— to be published later this year—will present both Chinese and European perspectives.
More information will also be available on other aspects of the Project through a new website and publication of a further report on the Pre-2012 CDM Market in China.

Funding for emission reductions under CDM is provided by a wide range of private sector organisations, by developed country (Annex I)\textsuperscript{20} governments, and international organisations, including the World Bank. Investors in individual projects receive credits—Certified Emission Reductions (CERs)—for emission reductions that can be sold through the carbon market or used directly for compliance. CERs can be used by governments to meet Kyoto emission reduction commitments; by companies complying with emission caps at installation level (eg under the EU ETS); or by individuals or organisations voluntarily offsetting emissions.

CDM Projects undergo a rigorous auditing and verification process, overseen by the UN’s CDM’s Executive Board, to ensure that the CERs issued represent genuine emission reductions. Nevertheless, the Government wishes to see the CDM reformed both to give greater confidence in the additionality of emission reductions and to improve the efficiency and effectiveness of the mechanism. We are therefore working with EU partners to seek international agreement for such changes through the UN.

CDM has played an important role in building capacity in developing countries, in allowing them to participate in the carbon market as well as supporting their long term transition to low carbon economies. However, though project based mechanisms have provided an essential platform for market based approaches to financing mitigation activity, the UK Government recognises that project based offsetting mechanisms are limited in terms of the scale of emission reductions that they can achieve. Advanced developing countries, such as China, need to build on their experience and success in attracting CDM investment by moving towards sectoral crediting and trading mechanisms that will make a net contribution to emission reductions and achieve financial flows and emission reductions at scale. Such approaches will provide the basis for a longer term transition to a fully capped global carbon market. The UK supports the EU Council Conclusions, issued on 2 March, which included a proposal “to build, as soon as practicable and preferably by no later than 2015, a robust OECD-wide carbon market through the linking of cap-and-trade systems, to be extended to economically more advanced developing countries by 2020, including through the adoption by these countries of no-lose or binding targets which could be linked to participation in sectoral crediting and trading mechanisms.”

9. To what extent are China and the EU cooperating in the area of scientific research on energy efficiency and technologies to mitigate climate change? What is the content of the China-EU Action plan on Energy efficiency and Renewable Energies, which was agreed by the two sides in March 2005?

The EU-China dialogue on Science and Technology started in the early 1990s and was one of the first areas of cooperation between the European Commission and China. The first EU-China S&T agreement entered into force in late 1999 and it was renewed in December 2004. Cooperation has increased substantially since the first S&T agreement was signed. Its aim was to promote mutually beneficial research activities in a variety of areas, such as food and environmental safety, the management of natural resources, the control of infectious diseases etc. Today, this cooperation shows growing dynamism as is demonstrated, for instance, by the participation of Chinese partners in more than 100 research projects funded by the Commission’s Framework Programme for research. China is rapidly becoming one of the most active actors on the international research scene and in several areas it is a world leader—examples of the latter are nano materials and energy components. A principal area for EU-China scientific co-operation on energy and climate change mitigation is on clean coal technology (see Q6).

Research on energy saving technologies is an important part of the wider EU-China dialogue on energy efficiency. However, given the significant savings that can be achieved using existing technologies the focus of EU-China co-operation on energy efficiency has largely been on building capacity for the deployment of current technologies.

The China-EU Action Plan on Industrial Co-operation on Energy Efficiency and Renewables agreed by the two sides in March 2005 was intended to expand co-operation on the compilation of energy audits to identify energy savings potential, improvement of motor and air compressor efficiency, replacement of inefficient industrial boilers, identifying potential for Combined Heat and Power deployment, improving the efficiency of lighting, co-operating on development of biofuels and solar energy and identifying potential for offshore wind.

\textsuperscript{20} \url{http://unfccc.int/parties_and_observers/parties/annex_i/items/2774.php}
10. **What will be the role of the EU China Institute for Clean and Renewable Energy, and when will it be established?**

*Are China and the EU still planning to launch an Environmental Governance Programme, as announced at the summit meeting between the Commission President Barroso and Premier Wen on 25 April 2008?*

On 30th March 2009, the EU and China signed the financing agreement for the ICARE project (Institute for Clean and Renewable Energy). The aim of the Institute is to increase capacity for achieving China’s energy policies, particularly those focusing on renewable energy and energy efficiency and to create durable links between European and Chinese clean and renewable energy professionals, researchers and academics. The Institute is expected to be based in Beijing.

The EU-China Environmental Governance programme was launched in April 2008 and has three main objectives are to support the Chinese government’s pollution control and environmental conservation efforts, by increasing public participation in environmental decision making and planning; to enhance the role of the Chinese general public in protecting the environment by promoting public awareness about environmental issues, improving access to environmental information, increasing public participation in environmental decision-making, and boosting public rights of appeal and redress; and to provide stronger incentives for enterprises in China to take a proactive approach to environmental issues.

11. **In what ways are the EU and China cooperating to reduce illegal logging?**

The UK recognises the important role of China in global timber markets, both as a producer and a transit country for timber. UK objectives on illegal logging and the timber trade are thus taken forward through a range of bilateral activities, but also through EU efforts.

The EU and China have both been important actors in regional Forest Law Enforcement and Governance (FLEG) Ministerial meetings in East Asia, Africa and Europe and North Asia. Both sides have also made a commitment at recent EU-China summits to address this issue.

An EU-China conference on illegal logging was held in Beijing in September 2007 which brought together over 200 participants from China and developed and developing countries and led to the signature in January 2009 of the Terms of Reference of a Bilateral Coordination Mechanism on forest law enforcement and governance. A work plan for this mechanism is currently under development and the two sides have already established channels for exchanging information on relevant developments, such as relevant EU legislative proposals and the outcomes of dialogue and activities conducted by the EU and by China related to illegal logging and third countries.

The European Commission has funded two projects aimed at building links between Chinese timber processors, tropical timber suppliers and EU importers, in which UK organisations are important actors (WWF-UK and the UK Timber Trade Federation). It is also starting up an Asia-wide regional programme to support forest law enforcement and governance in Asia, in which actions concerning China are expected to be an important component.

Forest Law Enforcement Governance and Trade (FLEGT) was identified as a potential area of trilateral cooperation in the October 2008 EC Communication on “The EU, Africa and China: Towards Trilateral Dialogue and Cooperation” and this will be further developed during 2009 with the full participation of African countries.

In April 2008 DFID and Defra funded a six-day European Timber Trade Federation Road Show to Shanghai and Pizhou. This was designed to give Chinese producers a better understanding of the requirements of European markets. At the same time the visit allowed European and Chinese trade associations to discuss how better cooperation and knowledge transfer could help their respective members benefit from opportunities in the environmentally discriminating European market. For details see:

http://www.illegal-logging.info/item_single.php?item = news&item_id = 2699&approach_id = 1

12. **To what extent are China and the EU cooperating in the area of Carbon Trading and innovative finance for investment in renewable energy and low carbon technologies? Can experiences gained from the operation of the European Emissions Trading Scheme (ETS) be usefully shared with the Chinese? Is the recent fall in the price of Carbon a problem in this respect?**

There are a variety of initiatives by EU institutions and member states to build capacity for carbon markets, in particular developing expertise in monitoring and reporting emissions. The Government believes that there are many lessons from the development and operation of the European Emissions Trading System that can be shared and in particular the importance of monitoring and reporting emissions in order to reduce energy demand.
The recent fall in carbon prices reflects reduced demand for allowances as a result of lower economic output. The environmental impact of the trading system—the cap—remains unchanged but the price drop means that it is easier for business to comply with the system during the recession. The Government’s view is that this demonstrates the market’s responsiveness to changed economic conditions providing further lessons for both the EU and China in developing and designing future policy in this area.

In terms of broader cooperation, the UK is providing £800 million to the international Climate Investment Funds to help countries shift onto low carbon, climate resilient development pathways. These funds are being administered by the World Bank, and the governance structure ensures equal representation of developed and developing countries. The largest of these funds, the Clean Technology Fund (CTF), is designed to support rapidly industrialising countries in scaling up the deployment of low carbon and renewable energy technologies. China is one of the eight developing countries on the Trust Fund Committee of the CTF, and the UK would welcome a bid from China to access this new and additional source of funding.

13. What is the EU doing to help build institutional capacity in China to mitigate green house gas emissions at the national and provincial levels, as well as to enhance climate change modelling and research?

The EU is providing substantial support to China on both mitigation and adaptation. This includes capacity building in a number of sectors including, monitoring reporting and verification of emissions, renewable energy, low-carbon buildings, sectoral crediting, emission trading schemes and development of provincial climate change programmes. There are also examples of technology cooperation including through the 7th Research Framework Programme, Near Zero Emissions Coal Initiative (NZEC) and in renewable energy and energy efficiency.

14. With the change of administration in the United States, are there any opportunities for trilateral EU-China-USA cooperation on climate change?

In March 2009 President Obama established the Major Economies Forum (MEF). The MEF brings together all of the major economies including China, US and EU for a series of discussions in preparation for the Copenhagen summit in December 2009. The Government welcomes the MEF as an important forum for further discussions amongst all major economies, including China, in preparation for the negotiations at Copenhagen.

The first preparatory meeting for the MEF took place on 27 April. Our Secretary of State Ed Miliband attended. This was a very successful meeting which discussed, in particular, low carbon technologies and mitigation. The discussion around the table was open and extremely helpful.

7 May 2009

Memorandum by Ivan Lewis, MP, Parliamentary Under-secretary of State, Department for International Development

THE EU, CHINA AND AFRICA

1. What is the Chinese view of development, the rule of law and good governance in Africa; and how far does this approach correspond to that promoted by the UK and the EU? What scope is there for greater cooperation between Africa, China, and the EU on meeting the MDGs in Africa?

China released a White Paper on Africa in 2006 which stated that its policy was to promote peace and stability, development and common prosperity. Key principles within this are non-interference in domestic affairs, mutual trust, respect of sovereignty, political equality and mutual benefits. China sees investment, trade and aid as all contributing to development. China has been a strong supporter of the MDGs and in particular in pushing developed countries to meet the commitments they have made in bodies such as the G8 to increase resources for international development.

There are differences in approaches between the EU and China. China does not meaningfully engage with attempts at donor harmonisation in Africa. China does not link its own conditionality with those of other donors. China does not publish detailed information on its aid. Chinese investment in Africa does not come with good governance conditionality but with a range of conditions related to how loans will be repaid and concessions that China will be granted as a result of the investments. This is an entirely different approach to most (although not all) of the OECD. China does not regard a dialogue on rule of law and governance as being appropriate within its partnerships with African countries. It resists this because of its principles of political equality but also because it would not countenance any interference in these areas in its own country.
In recent years China’s position with regards to working with others to promote development in Africa has been evolving. In recent years China’s EXIM Bank has signed Memoranda of Understanding with the World Bank, the Asia and the African Development Banks. In 2007 China also became a donor for the first time to the 15th IDA replenishment. Its $30 million contribution was modest (the UK provided £2.1 Billion), but it showed China’s acceptance of its global role in dealing with international poverty reduction. China also contributed $120 million to the 2008 replenishment of the African Development Fund. China is interested in working with the African Union.

Despite the differences in approaches to development, the EU has identified strong shared interests in promoting development in Africa. At the 10th China-EU Summit held in November 2007, the EU and China strongly welcomed the idea of trilateral cooperation which was later endorsed in a communication from the European Commission. There is huge scope for cooperation which could bring together strengths from both sides, for example China’s expertise in agriculture and infrastructure and the EU’s strengths on institutional and organisational building.

2. From an EU perspective, what are the main development issues that arise with regard to China’s approach to Africa?

The EU recognises the importance of China’s contributions to infrastructure, initiatives on health and contributions to peacekeeping as well as the benefits arising from the growth in trade and investment between Africa and China. There are concerns. These mostly relate to transparency and an unwillingness of China to share information with other international partners. There is a strong desire for China to work closely with the EU so that synergies can be explored.

3. Do African countries as well as their citizens, generally welcome and benefit from China’s role in Africa?

Politics is integral to China’s relationship with many African countries. This stems from many decades of high-level political contact and dialogue and mutual support particularly in independence struggles and post-colonial nation building. Whilst political ties remain important, economic relations have grown dramatically since 2003. African leaders have warmly welcomed China’s approach which stresses the opportunities for economic development and mutual benefit in Africa. African leaders have contrasted China’s approach to the West which they see as being focused on poverty, poor governance and corruption. African leaders welcome China not linking its support to issues such as human rights and governance. Finally African governments have welcomed the speed at which China disburses its support and its cost relative to other donors.

As China has expanded its activities in Africa, it has experienced problems. There are concerns that African contractors do not employ enough local labour or source local inputs. Chinese companies have developed a reputation in some countries for low wages and for poor working conditions. Civil society in Africa is very concerned about a lack of transparency related to the deals that African leaders have signed with China. China has recognised many of these issues. It has issued new guidelines on the behaviour of Chinese firms in Africa, organisations such as the China Africa Business Council are encouraging Chinese companies to pay more attention to community outreach and to employing more Africans in skilled and senior positions.

THE EU-CHINA-AFRICA “TRIALLGUE” ON DEVELOPMENT ISSUES

4. What is the Government’s assessment of the recent European Commission proposals to create a three-way “trialogue” between Africa, the EU and China on development issues? What progress is being made in this area? To what extent should this be a priority for the EU?

The UK Government supports the European Commission’s proposals. Trilateral cooperation offers the potential to develop synergies between China’s support to Africa and that from the EU. The EU has been building political support for the triilogue. Its Commissioners for Development and External Relations have included this as a key agenda item in their discussions with counterparts in China. This has yielded results. During Premier Wen’s visit to Europe and Foreign Minister Yang’s visit to Portugal in January 2008 both issued positive statements about trilateral cooperation.

The EU has sought the endorsement of the African Union to the “trialogue”. A Committee from the AU is now considering a formal response. In the meantime EU Delegations in African capitals have been exploring options for cooperation with African governments and Chinese embassies. There might well be options for cooperation with the EU and possibly the UK stemming out of China’s interest in working with the Infrastructure Consortium for Africa.

This should be a priority for the EU. On a practical level trilateral cooperation offers the potential for China and the EU to learn from each other. It can help build trust and mutual respect. Importantly it can help avoid political competition for supporting development in Africa.
5. What are the channels for EU-China-Africa triad on development issues in Africa, both at headquarters level and in the field? Does the EU delegation to the African Union in Addis Ababa maintain contacts with Chinese officials about development issues in Africa?

The EU and China have undertaken exchange visits of senior officials responsible for development policy. A number of EU delegations are also exploring options with Chinese embassies in African capitals. The EU delegation to the African Union is in discussions with Chinese officials in Addis Ababa.

AID EFFECTIVENESS, GOOD GOVERNANCE AND HUMAN RIGHTS

6. What is the Chinese government’s approach to the question of aid effectiveness? Is China a signatory of the Paris Declaration on aid effectiveness, and to what extent is it implementing its commitments in Africa?

China signed the Paris Declaration. But it signed as a recipient rather than a provider of aid. China has generally not supported the harmonisation agenda. It does not endorse the DAC approach, preferring instead to strongly differentiate itself from western donors. Currently it has no interest in joining the OECD. China attended the High Level Meeting in Accra in 2008 and the 2008 Financing for Development meeting in Doha. But its objectives were to reinforce that developed countries should meet their commitments on aid rather than to endorse and support harmonisation and transparency efforts. In late 2008, China agreed to join with the OECD’s Development Assistance Committee to prepare a study on China’s aid to Africa.

It is difficult to examine in detail the extent to which China has implemented the commitments it made in 2006 towards Africa because China has not publicly released such information. For some of the targets, such as a doubling of aid, it is impossible to measure progress since baselines are unknown. However, public statements by Chinese leaders including by Premier Wen at the UN MDG Summit in September 2008 and more recently by President Hu during his 2009 visit to Africa, suggest that China will deliver and exceed the vast majority of the commitments it made in 2006 during the China Africa Summit.

7. To what extent is the role of China and Chinese companies in African countries with poor records on human rights such as Sudan, the Democratic Republic of Congo, Nigeria and Zimbabwe an obstacle to the EU’s efforts to promote good governance, the rule of law, democracy and human rights?

Chinese activity in Nigeria is a relatively recent development and there are few examples of China’s impact yet. However, we expect that China’s impact will be limited—China is not the cause of corruption/poor governance etc in Nigeria, and Chinese activity in Nigeria is unlikely to add significantly to the level of corruption. Nevertheless, it would be helpful if China were to sign up to the EITI, thus helping increase transparency on Chinese businesses’ activity in Nigeria, especially in the oil and gas sector.

GoDRC appears to share the UK’s position that the assistance provided by China and traditional partners is strongly complementary and hence we currently do not perceive China’s involvement as an obstacle to the promotion of broader governance and human rights objectives. The DRC’s development needs are enormous and the Government of DRC is publicly committed to working both with China and its traditional partners to maximise the support the DRC receives. China’s planned investments are focused on roads and broader infrastructure projects while traditional donors like the EU offer a much broader package of support, including emergency assistance to stabilise an economy hit hard by the global economic crisis and efforts to help the DRC reach HIPC completion point.

8. To what extent have China’s investments and political influence contributed to the development of Nigeria and the DRC including to progress on the MDGs? What discussions have the EU delegations in Nigeria and the DRC had with Chinese officials and corporations about these matters, and with what outcome?

Chinese activities in DRC have so far been limited to relatively small investments by small and medium-sized Chinese companies (mainly in Katanga Province and Kinshasa) and the Chinese development programme and therefore the impact of the Chinese development programme in the DRC on MDGs has been limited. The big ‘minerals for infrastructure’ deal that has received attention in the international media is still at a very preliminary stage, pending the completion of a feasibility study on copper and cobalt resources in Katanga Province. Given the proposed focus on roads and infrastructure projects we expect that, when started, the deal’s potential impact on the MDGs will be highly significant, particularly through stimulating growth in the agriculture and mining sectors. This will generate employment, raise incomes and provide the GoDRC with increased revenues to fund essential services.

In Nigeria there is no evidence yet of any specific contribution to date on the MDGs. Chinese priorities in Nigeria are energy, telecommunications, agriculture, infrastructure and manufacturing. Many of these investments have the potential to support growth and employment. There are concerns that there is insufficient
public information about many of the deals agreed between China and Nigeria. Without this information it is difficult to assess the consequences from the deals for issues such as debt sustainability.

We are not aware of any structured discussions that have taken place between the EU delegations in DRC and Nigeria with Chinese corporations and Chinese officials.

DEBT

9. What is the extent of Chinese lending to African countries, is this on favourable terms for the Africans? Should the EU be concerned about the debt levels of African countries due to Chinese lending?

China does not publish details of the loans that it provides to African governments. Zero-interest loans are provided by the Ministry of Commerce. Concessional loans (terms unknown) are provided by China’s Export Import Bank (EXIM). Commercial loans are provided by EXIM and the China Development Bank. When asked, Chinese officials say that debt sustainability is a key element of their due-diligence procedures before approving loans. The lack of transparency on the terms of loans make it hard to determine whether they are provided on favourable terms. A 2008 World Bank study “Building Bridges: China’s Growing Role as Infrastructure Financier for Sub-Saharan Africa” found that on average, Chinese loans for infrastructure contain a grant element that comfortably meets the DAC criteria for determining whether a loan is concessional.

A rapid accumulation of new borrowing (from all sources, not just China) could reduce the benefits of recent global debt relief efforts. It is vital that all international creditors (including China) and multilateral institutions should lend in a transparent and responsible way. The EU along with African governments and the UK should continue to encourage China to be more transparent about its loans to Africa and encourage it to engage more directly with the IMF and World Bank debt sustainability framework mechanisms.

THE ROLE OF CHINESE CORPORATIONS OPERATING IN AFRICA

10. To what extent does the Chinese government have control or influence over Chinese corporations operating in Africa? Is the role of these corporations a matter of concern to the EU with regards to their impact on development? If so what can and should the EU do to encourage them to play a more responsible role?

China’s commercial presence in Africa predominantly consists of small to medium sized enterprises that are privately owned and which have little or no relationship to the Government of China. There are a small number of large, state-owned enterprises that have focused on the extractive and infrastructure sectors. The Chinese government is very active in supporting the extractive and infrastructure sectors through the provision of credits, concessional financing and diplomatic support. In 2007 China established a $5 Billion investment fund under the China Development Bank. This fund has now started operations and is building up a diverse portfolio.

Formally China’s Ministries of Commerce, Foreign Affairs and Customs authorities have supervisory roles on Chinese companies that operate in Africa. State owned companies are also controlled by the government, but in many cases their management teams have considerable autonomy when it comes to developing business strategies. Chinese officials recognise that there are challenges in performing adequate supervision because of a lack of capacity, particularly in Africa. New standards on the behaviour of Chinese companies in Africa have recently been promulgated.

The EU should be concerned to promote a dialogue with China on supervision of corporations in Africa, but this should involve a genuine attempt to share best practice and experience on European supervision of its companies in Africa. It should also involve relevant authorities from the African countries.

11. Have any Chinese corporations in Africa signed up to the EITI? If so, to what extent are they implementing their commitments under the initiative? Is this an issue the EU should be concerned about?

No Chinese companies have officially endorsed EITI. The Chinese government has also not endorsed EITI. China’s official position is that its companies will abide by EITI-related legislation in countries where such legislation is in force. The EU is a supporting organisation of EITI. Like the UK, the EU should encourage China to support EITI. It should seek to build on the momentum generated following the 2009 EITI Annual Conference which has seen EITI’s transformation from a start-up initiative to a global transparency standard.
Food security

12. To what extent is China trying to increase its food security through acquisitions of land and other relevant assets in Africa? What effect is this having on Africans? What other issues arise with regard to food security in Africa from an EU perspective?

China has just 7% of the world’s arable land, but 22% of the world’s population. This has led to concerns that China will increasingly look to land acquisition in African and other countries as a means to maintain its food security. The International Institute for the Environment and Development (IIED) has looked in depth at Chinese land acquisitions in Africa. It has warned against overplaying the Chinese food security argument as a motive for Chinese investment in Africa. Its research shows that China remains a net exporter of cereals and it has set itself limits to avoid importing more than five per cent of its grain needs in the future. It has observed that products from Chinese farms in Africa, apart from timber, are marketed locally. The UK Government and China are currently in discussions about how they can work together with China on food and agriculture issues in Africa.

Energy

13. What proportion of China’s energy imports come from Africa, and what effect is this having on the ability of Africans to meet their own energy requirements? What other issues arise with regard to energy in Africa from an EU perspective.

Africa currently possess around 9% of the world’s proven petroleum reserves compared to almost 62 percent for the Middle East. But African reserves remain largely unexplored and may well be the source of future discoveries. China sources around 33% of its oil from Africa. Oil accounts for around 80% of Africa’s exports to China.

China is an important and growing market, probably accounting for around 14% of Africa’s exports. However the EU and the US are more important, accounting for 36% and 33% respectively of oil exports from Africa. The EU is keen to promote dialogue with China on EITI to promote greater transparency. The EU wants to see open and fair competition in the energy sector and a dialogue with China to promote environmental standards and corporate social responsibility.

Further supplementary memorandum from Julia Longbottom, Head of Far Eastern Group, Foreign & Commonwealth Office

Partnership and Cooperation Agreement

The last round of negotiations on political articles of the PCA took place in late September. Text on Taiwan has been exchanged but is yet to be negotiated formally. Elements of the text on human rights have been agreed but agreement on the full article is likely to take some time yet. Market access issues are pursued through official-level dialogue; at yearly meetings of the Joint Committee; and at the annual High-Level Trade and Economic Dialogue.

Beyond discussion of specific articles during PCA negotiations, the PCA as whole is always discussed during high-level bilateral meetings. A review of progress will form part of the agenda for the upcoming EU-China Summit next month. We continue to encourage both the Commission and China to conclude negotiations as soon as possible in order to set the relationship within a comprehensive framework that will allow cooperation to develop positively and deepen engagement between the two sides.

Climate Change

The EU and China have a close and constructive relationship on the issue of climate change, with sustained dialogue taking place through both the European Commission and Member States. Coordination of European positions through the Commission Representation in Beijing ensures coherent communication with Chinese interlocutors, and adds to the effectiveness of EU-China cooperation.

This cooperation has contributed to the positive positions that both the EU and China have adopted ahead of the Copenhagen climate conference in December. We hope that this positive dynamic will be furthered by the EU-China Summit next month. We support Summit plans for a high-profile EU-China Partnership on Climate Change, and a new Low Carbon Taskforce, which will look at ways the EU and China can work together to promote low carbon development in China. This will include further funding for the EU-China Near Zero Emissions Coal (NZEC) initiative, and support for Low Carbon Zones in China.
The International Energy Agency’s carbon capture and storage (CCS) Roadmap, published on 12 October, brings home the imperative of having CCS deployed by 2020 in developed and developing countries. The EU-China NZEC project will play a vital role in the development and deployment of CCS technology in China. We are working with EU and Chinese partners to secure an accelerated timetable for the NZEC project with the aim of getting demonstration plants operational by 2015. We hope the next EU/China Summit will agree a Memorandum of Understanding to that effect.

We and our EU partners very much welcome President Hu’s speech to the UN on 22 September at which he committed to a cut in China’s carbon dioxide emissions per unit of GDP “by a notable margin by 2020 from the 2005 level”. This was an important signal of leadership, which has injected momentum into the UN climate change negotiations. We will work with other members of the EU negotiating team to build on this. We are also encouraged by recent signals of China’s strengthened interest in the economic opportunities offered by the transition to low carbon, including the recent addition of new low carbon zone pilot projects in a number of cities and provinces. We are working with Chinese and EU partners to develop and accelerate these projects.

HUMAN RIGHTS

The mechanism through which the EU raises issues of concern is its bilateral human rights dialogue with China, as well as through political lobbying and project work. The last round of dialogue took place in May this year. The next is scheduled for late November. The review of that dialogue will be relevant to the way in which we process the concerns raised at the Universal Periodic Review (UPR). The review, covering the period 2005–Spring 2009, has recently been completed and is now subject to evaluation by the human rights working group, COHOM, in Brussels. Overall we consider it a useful report and it has been agreed that missions in Beijing should be invited jointly to consider the report and revert to COHOM, keeping the Asia working group informed. Once this has been completed we will advise on the outcome and conclusions drawn.

A number of Member States maintain their own human rights dialogue with China, including the UK, and we can expect individual Member States to monitor the implementation of their own UPR recommendations through their own human rights dialogues with China.

CHINA’S ECONOMY

The Chinese economy has responded smartly to the fiscal stimulus package, supported by a dramatically higher volume of state bank lending, since the end of last year. It looks increasingly likely that the economy will grow by at least 8% this year, the minimum rate that the government believes is necessary to generate sufficient new employment and assure social stability. Although there are some longer-term questions about the sustainability of high levels of growth in China—particularly if the revival of world trade is sluggish and there is slow progress in rebalancing the economy towards domestic consumption—most forecasters expect China’s economy to continue growing relatively robustly in the year ahead.

China, which is poised to become the world’s largest exporter, has generally refrained from new protectionist trade and currency responses to the global economic crisis. Chinese exporters nonetheless continue to benefit from an undervalued currency (which has depreciated recently in effective terms, thanks to its de facto peg with the US dollar), cheap state bank credit, and other subsidised inputs. Chinese exports are increasingly the target of anti-dumping complaints from the EU, US and other trading partners. There remain some important barriers to foreign participation and inward investment in China, despite the generally low level of tariff protection, and China’s public procurement favours domestic suppliers.

The EU retains a generally high level of openness to Chinese exports and investment, and is China’s largest trading partner. The willingness of the EU to take further measures to benefit Chinese exporters and investors is likely to depend on China’s willingness to respond constructively to the concerns of EU businesses about market access and the business environment in China.

I hope the Committee finds this useful and I look forward to reading their inquiry report.

3 November 2009

Memorandum by Lizzie Parsons, Global Witness

1. Between June and September 2008, Global Witness undertook research in the Democratic Republic of Congo (DRC) on a substantial Collaboration Agreement (hereafter “agreement”) signed between a consortium of Chinese state-owned enterprises and the Congolese government. This research has formed the basis for the following evidence.
2. Using the agreement as a case study for Chinese involvement in Africa, Global Witness intends to highlight concerns about the lack of transparency surrounding the agreement and elements within the agreement which may be unfavourable to the country once the programme of work is implemented. These concerns are particularly important in view of the enormous economic significance of this agreement, especially in terms of the DRC’s long-term financial commitments.

3. In Global Witness’s opinion, the evidence demonstrates deficiencies in the approaches of the China consortium and the Congolese government in the following areas: lack of transparency; failure to involve democratically-elected institutions; risks for long-term financial stability; insufficient protection of labour rights; and concerns about sustainable development through the mineral-for-infrastructure deal.

BACKGROUND TO THE COLLABORATION AGREEMENT

4. In April 2008, an agreement was signed between the Congolese government and “Group of Chinese Enterprises” (GEC). The agreement is the most significant African example to date of what has been labelled the “resources for infrastructure” model. It reflects China’s enormous desire for guaranteed mineral supplies for its mushrooming manufacturing industries.

5. The GEC was composed of China Railway Group Ltd and Sinohydro, with financing from the Chinese government’s export credit agency, Export-Import (Exim) Bank. Infrastructure projects, including railways, roads, dams, health and education facilities, were promised in exchange for copper and cobalt mining titles and rights in Katanga province (south-eastern DRC) to guarantee reimbursement of the finance. The value of the investments in the April 2008 agreement totalled US $9.25 Billion, to be divided into US $3.25 Billion and US $6 Billion for the mining investment and infrastructure developments respectively. A joint-venture company was to be split between the Congolese (32%) and the Chinese (68%). Since the signature of the agreement, further revisions to the identity and shareholding of the partners have been made.

HOW THE AGREEMENT CAME ABOUT

6. The agreement reflects the recent large increase of overseas investment by the Chinese state, working through the country’s state-owned enterprises, entitled the “Go Global” strategy. The long-term goals of this strategy are to increase the productivity and competitiveness of Chinese companies.

7. The agreement clearly stipulates its purpose. Article 1 states that the agreement broadly provides for the GEC to “invest in the non-ferrous metals sector in the DRC” and for the DRC to “find the required financial resources to carry out national infrastructure projects that are deemed important and urgent”.21

8. The DRC is one of the poorest countries in the world, with an immense need for long-term development. In the 2008 Human Development Index ratings of the UN Development Programme, it was listed 177 out of 179 countries.22 In contrast with this poverty, the country is one of the richest in terms of the variety and volume of its natural resources: minerals, forests, oil, water and wildlife. For over a century, the DRC has exemplified the “resource curse”, with its population suffering widespread corruption, armed conflict over resource-rich areas and autocratic rulers.

9. Throughout the 2006 presidential election, President Joseph Kabila had promised “cinq chantiers”—his five pillars of development, comprising infrastructure, employment, housing, water and electricity, and health and education. He has set these out as the test by which he will be judged in his current term of office and in the run-up to the next presidential elections scheduled for 2011. The wished-for post-election investment for the DRC has been described by members of the Ministry of Infrastructure, Public Works and Reconstruction as the equivalent of a “Marshall Plan” for the country. However, support from the “traditional” Western donors for these five pillars has been noticeably lacking and slow to materialise.23 At the Consultative Group meeting for the DRC in Paris in November 2007, donors, including the British government and the European Union, pledged US $4 Billion over three years, but the following year, donors themselves recognised that only a limited proportion of the money had been forthcoming.24

10. Once the agreement with China was signed, President Kabila was quick to voice his frustration at the conditionalities of Western aid and the slow release of promised funds. The Chinese deal offered a welcome “no strings attached” alternative to traditional aid packages. This sentiment concords with China’s policy of “mutual respect for sovereignty and territorial integrity”, part of the five principles of peaceful co-existence

23 Global Witness interviews with officials from international financial institutions, Kinshasa, 17–18 June 2008.
by which China operates its foreign diplomacy and trade policies. 25 Both Congolese and Chinese government representatives have emphasised that the relationship between partners is not based on a colonial past and that there is mutual understanding. A representative of the Congolese Ministry of Mines explained to Global Witness researchers that the respective partners “are two developing countries who can understand one another”. 26

LACK OF TRANSPARENCY AND DEMOCRATIC OVERSIGHT

11. A debate on the agreement took place in the Congolese National Assembly on 9 May 2008, two weeks after its publication. The only Congolese government signatory to the deal, the Minister of Infrastructure, Public Works and Reconstruction (Minister Lumbi), gave an account of the agreement. This was followed by a heated debate which resulted in the formulation of ten recommendations. 27 However, observers argued that the debate was conducted “just to calm people” and that it was simply “a formality…a semblance of a debate, producing recommendations that have no force.” 28 There has been little, if any, follow-up to the debate.

12. The Congolese side of the negotiations for the agreement was carried out by a small group of senior government officials from the Ministry of Infrastructure, Public Works and Reconstruction, the Ministry of Mines and the Office of the President. Representatives from the Ministries of Finance, Budget and Planning were excluded, despite being tasked with playing a major role in managing the country’s limited financial resources and its debt levels.

13. Given the enormous importance of the deal for the DRC in the long term, there was a reasonable expectation that it should have been fully debated prior to signature in the Congolese Parliament and that a wider group of government representatives should have been involved in the negotiations and final approval of the deal. Coming so soon after the country’s national and Presidential elections in 2006, such measures could have served as an endorsement of and test for the new democratic institutions. Instead, the negotiations took place behind closed doors and with very limited public debate.

FISCAL IMPLICATIONS OF THE AGREEMENT

14. Parties to the deal have expressed their desire for it to provide economic growth to the DRC. However, the International Monetary Fund (IMF), on behalf of its national members, has expressed concern that the deal would risk loading dangerous levels of debt onto the DRC. Over recent months, the DRC has been attempting to meet the criteria necessary to join the IMF’s Highly Indebted Poor Countries (HIPC) scheme whereby it could be relieved of the majority of its multilateral and bilateral debt obligations. The signing of the Chinese agreement meant that the IMF, along with various other creditors, became concerned that should the DRC’s debt be removed through the HIPC process, the country would simply be replacing one type of damaging, unsustainable debt with another. At the time of writing, the parties to the deal are undertaking feasibility studies in an attempt to satisfy the IMF’s demands.

15. The agreement emphasises a quick transition in the mining operation towards income generation. Specifically, Article 13.3.3 of the Agreement states that “if the feasibility study shows that the IRR [internal rate of return]...of the Chinese Companies Group is less that 19%, the DRC agrees to take all the necessary steps to improve the cooperation conditions in order to reach [an internal rate of return] threshold of 19% for the benefit of the Congolese Companies Group”. This guarantee presents a number of potentially adverse consequences, creating an uneven playing field for mining and infrastructure investments in DRC. Firstly, additional mining concessions may be required to reach the promised IRR level because the level can be calculated in various ways, thus making the calculation process open to abuse. Furthermore, Article 13.3.3 appears to suggest that tax rules could be manipulated to ensure that the high rate was achieved. 29 In addition, recent research indicates that such pressures to meet repayment deadlines risk heightening the likelihood of accidents and damage during the construction and operation phases of the mining project. 30

16. Article 14.4 of the agreement is a stabilisation clause which ties the DRC to a legislative regime at a certain point in time from which they will not be able to diverge without paying compensation for resulting higher costs or lower revenues.31 A group of international mining law experts concluded that it is “one of the most comprehensive and uncompromising stabilization clauses that the authors have encountered” [italics in original].32 The provisions of the stabilisation clause run the risk of undermining the DRC’s right to regulate key public policy areas such as the environment and human rights.

POOR LABOUR CONDITIONS

17. There have been widespread reports of the poor treatment of workers in mines, smelters and other operations under Chinese and non-Chinese ownership in the DRC.33 There are concerns that such practices will be repeated in the infrastructure and mining operations covered by the agreement. Chinese government policy states that Chinese companies should respect the laws and regulations of the countries where they operate. However, as a Congolese lawyer explained, the very weak capacity of the Congolese state to uphold the law is an intrinsic reason why Chinese companies are able to continue operating with poor labour conditions.34

OVERSIGHT AND MONITORING OF OPERATIONS

18. There are doubts about the Congolese capacity to provide quality control for the infrastructure projects. Without appropriate oversight and safeguards, the costs of works risk being overinflated. In addition, because of the inherent guarantees for the reimbursement of debt and for an internal rate of return at 19%, higher infrastructure costs would mean fewer finished projects for the same value of loan. In the same way, overinflated costs may in turn require a greater volume of minerals to be sold to repay the Chinese debt within a specific time frame.

19. To date, the Congolese government has shown a dependence on the Chinese parties for direction and guidance in valuing infrastructure. This reflects broader weaknesses and an imbalance in other aspects of the partnership, including in negotiation, technical expertise and operational capacity.35 Monitoring and oversight of both mining and infrastructure projects is vital to ensure that the deal brings the proposed benefits to the Congolese people. Despite professional expertise within Congolese government ministries, civil servants are seriously under-resourced and often lack appropriate training. Investment to improve the capacity of the Congolese administration to carry out its oversight role must be seen as a precursor to the implementation of programmes.

17 April 2009

Memorandum by Jonathan Peel, Member of the European Economic & Social Committee (EESC), representing the UK—Group I (Employers/Industry)

1. INTRODUCTION

1.1 I very much welcome this opportunity to submit evidence to your Lordships for this important and timely Inquiry into the EU and China.

1.2 This evidence is being submitted in my personal capacity as a UK Member of the European Economic and Social Committee (EESC), on which I sit as part of the Employers/Industry Group, (Group I). As such I have also been selected as a member of the EU—China Round Table, which was set up as a result of the Helsinki (EU—China) Summit in late 2006 and which is comprised of fifteen Members each of the European Economic and Social Committee and of the Chinese Economic and Social Council (CESC), representing civil society on both sides.

1.3 As a Member of the Round Table I have twice been Rapporteur on the issue of EU—China Trade and Investment and have presented papers to meetings of the Round Table, in June and November 2008. Previously in November 2007 as joint Rapporteur I submitted a paper on the issue of Corporate Social

31 Article 14.4 states that “all new legal and regulatory requirements which put [the Mining Joint Venture and the contractor in charge of infrastructure] at a disadvantage will not be applied”, unofficial translation.
34 Global Witness interview with Congolese lawyer, 11 June 2008.
35 According to a senior representative from the Ministry of Infrastructure, Public Works and Reconstruction, the Chinese partners established the exact price of each piece of infrastructure. Global Witness interview, Kinshasa, 19 June 2008.
Responsibility. This submission in turn is based on a distillation of these papers and our subsequent discussions, which has led to a proposal by the Chinese to set up a special research group from the Round Table to go into particular issues in greater depth that are relevant to the ongoing EU—China PCA negotiations, a mark I believe of Chinese appreciation of our work hitherto.

1.4 This submission does not attempt to answer each question posed by the sub-committee, but concentrates on mutual perceptions, the nature of and managing the EU—China relationship. The CESC does represent civil society in China, albeit with clear Chinese “characteristics”—probably not fully in line with nor likely to be recognised as such by European standards. In turn much of the detailed information as to the conditions met with by EU owned companies operating in China comes from briefing sessions held separately with members of the EU Chambers of Commerce in China (EUCCC) and other businessmen based in China, including the German Centre in Beijing, with its particular emphasis on SMEs.

1.5 Previously I have given evidence to the Committee both for its Inquiry into European Trade Policy last year and before that following the WTO 2003 Ministerial meeting at Cancún, which I attended (as well as the WTO meeting in Hong Kong two years later) on behalf of the UK Food & Drink Federation, my then employer.

2. Background to EU—China Relationship

2.1 Economic links between the EU and China have grown rapidly over the past 30 years, to the extent that there now exists a very deep level of economic linkage and interdependence between us. The interaction of the world’s largest market and fastest growing economy, China, with the world’s largest single market, the EU (with a population of nearly 500m making it comparable to the US and Russia combined) is of fundamental importance in an increasingly interdependent world. The EU and China now hold highly significant economic and political stakes in each other and therefore in each other’s economic and social wellbeing.

2.2 In a relationship of this depth, issues and disputes are bound to arise. As history shows, all too often disputes arise through lack of understanding, and the EU and China need to work closely together to prevent this from happening wherever possible. Given the very different historical and cultural backgrounds—mirrored in our very different political and administrative systems—between China and the EU, a large number of differences and therefore difficulties are bound to arise, which need to be managed with due appreciation and respect on each side. Indeed it is surprising that there have not been more problems, especially when compared with, for example, the number of major trade disputes between the EU and the US, with systems far more closely aligned.

2.3 Issues which arise in the key areas of trade and EU company investment in China are to my mind symptomatic of the wider issues and differences that arise between the EU and China, not least due to these profound cultural differences and very diverse ideological backgrounds. Indeed the interchange of ideas from such diversity may be beneficial to both parties, but the history of our relationship clearly shows that the West cannot simply impose or expect China to adopt our ideals and standards.

2.3.1 On the contrary there is a clear school of thought that sees China in the long term setting out to remodel global institutions and practices with clear Chinese characteristics, or failing that, ensure that these carry much greater compatibility to the basic Chinese approach to international matters. Most global institutions, from the World Bank to the IMF to the WTO or ILO, were of course not established with any Chinese input, where in general China has only become involved in recent years, yet the balance of financial and economic power is undoubtedly moving eastwards.

2.4 Hitherto, in order to build a lasting relationship between the EU and China, emphasis has inevitably been placed on the bigger, more strategic goals whilst detail, problems and other irritants (even where longstanding) have been overlooked and ignored.

2.4.1 As mutual trade and investment have become more open and sophisticated, and with a mature relationship now firmly established, this must be the time to start to develop a solid framework to tackle such issues and problems and deal with them fairly, on an overall “win-win” basis. No longer brushing these aside should help prevent future crises and other disruption of the main strategic agenda.

3. Corporate Social Responsibility (CSR)

3.1 An early indication of basic cultural differences arose when the Round Table began to discuss Corporate Social Responsibility (CSR). It became clear that to CESC Members CSR was a means whereby companies fulfilled their legal obligations. The idea contained in the European Commission’s statement 36 that CSR is “a concept whereby companies integrate social and environmental concerns in their business operations and

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36 European Commission Communication “Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility”, March 2006
in their interaction with their stakeholders on a voluntary basis” was new to them. The EU Members reiterated the Commission’s point too that CSR “is about enterprises deciding to go beyond minimum legal requirements and obligations stemming from collective agreements in order to address social needs … through CSR, enterprises of all sizes, in cooperation with their stakeholders, can help to reconcile economic, social and environmental ambitions”.

3.2 It was only when many EU based companies reacted and contributed so positively, and without prior Chinese Government direction, to relief work following the Sichuan Earthquake of May, 2008, that the concept began to be understood in Western terms. It remains to be seen how deeply this perception penetrated and how long it will last. There is already a significant CSR achievement by several EU owned companies operating in China, although this must clearly be a long and on-going process. The key remains in finding ways that such principles are also shared by local companies operating up-stream and down-stream in China, but that is outside the scope of this submission.

4. Trade and Investment

4.1 As mentioned, much of these basic cultural and ideological differences are also echoed in issues arising out of trade and investment. Trade and investment is I believe at the core of the EU—China relationship. Trade and investment offer the most effective, deepest and most enduring means of building contact between countries and global regions, from which other contacts and ties will most readily develop and grow. Trade and investment are also the key drivers of European economic growth and of the external dimension of EU competitiveness. As the Commission “Global Europe” Communication (2006) stated, “our prosperity depends on trade”.

4.2 In 2007 according to Commission statistics, EU-China trade reached €300bn—more than double that of 4 years previously, although figures are bound to have retracted since then due to the financial crisis. China is the EU’s second largest trading partner (after the US), with over 10% of its trade, its leading source of imports, and its fourth largest export partner. For China, the EU is its largest trading partner with some 20% of its trade.

4.3 The growth of China—EU trade by more than 70 fold since 1978 has been matched by foreign investment in China. The EU is now one of the main sources of foreign direct investment in China (excluding the Chinese diaspora). More than half of China’s foreign trade is now conducted by multinational companies, many EU owned. China too is a major source of foreign investment—including in the EU, mainly through purchase of significant holdings within existing companies.

4.3.1 Investment in China has enabled many European companies to remain competitive by gaining access to lower cost inputs, thereby helping them to maintain jobs and investment in Europe in key activities such as design and research in face of ever tougher global competition. Partly as a result of such pressures many lower-skilled jobs nevertheless have disappeared from Europe, leading to greater demands for protectionist measures, notably in the south.

4.3.2 In addition there are major issues arising both from currency imbalances and from the trade imbalance (roughly 3:1 in China’s favour). For the latter there are two mitigating factors that need to be taken into account:

— over half of China’s exports come from foreign investment—in the electronics industry this is as high 65%—demonstrating China as the preferred location for production that might otherwise be in OECD countries

— many Chinese exports include components that have previously been imported—for example a Chinese made mobile phone may contain both a battery and a chip that have been imported from elsewhere—usually in Asia. Previously such parts would have been directly exported to the EU: the overall trade picture with east Asia has not radically altered.

4.3.3 Nevertheless, the growing threat of protectionism needs to be guarded against: it remains a major threat to EU-China relations—as to all trade and investment.

4.4 China in turn needs to ensure that its economic growth remains sustainable in the long term, with major implications for how future investment into China is best channelled. This includes opening up internal markets in those parts of China distant from the more prosperous coastal regions. Pump priming low-cost production through state funding has been relatively easy—but it is the sheer size of the Chinese workforce and the need to create annually a large number of new jobs that presents the main longer term challenge for its authorities.
4.5 The basic cultural differences between us readily lead to major EU concerns in the area of trade and investment with China. These problems include

- Standards—where the EU and China appear to operate on different sets of standards but where one international set of rules, especially with regard to public, animal and plant health, is essential (recent examples include lead in toys, melamine in milk and contaminated petfood)
- Market Access obstacles that are faced by EU companies, notably non-tariff barriers and licensing issues, especially variations in different parts of China
- Lack of a Level Playing Field for EU companies operating in China—in particular IPR (an area where the cultural differences are perhaps most stark—see 8 below), differing local interpretations of Chinese legislation, as well as access to government procurement, and local subsidies
- Overall transparency in dealings with Chinese authorities at each level

4.6 In turn, Chinese members of the Round Table listed a number of their main concerns with the relationship with the EU. These included:

- The charge that the EU had lost sight of the strategic partnership due to “forthcoming elections”: too many in the EU just see China as a major competitor
- The accusation that the EU uses double standards when dealing with China, especially discriminating between dealing with companies based on EU investment in China and with local companies, with the comment that China gets blamed for far too many things based on “pride and prejudice”, whilst in turn real Chinese concerns are overlooked/”neglected”
- The accusation that the EU is over-aggressive in launching “anti-dumping” measures against China through the WTO (India and the US lead here!); here highlighting steel and leather shoes, adding that such anti-dumping measures often followed a failure by EU companies to acquire Chinese interests in these areas
- The failure by the EU to grant China Market Economy Status/Treatment (MES/MET), where the EU is accused of double standards, adding that “enterprises invested by EU in China were more likely offered MET while China’s enterprises were refused based on minor issues”, and that this was based on “political and trade protectionist considerations” and used as a “delaying strategy”: China’s progress is being ignored, and Chinese enterprises “suffer unfairness”
- The EU arms embargo on and its “prohibition” of high-tech products exports to China was also a key contradiction of a strategic partnership with China, and was based on cold war ideology: to link all this now with IPR related issues was again harmful to further bilateral economic cooperation
- Other issues raised included poultry exports to the EU (where Brazil and Thailand were favoured at China’s expense) and restrictions/discrimination in allowing “non-EU banks” to open branches in Europe—the latter varying from one EU member state to another—“China often does not know with whom to negotiate, the EU or the Member States”. IPR in exhibitions, exports of traditional Chinese medicines, Sovereign Wealth Funds, “etc”, were added here, but without details.

4.7 Standards remain a key issue. The recent crisis over milk contamination in China is an example of the type of crisis experienced by the EU in recent years involving human, animal or plant health issues (eg dioxins, BSE, FMD, Para Red). Ever more advanced technology has led to greater awareness of such issues, also seen over lead in paint on toys (through the use of chemicals banned in the EU) and pet-food. All this has led to the very high standards now rightly demanded by European consumers.

4.7.1 China in turn imposes complicated and costly labelling and packaging requirements for imported goods, where regulatory overlap and where inconsistent implementation by customs can cause major problems and lead to unnecessary technical barriers to trade.

4.7.2 It is impossible to prevent or anticipate such crises, but trust needs to be built in each other’s ability to deal with such problems without resorting to unilateral action. Mutual trust is essential: unilateralism in such issues should be a matter of last resort. Harmonisation of standards offers the opportunity to increase trade whilst ensuring both safety and quality: it must be in the interests of both China and the EU to participate in the international standard setting bodies as far as possible. The initial agreement between the EU and Chinese standards agencies is thus to be welcomed.
5. **High-Tech Ban, Market Economy Status (MES) and Related Issues**

5.1 The key issues listed above include China’s concern at the EU ban on high-tech exports and its decision not to grant China Market Economy Status (MES), which are in fact very closely related to EU concerns arising out of transparency and a level playing field for foreign investors in China. They must be tackled jointly and in balance in order to resolve them.

5.2 There would clearly seem to be a strong and direct link between such EU concerns arising from problems faced by EU (and other foreign) businesses in China, notably over Intellectual Property Rights (IPR) and insufficient patent protection, and the EU’s clear reluctance in turn to export high-tech and other sensitive products to China, not least to avoid meeting such risks in those areas.

5.3 MES in turn sounds like an important judgement on the sophistication of the Chinese economy, but it is a highly technical issue related to anti-dumping cases arising from China’s WTO accession agreement. China agreed to be considered a non-market economy until 2016 as a result of issues arising from its economy that make it impossible to ascertain the true price of goods, critical for anti-dumping investigations. The EU has welcomed the real progress China has made, notably in new accountancy and bankruptcy legislation, but its position has remained that China has not yet fulfilled the criteria needed and that any decision to give China MES in the near future must be made on economic, not political, grounds. However, it is clearly a highly political issue (Russia has already been granted MES) and the HMG line is that it should be used as a negotiating tool, a view it is increasingly hard to dispute.

5.3.1 Nevertheless, increased openness, transparency and consistent, even-handed treatment of foreign investment by China, as set out below, would bring early benefit to China and help resolve these issues.

6. **Transparency and a Level Playing Field for Foreign Investors in China**

6.1 Both China and the EU look for the rule of law, including for Intellectual Property Rights (IPR) so outwardly there do not seem to be major differences. Rather it would appear that many of the problems for European businesses operating within China occur beyond that point, when recognisable similarities start to disappear.

6.1.1 According to the EUCCC, the lack of transparency, even implementation and enforcement of new laws across China present fundamental problems to European companies investing there. After a new law is passed through the Chinese legislative processes problems they state start to arise when this is not followed by any clear, centralised, readily accessible or uniform information or set of guidelines as to how the new law is to be implemented; what information that may become available may also only arrive through obscure channels.

6.1.2 In many cases there will be no regular or even implementation or enforcement across China as the country is subject to local variations which are then perceived as inconsistencies. In some cases implementation and enforcement may vary within the same province or even within the same district or city. Other problems arise when more than one government Ministry is involved, as each Ministry will pursue its separate implementation policy and these may not converge to any great degree. New regulations may appear at very short notice, or even retrospectively—and may likewise be published through obscure websites.

6.1.3 Draft implementation rules can appear unofficially, or on obscure websites, and definitions can be unclear or inconsistent. For example, technical import and export regulations may aim to cover what is allowable, restricted or even forbidden in these areas, but nowhere are basic concepts (such as the meaning of “technical”) clearly or consistently defined.

6.2 According to the EUCCC, problems faced by EU companies in China include:

- Not all laws are published
- Time to adapt to incoming legislation is not always sufficient—and laws can be implemented retrospectively
- Foreign law firms can only be represented in court by Chinese law firms
- The courts system is not consistently open to foreigners
- There is no right of appeal or appeals mechanism
- Difficulties in gaining access to Government Procurement opportunities on an equal or comparable basis to local firms: here early Chinese accession to the WTO GP Agreement would be most welcome

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37 This includes the ban on militarily sensitive products, an issue only for the highest political levels and outside the scope of the Round Table

38 The EU Chambers of Commerce in China
7. **PARTICULAR PROBLEMS FACED BY SMALL AND MEDIUM SIZED COMPANIES (SMEs)**

7.1 The problems listed above are often exacerbated for SMEs investing in China. Many of these are highly innovative, form a notable proportion of EU based investment in China, and bring with them specialities and opportunities from which major growth can follow, not least the development of Chinese SMEs. With necessarily limited resources and small numbers of staff such investment is comparatively complex and risky for such companies, especially for those without adequate support resources (in some cases provided by European industry bodies). Problems of particular concern for SMEs in China, in addition to those wider issues already listed above, include:

- Lack of a safe and predictable operating climate exacerbated by insufficient transparency in legislation and its operation, inadequate enforcement and insufficient time to adapt to new legislation
- Enforcement of taxation rules, and often lack of adequate notification
- IPR protection—not least as small companies do not have sufficient means or muscle to pursue successful enforcement
- Randomness of relevant websites—critical information can all too easily be missed—together with difficulties in gaining authoritative translation of key legislation/regulation, and the need to interact with so many local institutions
- Hiring and retention of quality local, Chinese staff (foreign experts are costly and may defeat the original reasons for investing in China).

8. **IPR (INTELLECTUAL PROPERTY RIGHTS)**

8.1 Such problems as those mentioned above can be intensified when it comes to issues connected with Intellectual Property Rights.

8.2 As previously mentioned, there is a strong and direct connection between the EU’s clear reluctance in turn to export high-tech and other sensitive products to China and EU concerns over the wide ranging problems faced in China by businesses over Intellectual Property Rights (IPR). This is a key area where the EU and China need a high-level, in depth commitment to examine these issues closely together.

8.2.1 At the Round Table meeting, the Chinese rapporteur stressed the need for China to encourage its own national innovation and development, as it was China’s aim to become one of the top 20 innovative countries by 2020: China took IPR and its protection very seriously. He pointed to the success of China’s Customs in stopping the export of counterfeit goods.

8.3 Welcome progress has been made by China in setting up an IP regime, dating from 1982 (trademarks) and 1983 (patents), revised in 1993, and again in 2001/02 following China’s WTO accession. A third revision of IP legislation is now in hand.

8.4 The major issues and difficulties over IPR faced by EU businesses in China occur below the surface, notably through the absence of effective and consistent implementation and enforcement of IPR legislation across China, a problem due to the lack of coherence between central, provincial, district and local authorities, and where courts’ judgements may not always be actually implemented.

8.5 The EUCCC also state that problems occur at the early stage of application for IP rights, in particular patents. Understandably Chinese authorities want to stimulate local innovation and development, but this is perceived in turn by many Chinese companies to mean that they should file for the largest possible number of patents, regardless of the level of innovation that they are to protect. This is particularly so for the Utility Models (a sort of second rate patent, which requires little technological innovation, and is relatively easy, cheap and fast to acquire), where Chinese companies file hundreds of applications that, for a large part, are simply based on existing (mostly foreign) technology.

8.5.1 Foreign technology may become available to the Chinese companies through perfectly legal means, such as a technology transfer contract. However, the EUCCC say that technology can also be spread to Chinese companies, competitors of a European company, against the will of such European company. Indeed, it happens that, when going through compulsory certification of their equipment or products, companies may then have to supply detailed and sensitive information—often going well beyond what is strictly relevant (e.g. details of the overall chemical process as opposed that part for which the patent is actually being sought)—to the Panel in charge of the certification, which may often include a representative from a local competitor. The overall lack of adequate protection for foreign companies of confidential or commercially sensitive information in these circumstances is a major problem, despite high level assurances to the contrary by the Chinese authorities.
8.6 Other major areas of concern include the enforcement of patents (where political control can be a factor bringing added levels of uncertainty), the criminal threshold (the level of “seriousness” beyond which an act of infringement is considered as a crime) which is perceived to be set far too high, as well as the fact that IP owners are not considered as being a fully concerned party. Hence, their legal right to have access to information and actively argue their case is very limited, if not non-existent.

8.6.1 Penalties for IP infringement are seen as too low to be a deterrent. Tools against infringement involving the Internet are even weaker, where more than one authority can be involved, whilst the burden of proof is set at an extremely high level.

8.7 The Customs authorities, though, are often mentioned as well trained, dedicated and efficient. Their activity is applied to both inward and outward flow of merchandise, which is of great benefit. However, their investigation powers are limited. They handle smuggling infringement themselves, with a special police force, but such police force has no jurisdiction over IPR matters.

8.8 There is obviously strong pressure—both political and economic—to transfer R&D to China. This has proved successful so far, but there are risks the EUCCC say. Current regulations categorise technologies in three categories:—prohibited (mostly military) restricted (where various administrative approvals are required) and allowed, but which must be registered—and that can be a very lengthy and complicated process, each local administration having its own interpretation of the regulations. Foreign enterprises are not really aware of the risks that they are taking when they “repatriate” the results of their research done in China, if they do not follow these administrative procedures. On the other hand, these procedures are so burdensome—not to mention the risk of leakage—that there is often no choice.

8.9 Joint action to deal with these problems needs to be taken at the highest levels, backed by effective implementation and enforcement. This is a key area where the rules “with Chinese characteristics” need to be as closely matched as possible with those worldwide. None of the problems listed above are insurmountable given sufficient will and commitment by both the EU and China. The challenge is to be able to develop a solid framework to tackle and deal with them fairly on a win-win basis, whilst maintaining the overall strategic goals of our relationship.

5 May 2009

Memorandum by Bill Rammell MP, Minister of State, Foreign and Commonwealth Office

MANAGING THE EU-CHINA RELATIONSHIP

1. Does the European Union have an overarching strategy on China; and to what extent have the Commission, the Council and the Member States been able to agree on common policies towards China?

The EU-China relationship is currently governed by the 1985 Agreement on Trade and Economic Cooperation between the European Economic Community and the People’s Republic of China (the 1985 Agreement). The Guidelines on the EU’s Foreign and Security Policy in East Asia (also known as the East Asia Policy Guidelines)39 adopted during the 2005 UK Presidency added a security policy dimension to the EU’s relations in East Asia. These guidelines have since been declassified and shared with third countries. They demonstrate that the EU has an interest in fostering China’s emergence as a responsible global player.

The Commission’s China Country Strategy Paper 2007–2013 provides an overarching direction for relations with China. Negotiations began in 2007 to upgrade the 1985 Agreement to a Partnership and Co-operation Agreement to better reflect the scope of relations today and encompass cooperation across the political, trade and economic spectrum. The launch of an annual High-Level EU/China Economic and Trade Dialogue Mechanism in April 2008 gives the EU a further tool to develop the EU-China relationship.

December 2006 Council Conclusions endorsed the recommendations made in the 2006 Commission Communication “EU-China: Closer Partners, Growing Responsibilities” and the Commission working paper “Competition and Partnership”, stating that “they are an important contribution to the continuing development of an integrated and coherent EU policy towards China . . . constituting a comprehensive review and restatement of EU policy towards China.” The Council’s endorsement indicates agreement between the Commission, Council and Member States on a common approach towards China.

DEMOCRACY, HUMAN RIGHTS AND THE RULE OF LAW

2. How successful has the EU been in encouraging Chinese participation in international conventions as the International Convention on Civil Political Rights; and the UN Human Rights Council?

On the question of the International Covenant on Civil and Political Rights, the EU reported in its Annual Report on Human Rights 2008 that there had been no progress on this area of concern. The EU continues to press for a detailed timetable for ratification and for reform of the Chinese legal system to ensure compliance with the Covenant. The National Human Rights Action Plan of China (2009–2010) does mention work towards ratification in general terms. China reported at the EU-China Human Rights dialogue 25–26 October 2008 that it had been actively preparing for 10 years for the ratification process, and that since 2003 there had been a series of reforms of the judicial and legislative system. However, in reality the situation is complicated by incompatibilities between Chinese legislation and the Covenant.

On the UN Human Rights Council (UNHRC), the EU seeks to work with all members of the Council to promote and protect the victims of human rights violations wherever they occur. China is currently a member of the Council and is standing for re-election in May. We support their engagement at the UNHRC and believe it is important in helping to develop cross-regional understanding of how to approach key human rights challenges. The EU will continue to work with the Chinese and look to gain their support in responding to these challenges effectively. China has played a role in the Universal Periodic Review (UPR) process at the UNHRC by asking constructive questions in other Member States’ reviews. The EU has encouraged all States to prepare rigorously for their UPR, engage independent civil society in every stage of the process, and adopt an open, self-critical approach. We were satisfied that the Chinese approached their review in February seriously but were disappointed that all recommendations proposed by EU Member States were rejected.

3. When he gave evidence to the Committee, Mr Lillie mentioned that institutional reform was one of the areas where the human rights dialogue with China was fruitful; what are the main examples of concrete progress made in this area?

Over recent years the European Commission, which takes part in the Human Rights Dialogue as a member of the EU Troika, has used its co-operation programme to promote human rights in China. For instance, the European Commission has supported Human Rights Seminars for European and Chinese experts to exchange views and experiences. Other activities carried out in recent years include the EU-China Legal and Judicial Co-operation Programme, by far the most important foreign assistance project of its kind in China. This has given substantial assistance to strengthen the rule of law in China. A further example of constructive collaboration has focused on developing civil rights awareness at grass roots level through an EU-China Village Governance Programme in Yunnan province. Currently, the European Commission also implements an initiative on Governance for Equitable Development with the UNDP. This project aims at strengthening the rule of law and the participation of civil society in China. The programme will promote participatory and inclusive approaches to selected legislative, judicial and governmental processes.

4. To what extent do the differing legal cultures and histories of the Europeans on the one hand, and the Chinese on the other, influence their approach to the question of human rights, the rule of law and democracy? On what points do European and Chinese views converge and diverge most?

Respect for human rights and the rule of law are founding principles of the European Union. Fundamental rights, as expressed in the European Convention on Human Rights (ECHR), as well as those derived from constitutional traditions common to the Member States, form general principles of Community law which underpin all EU action. All 27 EU Member States are bound by the ECHR and adherence to the Convention is a condition of EU membership. Countries seeking to join the EU are required to demonstrate stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

The Chinese government has made progress in establishing effective legal and judicial systems and has acceded to a number of international human rights conventions: it has signed and ratified the International Covenant on Social, Cultural and Economic Rights (ICSCER) and signed the International Covenant on Civil and Political Rights (ICCPR). However, China continues to prioritise economic rights ahead of political and civil rights, often restricting the latter in the name of protecting progress during China’s economic reforms. China also places collective rights and interests on at least an equal footing as individual rights, often qualifying the application of the latter in the interests of the state. While the authorities continue to stress the importance of government and Party officials operating within the constraints of Chinese legislation, the judicial system is under the control of the Chinese Communist Party. This approach impacts on judicial independence and the rule of law.
Whilst China has lifted more people out of poverty than any other country over the last 30 years, there are still many civil and political rights which remain of serious concern, including the death penalty, freedom of expression and a commitment to representative democracy in a pluralist system.

5. What is China’s policy on the rule of law and democracy in Hong Kong?

The Chinese government undertook that the Hong Kong Special Administrative Region (HKSAR) would enjoy a high degree of autonomy, except in foreign and defence affairs, and that the continuation of Hong Kong’s social and economic systems, lifestyles, rights and freedoms would be guaranteed. This is enshrined in the Sino-Joint Declaration on Hong Kong, an international treaty to which the UK is a party. We consider that the “One Country, Two Systems” principle of the Joint Declaration has worked well in practice and that the rights and freedoms guaranteed in the Joint Declaration have been, on the whole, respected.

However, in certain areas, notably on constitutional development, we have expressed our concern when we have felt that progress has not been rapid enough. In December 2007, for example, the Foreign Secretary expressed disappointment that the National People’s Congress ruled out universal suffrage in Hong Kong in 2012 despite this being the wish of the majority of Hong Kong’s people. We have since welcomed a clear commitment from the Hong Kong authorities that 2012’s elections will be progressively more democratic in preparation for the introduction of universal suffrage in 2017 and 2020.

FOREIGN, SECURITY AND DEFENCE POLICY

6. What is the kind of cooperation being conducted at the moment between the EU and China on disarmament and non-proliferation? What discussion do the EU and China have on these questions in UN forums and other bodies such as the Conference on Disarmament, the Nuclear Suppliers Group, the Wassenaar regime on dual-use goods and the Ballistic Missile Technology Control regime?

The EU has been working closely with China over the past three years, under the auspices of the EU Export Control Project. The project mainly focuses on capacity building within the Chinese export control authorities, and has included work with Chinese licensing and customs officials and also with Chinese industry. The main goal of the project is to bring China’s national export control legislation and practices in line with international standards, including incorporating control lists from export control regimes such as the Nuclear Suppliers Group (NSG), the Missile Technology Control Regime (MTCR), the Australia Group (AG) and the Wassenaar Arrangement (WA).

The first EU Working Groups on Global Disarmament and Arms Control and Non-Proliferation Troika meeting to take place in Beijing was held on 20 March. In this meeting China showed an interest in establishing a specific dialogue with the EU on Small Arms and Light Weapons Dialogue (SALW) issues, as well as the UN Register of Conventional Arms. China is ready to listen to the EU on assistance to third countries as it has little experience on the subject.

The Presidency noted that the EU is currently focusing its efforts on the air trafficking of SALW and would be happy to discuss these issues further with China at a later date.

EU Member States regularly discuss issues bilaterally with China at the Conference on Disarmament. In particular, China and the UK, as recognised nuclear weapon states, regularly discuss disarmament issues in Geneva. China is not a member of the WA, however on 12–13 November 2008 the WA organised an Outreach event in Beijing. The WA delegation included experts from the UK, who met with Chinese counterparts.

7. What is the kind of cooperation being conducted at present between the EU and China on counter-terrorism, and what points would the UK and the EU like to include in the EU-China Partnership and Cooperation Agreement on that topic?

There has been little concrete activity to date between the EU and China on counter-terrorism. The draft Partnership and Co-operation Agreement includes reference to the possibility of a consultation mechanism on counter terrorism between the EU and China. The Chinese have approached the European Commission to initiate a formal EU-China annual counter-terrorism dialogue. Member States decided to pursue informal exploratory talks to clarify what the Chinese want from a counter-terrorism relationship with the EU.
8. To what extent does the technical and scientific cooperation between Europe and China assist in China’s modernisation in areas such as defence and space; and is the EU confident that it has adequate mechanisms in place for oversight and regulation of these interactions?

The EU Code of Conduct on Arms Exports regulates defence exports from the EU to China. When fully implemented, the legally binding Council Common Position Defining Common Rules Governing the Control of Exports of Military Technology and Equipment (The Common Position) will further build on this framework.

Some EU Member States have working relations with China on space issues. For example, the UK, through bi-lateral links between UK and China and through UK participation in European Space Agency-China programmes, has a number of joint space education initiatives. These include exchange of students, exchange of scientists and engineers, provision by the UK of space training courses for Chinese scientists, engineers and government space officials, and invited lectures.

The UK has sold a small satellite to China through Surrey Satellites Technology Limited. This is operating as part of a global disaster management constellation. Discussions on the sale of a second satellite have begun. The UK would welcome the Commission setting out how they might oversee interaction with China on space issues.

9. What is the Government’s estimate of Chinese military expenditure and rate of increase in expenditure? Should the EU be concerned about this? Will China soon have armed forces and technological capability to challenge US dominance in the Asia-Pacific region, as well as in space?

China announced in March 2009 that it will increase its defence spending in 2009 by nearly 15% to 480.6 billion Yuan (US$ 70 billion), the 19th double-digit percentage increase in the past two decades. The White Paper “China’s National Defense in 2008” states that these increases fund (1) improving pay and conditions for servicemen; (2) compensating for inflation; (3) “pushing forward the Revolution in Military Affairs” (ie procuring modern equipment). Due to differing accounting methods it is difficult to compare international defence expenditure. Many estimate Chinese spend to be higher than publicly stated figures, with the 2009 US Department of Defense Annual Report to Congress “Military Power of the PRC 2009”, putting the actual figure at between US$105 billion and US$150 billion for 2008 (against a declared figure of about US$60 billion).

As China’s defence spending increases, it is in the interests of all EU member states to encourage China to increase transparency.

We do not make public estimates of the comparative strengths of different countries’ armed forces.

10. What is the total value and categories of arms exported from the UK and other EU member states to China, either directly or indirectly?

Figures on the total value (in Euros) and categories of arms exported from the UK and other EU Member States are shown below. These figures are taken from the 8th, 9th and 10th European Council Annual Reports. According to Operative Provision 8 of the European Union Code of Conduct on Arms Exports covering the periods 2005–07, respectively. As stated in each of the annual reports, the statistics are compiled differently by each Member State and therefore not all countries have been able to provide the same information. The value of arms exports shown for each year is as follows please see the attached relevant annex Q10 for breakdown of individual member state exports:


11. Will the newly adopted Common Position defining Common Rules Governing the Control of Exports and Military Technology and Equipment be more effective that the Code of Conduct it replaced in limiting arms exports to China?

When fully implemented the legally binding Common Position will replace and build on the previous politically binding EU Code of Conduct on Arms Exports adopted by the Council in 1998. The key changes introduced by the Common Position are: updated references to international agreements; clear reference to International Humanitarian Law in Criterion Two (this is already included in UK legislation but not covered in all other EU Member States legislation); language on respect for re-export provisions; explicit coverage of the risk of diversion to terrorists and of the risk of reverse engineering or unintended technology transfer.

The Common Position represents a significant advance in the minimum standards and processes applied by all EU member States. The new Common Position is legally binding under of the Treaty of European Union. However, the licensing of defence exports remains at the national discretion of each Member State.
The previous EU Code of Conduct on Arms Exports covered only the physical export of goods, whereas the new Common Position extends this coverage to include; licences for trafficking and brokering, and for the intangible transfer of technology. The secondary legislation implemented under the UK’s Export Control Act 2002 means that UK practice is already in line with these and other changes.

The adoption of the Common Position will not materially affect the UK licensing authorities’ assessment of exports to China. Not only will the applications for licences be subject to assessment against the Common Position, but the EU Arms embargo also remains in place. The scope of the embargo is limited to goods that might be used by the Chinese authorities for internal repression.

12. What are the criteria that the UK believes the EU should apply to decide whether it should lift its arms embargo on China? Would the lifting of the embargo improve relations with China? Should the EU expect something in return?

The EU arms embargo on China has been under review since 2003. The December 2004 European Council Presidency Conclusions set out the EU’s common approach on resolution of the embargo issue:

“...the European Council reaffirmed the political will to continue to work towards lifting the arms embargo. It invited the next Presidency to finalise the well-advanced work in order to allow for a decision. It underlined that the result of any decision should not be an increase of arms exports from EU Member States to China, neither in quantitative nor qualitative terms. In this regard the European Council recalled the importance of the criteria of the Code of Conduct on arms exports, in particular criteria regarding human rights, stability and security in the region and the national security of friendly and allied countries. The European Council also stressed the importance in this context of the early adoption of the revised Code of Conduct and the instrument on measures pertaining to arms exports to post-embargo countries (“Toolbox”).”

The Chinese would clearly like to see the embargo lifted, but sensitivities remain, not only in Europe and with China, but with other interested parties, notably the United States and Japan. The broad consensus across the EU is that the time is not yet right to lift the embargo, but that it should rightly remain under review.

13. How do you expect the foreign policy of the new administration in the United States to impact on EU-China relations?

A strong US-China relationship is crucial for the world economy and for global peace and security. There has been continuity of US policy towards China throughout successive administrations, as well as the development of increasingly effective mechanisms for dialogue and consultation. Secretary of State Clinton’s visit to Beijing and a bilateral between Presidents Obama and Hu in London, indicate that the US-China relationship is in good health. Significant announcements by the new US administration, for instance on climate change and counter-proliferation, will have implications for China and the EU in the run-up to Copenhagen and the Non-Proliferation Treaty Review in 2010. The EU remains China’s largest trading partner, as well a key partner for China on climate change cooperation.

14. To what extent does China see the EU as a counter-balance to the United States; or as a potential partner in building a multipolar world?

China publicly advocates moving to a multipolar world and strengthening multilateralism, primarily through the UN. China engages bilaterally with Member and with the EU through its mission in Brussels across a range of issues. Following the postponement of the 11th annual EU-China Summit in December 2008, the February 2009 visit by Premier Wen Jiabao to several EU capitals and Brussels was described by China as a “confidence-building” trip to demonstrate that China remained committed to strengthening relations with the EU.

15. What is the EU’s policy on cross-strait relations between China and Taiwan, and how successful has it been?

The EU’s policy on cross-Strait relations between China and Taiwan is laid out on page 8 of the Guidelines on the EU’s Foreign and Security Policy in East Asia.40

The EU has publicly welcomed recent progress in cross-Strait relations. We hope that the Chinese Government and Ma Ying-Jeou’s administration will continue to engage in direct dialogue to resolve differences and strengthen cross-Strait stability, with a view to finding a peaceful solution to the Taiwan question, acceptable to the people of both sides of the Strait.

EU policy has been to encourage dialogue and coordinate measures to encourage stability. Since the May 08 election of Ma Ying-Jeou dialogue between the Chinese mainland and Taiwan has increased substantially, with progress so far including the launching of direct flights and shipping links between Taiwan and the mainland.

16. What is the role of the ASEM process in managing EU-China relations?

ASEM brings together 43 States across Europe and Asia in an informal process of dialogue and cooperation. Bilateral relations between two ASEM parties (in this case the EU and China) are not raised in formal meetings of the ASEM process. However, the meetings can provide opportunities for the EU to convene a troika meeting with China in the margins. China played an important role as the host of the most recent ASEM Summit in October 2008, and in the interest of consensus allowed firm statements on issues such as Burma, Iran and Afghanistan.

17. To what extent do China and the EU have similar approaches to global and regional governance, including the reform of the United Nations and the International Financial Institutions, as well as governance of the global trading system? Do the EU and China cooperate in the framework of the G20?

As a country with a high and increasing degree of influence on the world stage China has much to gain from a reformed global system. China’s primary international objectives are to maintain and open global trading system and secure the resources to maintain domestic growth. Allied to this is the desire to increase its influence in global governance, strengthen relationships with major powers and neighbours, and to ensure regional security.

At the Spring European Council on 19–20 March 2009, European leaders made a series of concrete proposals in advance of the London Summit supporting a multilateral initiative on trade finance and the need to reform the governance of international financial institutions. They also agreed on the need for a very substantial increase in the resources of the International Monetary Fund (IMF), including a new loan of 75 billion Euros from the EU to make sure the IMF is able support the world’s most fragile economies.

China is actively engaged in the G20. It believes it is the right forum for tackling the current economic crisis and worked closely with the UK to ensure the London Summit was a success. China’s priorities for the international financial institutions are more balanced surveillance by the IMF, particularly of the world’s advanced economies; a stronger early-warning function for the IMF; and governance reform to ensure that voting shares in the IMF and World Bank reflect the realities of the modern global economy, and that senior management positions are filled in a transparent way without nationality bias. China joined the expanded Financial Stability Forum (FSF, which will become the Financial Stability Board) shortly before the London Summit.

EU Leaders also supported improved IMF surveillance instruments in order to strengthen its key role in crisis prevention and governance reform to ensure that voting shares in the IMF more adequately reflect relative economic weights in the world economy. The EU also welcomed the expansion and institutional reinforcement of the FSF.

China joined the World Trade Organisation in 2001 and shares the EU view on its importance for an effective multilateral rules based global trading system. China also shares the EU’s desire for an early conclusion of the Doha Development Agenda. China is one of five countries with which OECD has established an “enhanced engagement” relationship.

18. To what extent is China trying to build up its influence in Latin America and the Middle East? To what extent do Chinese companies and investment funds play a part in this strategy?

China’s economic growth is highly dependent upon access to foreign energy sources. China has been a net importer of oil since 1993, including from the Middle East and Latin America. Given the relatively short period that China has been a net importer, it does not have the historical strategic partnership with traditional exporters that other long term importers have established.

China has made only moderate investment into the Middle East region. However, due to growing Chinese oil consumption, Arab leaders are beginning to recognise an increasing interdependence with China. The China-Arab Cooperation Forum, established in 2004, aims to forge closer trade links and strengthening cooperation on international affairs.

Over the last decade China has invested heavily in the Latin American energy sector, largely through the acquisition of direct stakes in energy companies (such as a $1.42 billion stake in Ecuadorian oil and pipelines operations). Allied to this are significant Chinese investments in energy infrastructure, such as $400 million in Venezuelan railway and refinery infrastructure, $8 billion in Argentinean railways and $239 million for the construction of a natural gas pipeline across Brazil. China published its first Policy Paper on Latin America and the Caribbean in November 2008.
19. Are reports of China conducting cyber warfare and hacking attacks against public and private targets in EU countries credible?

We are aware of such reports. We do not comment on intelligence matters. However, we take protection of our critical national infrastructure extremely seriously. The National Security Secretariat in the Cabinet Office is leading a cross-departmental project to develop the UK’s approach to cyber security. We will continue to engage with stakeholders both in industry and internationally, including within the EU, as this work progresses.

**Intellectual Property**

20. To what extent is the protection of intellectual property an issue in EU-China relations?

Protection of intellectual property (IP) remains one of the major concerns for EU businesses active in China, and therefore is a continuing issue for EU-China relations. The EU regularly raises IP issues in high-level dialogues with the Chinese government.

In 2006, the EU identified that IP infringements are expected to cause the loss of more potential revenue than any other single non-tariff barrier. It continues to support enforcement capacity building in China. Recently the EU established the IPR2 project to work with the Chinese Government to improve the effectiveness of their IP enforcement.

The Chinese Government has done much to improve intellectual property rights management, including through development and publication of a National Intellectual Property Strategy to improve awareness, utilisation, and protection of IP. These developments have led to increasing confidence in IP protection in China. However, enforcement remains a concern.

Does China engage in industrial espionage?

We do not comment on intelligence matters.

**The EU, China and Africa**

21. What is the Chinese view of promoting security and development in Africa; and how far does this approach correspond to that promoted by the UK and the EU? What scope is there for greater cooperation between Africa, China and the EU in questions of security, stability and the rule of law in Africa?

The 2006 white paper “China’s Africa Policy” stated that its policy was to promote peace and stability, development and common prosperity. Key stated principles are non-interference in domestic affairs, mutual trust, respect of sovereignty, political equality and mutual benefits. China has been a strong supporter of the MDGs and in particular in pushing developed countries to meet the commitments they have made in bodies such as the G8 to increase resources for international development.

China does not engage significantly in donor harmonisation in Africa, nor link its own conditionality with those of other donors. China does not publish detailed information on its aid. Chinese investment in Africa does not come with good governance conditionality but with a range of conditions related to how loans will be repaid and concessions that China will be granted as a result of the investments. This is a different approach to most (although not all) of the OECD. China does not regard a dialogue on rule of law and governance as being appropriate within its partnerships with African countries for reasons of political equality and non-interference.

However, China’s position with regards to working with others to promote development in Africa has been evolving. In recent years China’s EXIM Bank has signed Memoranda of Understanding with the World Bank, the Asia and the African Development Banks. In 2007 China also became a donor for the first time to the 15th IDA replenishment. Its $30 million contribution was relatively modest (the UK provided £2.1 billion), but it showed China’s acceptance of its global role in dealing with international poverty reduction. China also contributed $120 million to the 2008 replenishment of the African Development Fund and shown interest in working with the African Union.

Despite the differences in approaches to development, the EU has identified strong shared interests in promoting development in Africa. At the 10th China-EU Summit held in November 2007, the EU and China strongly welcomed the idea of trilateral cooperation which was later endorsed in a communication from the European Commission. There is huge scope for cooperation which could bring together strengths from both

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42 http://www.china-iprhelpdesk.eu/media/docs/Toch_transfer–English.pdf
sides, for example China’s expertise in agriculture and infrastructure and the EU’s strengths on institutional and organisational building.

The EU recognises the importance of China’s contributions to infrastructure, initiatives on health and contributions to peacekeeping as well as the benefits arising from the growth in trade and investment between Africa and China. But there are also concerns. These mostly relate to transparency and an unwillingness of China to share information with other international partners. The EU has a strong desire for China to work closely with the EU and other international partners so that synergies can be explored.

The UK continues to seek ways to increase dialogue and engagement, especially on the ground, with the Chinese on African issues, including areas where our views differ, ie security, stability and the rule of law. The UK similarly supports the EU in these aims, notably on the recent EU Commission Communication on trilateral co-operation, which the UK’s own approach and information sharing helped inform.

The EU has been building political support for trilateral cooperation, which offers the potential to develop synergies between China’s support to Africa and that from the EU. Its Commissioners for Development and External Relations have included this as a key agenda item in their discussions with counterparts in China. This has yielded results. During Premier Wen’s visit to Europe and Foreign Minister Yang’s visit to Portugal in January 2008 both issued positive statements about trilateral cooperation.

The EU has sought the endorsement of the African Union to the “trialogue”. A Committee from the AU is now considering a formal response. In the meantime EU Delegations in African capitals have been exploring options for cooperation with African governments and Chinese embassies. There might be options for cooperation with the EU and possibly the UK stemming out of China’s interest in working with the Infrastructure Consortium for Africa.

The UK continues to support this being a priority for the EU. On a practical level, trilateral cooperation offers the potential for China and the EU to learn from each other. It can help build trust and mutual respect. Importantly it can help avoid political competition for supporting development in Africa.

22. **To what extent is China’s relationship with the leaders of certain African countries, such as Sudan and Zimbabwe, an obstacle to the EU’s efforts to promote good governance, the rule of law, democracy and human rights?**

China regards its overall relationship with Africa and its leaders as important. For some years, their leaders have begun their annual programme of overseas visits in Africa.

The human rights situation in Zimbabwe deteriorated in 2008 when elections were characterised by intense violence, torture, abductions and murder perpetrated by agents of the state. The EU was united in its condemnation of Mugabe’s campaign of violence and disregard for the democratic process. China, along with Russia, vetoed the UN Security Council resolution on Zimbabwe in July 2008. However, it welcomed the Agreement of 15 September 2008: Highlighting Incidences of Non-Compliance. EU measures on Zimbabwe, including a travel ban and assets freeze, were expanded in 2008, and further expanded and renewed in 2009. The EU has also demarched the Zimbabwean government, including on the abduction of Jestina Mukoko, and arbitrary farm seizures. Additionally, the EU has highlighted the deteriorating humanitarian situation, and in 2008 provided £29 million in humanitarian and food assistance with a similar amount set for 2009.

China became strategically important to Sudan from the mid-1990s, when Sudan was largely isolated from the international community. This presented an opportunity for China in the petroleum sector and Sudan became the home to China’s first overseas oil refinery and was used as a model for Chinese energy engagement in Africa. The conflict in Darfur has been the main complicating factor in China’s bilateral relationship with Sudan. Chinese Special Representative on Darfur, Liu Guijin has publicly stated the need for the Government of Sudan to do more on Darfur. The Chinese can play a moderating role with the Government of Sudan, for example in persuading them to accept the joint AU-UN peacekeeping force.

China has a clear interest in a stable Sudan and we continue to try to engage with China to encourage it to exert influence over the Sudanese and to recognise that supporting regimes with poor political and economic governance damages long term economic prospects for all of Africa’s partners and undermines Africa’s own agenda for sustainable development.

23. **What is the extent of China’s arms exports to African countries, and is this a matter of concern to the UK and the EU?**

Appendix IV to the white paper “China’s National Defense in 2008” lists arms sales in 2007 to the following African States: Tanzania, Kenya, Chad, Rwanda and Ghana. However, this data is not—and does not claim to be—comprehensive. China has publicly stated that it participates in the normal arms trade and does not breach UN sanctions. We believe the Chinese have supplied arms to a number of African countries which we
consider to be “countries of concern” (as identified in the FCO Annual Report on Human Rights 2008), including both Sudan and Zimbabwe. Although these exports may not be in breach of UN sanctions, they have the potential to destabilise already fragile situations. We consistently encourage the Chinese Government to meet international norms on arms licensing, including not allowing arms sales that may undermine the stability of other countries or regions.

**Energy and Extractive Industries**

24. **What is the EU’s policy on cooperation with China on energy? How has China’s growing demand for energy and raw materials shaped its foreign policy? To what extent is there scope for greater cooperation between the two sides on security of supply and good practice/transparency in the extractive industries sector?**

The commitment of the EU and China to cooperation on energy issues was underlined and given an institutional structure at the 8th EU-China Summit in September 2005. In broad terms, the EU’s policy on energy co-operation with China is to intensify collaboration on energy security with a view to creating a stable, secure, efficient and clean energy environment and to promoting open and competitive energy markets.

No Chinese companies have officially endorsed the Extractive Industries Transparency Initiative (EITI). The Chinese government has also not endorsed EITI. China’s official position is that its companies will abide by EITI related legislation in countries where such legislation is in force. The EU is a supporting organisation of EITI. The EU is keen to promote dialogue with China on EITI to promote greater transparency. This dialogue should seek to build on the momentum generated following the 2009 EITI Annual Conference which has seen EITI’s transformation from a start-up initiative to a global transparency standard.

**EU-China Cooperation on the Environment and S&T**

25. **What is the scope of the EU’s environmental cooperation with China (excluding climate change)?**

The EU has an extensive programme of cooperation with China on environment and sustainable development issues, both at Member State and at Commission level. The sector and scope of the projects varies considerably, with some projects at national level and others focussed on particular regions. The first table at annex Q25 (additional information on climate change cooperation is also attached) sets out the scope, location and level of funding of current and planned activities.

A policy dialogue between the Commission’s Directorate-General for Environment and China’s Ministry for Environmental Protection provides the broad framework for EU-China environmental cooperation. Environment policy dialogue, water pollution, air quality and biodiversity have been singled out as top priorities, but the joint work plan also covers areas such as chemicals, waste and industrial accidents. This policy dialogue is underpinned by a number of major multiannual development and cooperation programmes, including multi-million euro programmes in biodiversity, environmental governance (under negotiation, possibly to be launched at next EU-China meeting in May), integrated river basin management. In the water sector, the EU also provides funding support to the World Bank’s watershed rehabilitation projects in the Yangtze and Pearl River deltas. Finally, the Asia-wide SWITCH grant scheme which aims to accelerate progress towards sustainable consumption and production, currently includes five projects in China.

26. **What is the scope of the EU’s cooperation with China in the area of Science and Technology, including on the Galileo project and the International Thermonuclear Experimental Reactor (ITER)?**

The ITER project is a major publicly-funded scientific collaboration among the world’s leading fusion programmes, and involves the EU, China, India, Japan, Russia, Republic of Korea, and the United States. The ITER Agreement was signed by the seven parties in November 2006 and is expected to last 35 years. The EU is hosting ITER and is now committed to its construction and operation.

The ITER Agreement provides that during the construction phase the EU’s EURATOM Framework Programme will contribute 5/11 of costs (with France as host contributing about 1/11) and each other party, including China, bearing 1/11. Following the conclusion of the Agreement on the Establishment of the ITER International Fusion Energy Organization for the Joint Implementation of the ITER Project, the EU Council on 22 July 2008 adopted directives for the EC to negotiate Co-operation Agreements on fusion energy research with specific ITER Parties, including China. The negotiations with China are still to be launched.

A large Chinese delegation visited the fusion facility at Culham, Oxfordshire, operated by UKAEA for European scientists, in November 2008.
China is a partner in the European Space Agency (ESA) and funded the Orbit Verification segment of the Galileo programme. China is not an EU Member State so will not be a partner in the subsequent full development phase (FOC) being funded by the EU through the Transport Council.

30 April 2009
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ML3 ML4

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ML6

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France

Germany

Italy

Latvia

United Kingdom a
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Total per ML
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ML11 ML12 ML13 ML14

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Totals per
country

a) Total No of Licences by EU Member States
b) Total Value of Licences Issued by EU Member States
c) Total Value of Arms Exports for EU Member States

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3,692,699 8,180,399 1,519,704

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b
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Czech Republic

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Austria

Key: a) number of licences issued, b) value of licences in Euros, c) value of arms exports in EUROS

2007

EU MEMBER STATE EXPORTS TO CHINA WITH BREAKDOWN BY MILITARY LIST CATEGORY, 2005–07

Annex to Q10

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stars and dragons: the eu and china: evidence

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Key: a) number of licences issued, b) value of licences in Euros, c) value of arms exports in Euros
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<th>ML22</th>
<th>Total per Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5</td>
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<td>5</td>
<td>5</td>
<td>5112,000</td>
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<tr>
<td>Key:</td>
<td>a) number of licences issued, b) value of licences in Euros, c) value of arms exports in Euros</td>
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<tr>
<td>Czech Republic</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>5</td>
<td>3,171,000</td>
<td>320,000</td>
<td>3113,171,000</td>
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<tr>
<td>France</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>5</td>
<td>29</td>
<td>27</td>
<td>52,277,705</td>
<td>25,100,455</td>
<td>55,406,460</td>
<td>€150,214,260</td>
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<tr>
<td>Germany</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>8</td>
<td>22</td>
<td>37,629</td>
<td>3,691</td>
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<td>430,066</td>
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<tr>
<td>Italy</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1,308,705</td>
<td>€412,625</td>
<td>€1,350,335</td>
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<td>Netherlands</td>
<td>a</td>
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<td>Slovak</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>1</td>
<td>101,214</td>
<td>101,213</td>
<td>101,213</td>
<td>101,213</td>
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<tr>
<td>United Kingdom</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>5</td>
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<td>4</td>
<td>88,056,606</td>
<td>108,056,606</td>
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<tr>
<td>Total per ML Category</td>
<td>a</td>
<td>b</td>
<td>c</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>10</td>
<td>5</td>
<td>7</td>
<td>25</td>
<td>41</td>
<td>30</td>
<td>4</td>
<td>38</td>
<td>6</td>
<td>2</td>
<td>5</td>
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<td>241,215,392</td>
<td>€111,243,714</td>
<td>241,215,392</td>
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<tr>
<td>a) Total No of Licences by EU Member States</td>
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<tr>
<td>b) Total Value of Licences Issued by EU Member States</td>
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<td>c) Total Value of Arms Exports for EU Member States</td>
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</table>
Annex to Q10

Brief Descriptions of EU Common Military List Categories

(cf. OJ C 98 of 18 March 2008 for the full EU Common Military List)

ML1 Smooth-bore weapons with a calibre of less than 20 mm, other arms and automatic weapons with a calibre of 12.7 mm (calibre 0.50 inches) or less and accessories, and specially designed components therefore.

ML2 Smooth-bore weapons with a calibre of 20 mm or more, other weapons or armament with a calibre greater than 12.7 mm (calibre 0.50 inches), projectors and accessories, and specially designed components therefore.

ML3 Ammunition and fuse setting devices, and specially designed components therefore.

ML4 Bombs, torpedoes, rockets, missiles, other explosive devices and charges and related equipment and accessories, specially designed for military use, and specially designed components therefore.

ML5 Fire control, and related alerting and warning equipment, and related systems, test and alignment and countermeasure equipment, specially designed for military use, and specially designed components and accessories therefore.

ML6 Ground vehicles and components.

ML7 Chemical or biological toxic agents, “tear gases”, radioactive materials, related equipment, components, materials and “technology”.

ML8 “Energetic materials”, and related substances.

ML9 Vessels of war, special naval equipment and accessories, and components therefore, specially designed for military use.

ML10 “Aircraft”, unmanned airborne vehicles, aero-engines and “aircraft” equipment, related equipment and components, specially designed or modified for military use.

ML11 Electronic equipment not controlled elsewhere on the EU Common Military List, specially designed for military use and specially designed components and accessories therefore.

ML12 High velocity kinetic energy weapon systems and related equipment, and specially designed components therefore.

ML13 Armoured or protective equipment and constructions and components.

ML14 Specialised equipment for military training or for simulating military scenarios, simulators specially designed for training in the use of any firearm or weapon controlled by ML1 or ML2, and specially designed components and accessories therefore.

ML15 Imaging or countermeasure equipment, specially designed for military use, and specially designed components and accessories therefore.

ML16 Forgings, castings and other unfinished products the use of which in a controlled product is identifiable by material composition, geometry or function, and which are specially designed for any products controlled by ML1 to ML4, ML6, ML9, ML10, ML12 or ML19.

ML17 Miscellaneous equipment, materials and libraries, and specially designed components therefore.

ML18 Equipment for the production of products referred to in the EU Common Military List.

ML19 Directed energy weapon systems (DEW), related or countermeasure equipment and test models, and specially designed components therefore.

ML20 Cryogenic and “superconductive” equipment, and specially designed components and accessories therefore.

ML21 “Software” specially designed or modified for the “development”, “production” “use” of equipment or materials controlled by the EU Common Military List.

ML22 “Technology” for the “development”, “production” or “use” of items controlled in the EU Common Military List, other than that “technology” controlled in ML7.
Table 1
EU-CHINA SUSTAINABLE DEVELOPMENT ACTIVITIES IN CHINA
(expressed in £’s at the exchange rate at end-March 2008)

<table>
<thead>
<tr>
<th>Donor</th>
<th>Key Sectors</th>
<th>Geographic Focus</th>
<th>Financing/ODA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Environment, Renewable Energy, Climate Change, NGO</td>
<td>North East for renewable energy, South and West for climate change</td>
<td>2006–08: £7.5 million</td>
</tr>
<tr>
<td>EC</td>
<td>Supporting Areas covered by Sectoral Dialogues; environment, energy and climate change; and human resources development.</td>
<td>All over China</td>
<td>2007–10: £128 million</td>
</tr>
<tr>
<td>France</td>
<td>AFD (French Dev Agency): Energy efficiency in the industry and services, power generation, sustainable urban development, rural development.</td>
<td>Yunnan, Guangxi</td>
<td>Loans: 2007: £68 million</td>
</tr>
<tr>
<td></td>
<td>French Embassy: Governance and rule of law, health, urban development, higher education</td>
<td>All over China</td>
<td>Grants: 2007–08 £3.4 million</td>
</tr>
<tr>
<td>Germany</td>
<td>Environmental policy, natural resource management, renewable energy and energy efficiency, sustainable urban development; economic and social reform, legal reform, financial sector; health sector</td>
<td>Special focus on Western Provinces and the Northeast</td>
<td>Loans: 2007: £75 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Many countrywide</td>
<td>Grants: 2007: £12.5 million</td>
</tr>
<tr>
<td>Italy</td>
<td>Cultural heritage, environment, health and education</td>
<td>Central and Western Provinces</td>
<td>2006–09: loans £160 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2006–09: grants £33 million</td>
</tr>
<tr>
<td>Spain</td>
<td>Environment (water treatment); Support for SMEs; renewable energy; health; and education.</td>
<td>Central and western provinces</td>
<td>2005–07: £115 million</td>
</tr>
<tr>
<td>Sweden</td>
<td>Environment and sustainable development; human rights education; health (HIV/IDS, maternal health); good governance.</td>
<td>New projects in the strategy period 2006–10 will be focused in Sichuan, Guizhou, Yunnan and Inner Mongolia.</td>
<td>2005: £6 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2006–10: £25 million</td>
</tr>
</tbody>
</table>

JOINT ACTIVITIES

Projects

— EU-China CDM Facilitation Project

The EU-China CDM Facilitation Project was officially launched on 28 June 2007. The project will strengthen the Clean Development Mechanism (CDM) as a central pillar within China’s path to sustainable development. Until January 2010, the focus will be on China’s policy and regulatory regime and quality management for CDM development. It will bring together a wide range of stakeholders at public and private sector levels involved in CDM projects. On the national level, the project will among other things assess effectiveness of technology transfer through CDM, and analyse CDM market development. The consortium implementing the project has finished a needs assessment and also established an inventory of all CDM capacity building projects in China. Several Member States have signalised interest to be involved in the activities on regional level.

This project implements one of the seven first joint activities of the EU-China Rolling Work Plan on Climate Change agreed in October 2006. The EU-China CDM Facilitation Project is being implemented by Chinese and European partners and associates with grants from the European Commission and is the
largest European-funded project addressing CDM-related activities in China. The estimated cost of the project is 2.8 million EUR.

Partners in the CDM Facilitation Project conducted a study tour to Europe in October 2008. They visited UK, Sweden, Germany and the European institutions in Brussels.

— Carbon capture and storage ("Zero-emission" demonstration plant)

The EU-China Partnership on Climate Change is designed to strengthen practical cooperation on the development, demonstration, deployment and transfer of clean fossil fuels technologies, to improve energy efficiency and to achieve a low carbon economy. In this respect the EU and China have developed a project (the Near Zero Emissions Coal (NZEC) Initiative) with the aim of developing and demonstrating advanced near-zero emission coal technology through carbon dioxide capture and storage (CCS). This technology will allow for the capture of CO₂ emissions from coal-fired power plants and its subsequent storage underground, for example in exploited oil or gas fields or saline aquifers, thereby avoiding CO₂ emissions into the atmosphere.

In order to implement the first phase of the cooperation on NZEC Memoranda of Understanding were signed between the European Commission and China and the United Kingdom and China in February 2006 and December 2005 respectively.

Two co-ordinated feasibility studies are under way as part of Phase I of the Initiative both involving European and Chinese partners, and led by a Joint Steering Committee. The first of these is the COACH project (Cooperation Action with CCS China-EU), which was launched in November 2006. It is funded, in part, under the EU’s 6th Framework Programme for research, and has the following key objectives:

— enhancement of knowledge sharing and capacity building;
— preparation of the implementation of large scale clean coal energy facilities by 2020;
— addressing of the cross-cutting issues, eg Societal anchorage, legal, regulatory, funding and economic issues, and
— coordination of activities performed under the EU-China MoU on NZEC.

COACH has five working groups dealing with (i) knowledge sharing and capacity building; (ii) capture technologies; (iii) geological storage and large scale use of CCS; (iv) recommendations and guidelines for implementation, and (v) project management. Results are expected in autumn 2009.

The second project is the UK NZEC Initiative, which has a complementary set of five work packages, looking at (i) knowledge sharing and capacity building; (ii) future energy technology perspectives; (iii) case studies for CO₂ capture; (iv) CO₂ storage potential, and (v) policy and technology assessment. Chinese partners in both include ACCA21, Tsinghua University, Zhejiang University and Greengen (among others) and UK partners include Shell, BP, Imperial College, Edinburgh University, British Geological Survey, Cambridge University, and Herriott Watt University.

The UK’s NZEC Initiative has a budget of up to £3.5 million, while the EC’s COACH project has a budget of €2.6 million (including €1.5 million EC contribution).

Phase two will be a site-specific design and feasibility study, and phase three (to be completed by 2015) will be the construction and operation of a commercial scale demonstration plant fired by near-zero-emissions coal with CCS technology.

The two Phase I projects are complemented by an EC funded project examining CCS regulation in the EU and China: “Support to Regulatory Activities for Carbon Capture and Storage” (STRACO2). By supporting a CCS regulatory framework inside the EU, STRACO2 will be instrumental for establishing best practice standards globally.

— Energy and Environment Programme

The EU-China Energy Environment Programme (EEP) was established 2002 to correspond to the political intent of the Chinese Government and the European Commission, to further strengthen the EU-China co-operation in the area of energy. The overall purpose of the Programme is to promote sustainable energy use by securing supply at improved economic, social and environmental conditions, thus contributing to improved environmental quality and health conditions in China. The total cost of the project 2001-2008 is 42.9 Million EUR. The programme runs until the end of 2008, although the partners are seeking an extension until 2010.
Meetings

The EU—both the Commission and Member States—has regular high level dialogue with China on climate change. The EU-China Partnership has a twice yearly Bilateral Consultation Mechanism meeting which discusses multilateral issues, presents new domestic climate change initiatives and reviews the Rolling Work Programme of bilateral projects.

The 5th Meeting of the Bilateral Consultation Mechanism under the EU-China Partnership on Climate Change met on 18 August 2008 in Paris. Climate change experts from the European Commission, the French Presidency of the EU, the forthcoming Czech presidency and China met in Paris to further discuss climate change issues of mutual interest. In particular, they agreed the revision of the Rolling Work Plan under the EU-China Partnership. They also briefed each other on recent domestic developments on climate change policy and discussed issues of interest in the context of the UNFCCC climate change negotiations.
## Annex

**NON-EXHAUSTIVE LIST OF ONGOING BILATERAL ACTIONS IN THE NINE PRIORITY AREAS COVERED BY THE EU-CHINA CLIMATE CHANGE PARTNERSHIP—AUGUST 2008**

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>EU partner(s)</th>
<th>Chinese partner(s)</th>
<th>Time schedule</th>
<th>Main output expected</th>
<th>CDM</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Energy efficiency (paragraphs no 3, 4, 5, 6 and 8 of the joint declaration adopted on 5 September 2005)</td>
<td>UK</td>
<td>National Energy Administration/NDRC</td>
<td>2007–09</td>
<td>Integration of climate change aspects into the law</td>
<td>No</td>
<td>Also relevant for other priority areas</td>
</tr>
<tr>
<td>1.1</td>
<td>Support to the development of China’s new Energy Law Framework</td>
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<tr>
<td>1.2</td>
<td>Support services for compliance monitoring and promotion of the China Energy Label</td>
<td>Commission</td>
<td>NDRC (SAC, CNIS)</td>
<td>2008–09</td>
<td>Improved effectiveness of schemes in China</td>
<td>No</td>
<td>Support through the Energy and Environment Programme</td>
</tr>
<tr>
<td>1.3</td>
<td>Promotion of benchmarking tools for energy conservation in energy intensive industries</td>
<td>Commission</td>
<td>NDRC</td>
<td>2008–09</td>
<td>Training of intermediary organizations on benchmarking in nine key energy-intensive industry sectors</td>
<td>Support through the Energy and Environment Programme</td>
<td></td>
</tr>
<tr>
<td>1.4</td>
<td>Study on the improvement of energy efficiency and reduced environmental impact of industrial boilers in China</td>
<td>Commission</td>
<td>NDRC</td>
<td>2007–09</td>
<td>Plan to increase energy efficiency and reduce pollution from industrial boilers and kilns in China</td>
<td>Support through the Energy and Environment Programme</td>
<td></td>
</tr>
<tr>
<td>1.6</td>
<td>Research Program for the financing mechanisms in the retrofitting of existing buildings in Hubei Province</td>
<td>France—French Development Agency</td>
<td>Hubei Construction Commission/Huazong University</td>
<td>2006–08</td>
<td>Methodologies and appropriate mechanisms (innovative financing) for the financing of retrofitting in public and residential buildings.</td>
<td>TBD</td>
<td>Support the energy efficiency rehabilitation provincial programme</td>
</tr>
<tr>
<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
<td>Chinese partner(s)</td>
<td>Time schedule</td>
<td>Main output expected</td>
<td>CDM</td>
<td>Comment</td>
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<tr>
<td>1.7</td>
<td>Buildings: energy efficiency in existing buildings</td>
<td>Germany</td>
<td>MOFCOM, Ministry of Construction</td>
<td>2005–10</td>
<td>Demonstrating energy efficient renovation modes and technologies in Tangshan City</td>
<td>No</td>
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<tr>
<td>1.8</td>
<td>Development of a Sino-Italian web portal on energy efficiency in China</td>
<td>Italy</td>
<td>SEPA</td>
<td>2005–08</td>
<td>Know-how dissemination</td>
<td>No</td>
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<tr>
<td>1.9</td>
<td>Energy efficiency in Taiyuan</td>
<td>Italy</td>
<td>SEPA</td>
<td>2006–08</td>
<td>Identified measures for energy efficiency in energy-intensive industries in Taiyuan</td>
<td>No</td>
<td></td>
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<tr>
<td>1.10</td>
<td>China utility-based energy efficiency finance program</td>
<td>Finland</td>
<td>Ministry of Finance (focal point)</td>
<td>2006–12</td>
<td>Accelerated development of industrial, commercial, and multi-family residential EE market. Catalyze market for EE finance products.</td>
<td>Managed by IFC, co-financed also by the GEF</td>
<td></td>
</tr>
<tr>
<td>1.11</td>
<td>Energy efficiency of buildings</td>
<td>Finland</td>
<td>Dalian University of Technology</td>
<td></td>
<td>Reform of the legislation on energy efficiency and resource protection; creation of implementing structures at provincial level; improved energy efficiency in industrial sectors</td>
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</tr>
<tr>
<td>1.12</td>
<td>Energy Sector Reform Program</td>
<td>Germany</td>
<td>NDRC</td>
<td>2008–13</td>
<td>Reform of the legislation on energy efficiency and resource protection; creation of implementing structures at provincial level; improved energy efficiency in industrial sectors</td>
<td></td>
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</tr>
<tr>
<td>1.13</td>
<td>Strengthen China’s ability to meet its 2010 energy intensity target</td>
<td>UK</td>
<td>China Business Council for Sustainable Development</td>
<td>2008–10</td>
<td>Develop and implement China’s national sectoral GHG measurement standards and tools in four major energy consuming industries (cement, petrochemical, oil &amp; gas and chemicals)</td>
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<tr>
<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
<td>Chinese partner(s)</td>
<td>Time schedule</td>
<td>Main output expected</td>
<td>CDM</td>
<td>Comment</td>
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<tr>
<td>1.14</td>
<td>Energy efficiency credit line</td>
<td>France—French Development Agency</td>
<td>Ministry of Finance, Huaxia Bank, Merchants Bank, Shanghai Pudong Development Bank</td>
<td>2006–11</td>
<td>Credit available to Chinese medium size enterprises for small scale industrial energy efficiency projects</td>
<td>Yes</td>
<td>CDM credits may be produced within each sub project</td>
</tr>
<tr>
<td>1.15</td>
<td>Energy conservation and reduced environmental impact in energy intensive industries</td>
<td>Commission</td>
<td>NDRC</td>
<td>2008–09</td>
<td>Measures for regional governments to achieve their energy conservation targets</td>
<td></td>
<td>Support through the Energy and Environment Programme</td>
</tr>
<tr>
<td>1.16</td>
<td>Financing of coke dry quenching technology in a coking plant in Guangdong</td>
<td>European Investment Bank</td>
<td>Ministry of Finance</td>
<td>2008–</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1.17</td>
<td>Railway electrification of the Luoyang-Zhangjiajie line and the Xiang Gui line</td>
<td>France—French Development Agency</td>
<td>Ministry of Finance and Ministry of Railway</td>
<td>2005–09, 2008–13</td>
<td>Electrification of 1,000 km of railway line and construction and electrification of 500 km of railway line</td>
<td>No</td>
<td></td>
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<tr>
<td>1.18</td>
<td>Development and dissemination of technology for power generation through waste heat recovering from coal gangue brick manufacturing</td>
<td>Spain—UNDP MDG Fund</td>
<td>MOA</td>
<td>2008–10</td>
<td>Improve currently inefficient and polluting technology now used in China</td>
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<td>1.19</td>
<td>Optimization of flue gas desulphurization (FGD) process in iron ore sintering plants and in lead/zinc smelters</td>
<td>SLOVENIA State Key Laboratory of Clean Energy Utilization Institute of Thermal Energy and Power Engineering, Zhejiang University</td>
<td>SLOVENIA State Key Laboratory of Clean Energy Utilization Institute of Thermal Energy and Power Engineering, Zhejiang University</td>
<td>2007–09</td>
<td>To increase energy efficiency and reduce pollution</td>
<td></td>
<td>Also relevant for other priority areas</td>
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**Table Notes:**
- **EU partner(s):** France—French Development Agency, European Investment Bank, Ministry of Finance.
- **Chinese partner(s):** Ministry of Finance, Huaxia Bank, Merchants Bank, Shanghai Pudong Development Bank, NDRC, MOA, State Key Laboratory of Clean Energy Utilization Institute of Thermal Energy and Power Engineering, Zhejiang University, SLOVENIA State Key Laboratory of Clean Energy Utilization Institute of Thermal Energy and Power Engineering, Zhejiang University.
- **Time schedule:** Arguments vary from 2005 to 2013.
- **Main output expected:** Credit available to Chinese medium size enterprises for small scale industrial energy efficiency projects, Measures for regional governments to achieve their energy conservation targets, Electrification of 1,000 km of railway line and construction and electrification of 500 km of railway line, Improve currently inefficient and polluting technology now used in China, To increase energy efficiency and reduce pollution.
- **CDM:** Arguments vary from Yes to No.
- **Comment:** CDM credits may be produced within each sub project, Support through the Energy and Environment Programme, Also relevant for other priority areas.
<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>EU partner(s)</th>
<th>Chinese partner(s)</th>
<th>Time schedule</th>
<th>Main output expected</th>
<th>CDM</th>
<th>Comment</th>
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<tbody>
<tr>
<td>2</td>
<td>New and renewable energy (paragraphs no 4, 5, 6, 7 and 8 of the joint declaration adopted on 5 September 2005)</td>
<td></td>
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<td>2.1</td>
<td>Renewable wind energy programmes</td>
<td>Germany</td>
<td>Ministry of Finance, provincial authorities</td>
<td>1990-ongoing</td>
<td>Reliable and sustainable electricity supply in coastal areas and western provinces</td>
<td>No</td>
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<td>2.2</td>
<td>Education and research centre for wind energy</td>
<td>Germany</td>
<td>MOFCOM, State Grid, China Guodian, CLYEPG, CEPR</td>
<td>2005–10</td>
<td>Capacity building in all relevant areas of wind power development</td>
<td>No</td>
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<td>2.3</td>
<td>Solar energy for the Olympic Games</td>
<td>Italy</td>
<td>Beijing Municipality</td>
<td>2005–08</td>
<td>Supply the Olympic Committee building with thermal solar power</td>
<td>No</td>
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<td>2.4</td>
<td>Renewable Energy In Qinghai</td>
<td>Italy</td>
<td>SEPA, Qinghai Province</td>
<td>2006–08</td>
<td>Micro hydro and small solar pilot plants for rural electrification</td>
<td>No</td>
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<td>2.5</td>
<td>Renewable energy centre in Tibet</td>
<td>Italy</td>
<td>MOST, S&amp;T Bureau of Tibet</td>
<td>2005–08</td>
<td>Diffusion of Solar Energy, Small Hydro Power and other renewable sources in Tibet; training of Tibetan technicians</td>
<td>No</td>
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<td>2.6</td>
<td>Bioethanol for sustainable transport</td>
<td>Commission</td>
<td>Nanyang City, Tsinghua University</td>
<td>2006–09</td>
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<td>2.7</td>
<td>Biogas project demonstration of animal waste</td>
<td>Romania</td>
<td>Ministry of Agriculture</td>
<td></td>
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<td>2.8</td>
<td>Biofuel from jatropha and waste oils</td>
<td>Italy</td>
<td>MOST</td>
<td>2007–08</td>
<td>Feasibility study on a Jatropha plantation and the related biofuel production in Sichuan; feasibility study for the design of a waste oil collection system and of a biofuel production plant in Hubei</td>
<td>Yes</td>
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<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
<td>Chinese partner(s)</td>
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<td>2.9</td>
<td>Wind Energy Development</td>
<td>Demark</td>
<td>NDRC</td>
<td>2005–09</td>
<td>Wind resource assessment, grid integration, post feasibility study</td>
<td>No</td>
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<td>2.10</td>
<td>Dali wind farm project (Yunnan)</td>
<td>France—French Development Agency</td>
<td>Ministry of Finance</td>
<td>2007–12</td>
<td>30 + MW wind farm near Dali</td>
<td>Yes</td>
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<td>2.11</td>
<td>Mini Hydro-power plant projects in Chongqing and Yichang (Hubei)</td>
<td>France—French Development Agency</td>
<td>Ministry of Finance</td>
<td>2005–12</td>
<td>Building of small hydropower schemes in Wuxi and Yichang</td>
<td>No</td>
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<td>2.14</td>
<td>Development support for sustainable rural and renewable energy training in China</td>
<td>Commission</td>
<td>NDRC</td>
<td>2008–09</td>
<td>No</td>
<td>No</td>
<td>Support through the Energy and Environment Programme</td>
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<td>2.15</td>
<td>Off-shore wind &amp; biomass conversion technology</td>
<td>Commission</td>
<td>NDRC</td>
<td>2008–09</td>
<td>Support through the Energy and Environment Programme</td>
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<td>2.16</td>
<td>Financing of wind farms in Henan, Hainan and Guangdong</td>
<td>European Investment Bank</td>
<td>Ministry of Finance</td>
<td>2008–</td>
<td></td>
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<tr>
<td>2.17</td>
<td>Exchange program on renewable energy</td>
<td>Royal Swedish Academy of Engineering</td>
<td>Chinese Academy of Engineering</td>
<td>2006–</td>
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<td>No.</td>
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<td>2.18</td>
<td>Development and dissemination of a new biomass pellet system</td>
<td>Spain—UNDP MDG Fund</td>
<td>Energy Bureau of NDRC</td>
<td>2008–10</td>
<td>Replacement for coal in rural areas</td>
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<td>2.19</td>
<td>Increased capacities and dissemination of productive applications associated with off-grid rural renewable power stations</td>
<td>Spain—UNDP MDG Fund</td>
<td>Energy Bureau of NDRC</td>
<td>2008–10</td>
<td></td>
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<td>2.20</td>
<td>Biogas station based on animal farm waste in Nanchang</td>
<td>Czech Republic</td>
<td>MOFCOM, Nanchang Hero Development Zone</td>
<td>2001–09</td>
<td>Biogas station producing heat &amp; energy</td>
<td></td>
<td>Support through former bilateral develop assist.</td>
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<td>3</td>
<td>Clean coal technologies and carbon dioxide capture and storage for near-zero emissions power generation (paragraphs no 4, 5, 6, 7 and 8 of the joint declaration adopted on 5 September 2005)</td>
<td>Commission, UK MOST (NDRC, MFA, SEPA)</td>
<td></td>
<td>2006–09</td>
<td>Feasibility study and analysis of options for technology demonstration in China (by 2008)</td>
<td>No</td>
<td>Work to continue after 2009</td>
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<tr>
<td>3.2</td>
<td>Various projects funded under the 6th and 7th European RTD Framework Programmes</td>
<td>Commission</td>
<td>Dalian Institute of Chemical Physics, Chinese Academy of Sciences, Tsinghua University, Administrative Centre for China’s Agenda 21</td>
<td>2006–10</td>
<td>CO₂ capture and hydrogen production from gaseous fuels</td>
<td>No</td>
<td>Support through the European Energy Research Programme</td>
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<td>3.3</td>
<td>Piloting and dissemination of clean coal technology</td>
<td>Spain—UNDP MDG Fund</td>
<td>Shanxi Provincial Government</td>
<td>2008–10</td>
<td>Support to regulatory activities for carbon capture and storage</td>
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<td>No</td>
<td>Description</td>
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<td>4</td>
<td>Methane recovery and use <em>(paragraphs no 4, 5, 6 and 7 of the joint declaration adopted on 5 September 2005)</em></td>
<td>Commission</td>
<td>NDRC</td>
<td>2008–09</td>
<td>Natural gas strategy master plan for the development of natural gas in China; promotion of Health, Safety Environment (HSE) management in exploitation &amp; production of natural gas and the promotion of a related HSE database</td>
<td>No</td>
<td>Support through the Energy and Environment Programme</td>
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<td></td>
<td></td>
<td>Italy</td>
<td>SEPA, MOST</td>
<td>2004–08</td>
<td>Energy production from biogas recovery; Several landfills in different provinces evaluated and CDM activities developed.</td>
<td>Yes</td>
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<td>4.2</td>
<td>Biogas Landfill Recovery</td>
<td>Italy</td>
<td>SEPA, MOST</td>
<td>2004–08</td>
<td>Energy production from biogas recovery; Several landfills in different provinces evaluated and CDM activities developed.</td>
<td>Yes</td>
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<td>4.3</td>
<td>Animal waste treatment</td>
<td>Italy</td>
<td>Beijing Municipality</td>
<td>2005–08</td>
<td>Energy production from biogas recovery</td>
<td>Yes</td>
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<td>5</td>
<td>Hydrogen energy and fuel cells <em>(paragraphs no 4, 5, 6, 7 and 8 of the joint declaration adopted on 5 September 2005)</em></td>
<td>Commission</td>
<td>Chinese Academy of Sciences, Nanjing University of Technology, Dalian Institute of Chemical Physics</td>
<td>2006–10</td>
<td>Handbook for approval of hydrogen refuelling stations New methods for superior integrated hydrogen generation system Fuel cell testing, safety, quality assurance</td>
<td>No</td>
<td>Support through the European Energy Research Programme</td>
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<tr>
<td>5.1</td>
<td>Various projects funded under the 6th European RTD Framework Programme</td>
<td>Commission</td>
<td>Chinese Academy of Sciences, Nanjing University of Technology, Dalian Institute of Chemical Physics</td>
<td>2006–10</td>
<td>Handbook for approval of hydrogen refuelling stations New methods for superior integrated hydrogen generation system Fuel cell testing, safety, quality assurance</td>
<td>No</td>
<td>Support through the European Energy Research Programme</td>
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<tr>
<td>6</td>
<td>Power generation and transmission <em>(paragraphs no 4, 5, 6, 7 and 8 of the joint declaration adopted on 5 September 2005)</em></td>
<td>Germany</td>
<td>MOFCOM, NDRC</td>
<td>2005–09</td>
<td>Environmentally friendly utilization of coal and water resources in coal-fired power plants</td>
<td>Yes</td>
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<td>6.1</td>
<td>Environmental Protection in Energy sector with focus on coal-fired power plants</td>
<td>Germany</td>
<td>MOFCOM, NDRC</td>
<td>2005–09</td>
<td>Environmentally friendly utilization of coal and water resources in coal-fired power plants</td>
<td>Yes</td>
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<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
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<td>7</td>
<td>Clean Development Mechanism and other market-based instruments such as Emissions Trading Schemes (paragraph no 9 of the joint declaration adopted on 5 September 2005)</td>
<td></td>
<td></td>
<td></td>
<td>Higher capacity of China’s Designated National Authority (DNA), the National CDM Service Centre and Designated Operational Entities (DOEs); European and international standards in Quality Management in CDM development in China; increased awareness of CDM opportunities; reports on CDM impact assessment and CDM policy improvement and on technology transfer in CDM projects</td>
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<td>7.1</td>
<td>CDM facilitation project</td>
<td>Commission—Swedish Environmental Research Institute</td>
<td>MEP, NDRC, CAS</td>
<td>2007–10</td>
<td>No</td>
<td></td>
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<tr>
<td>7.2</td>
<td>CDM capacity building and project development in four Western provinces</td>
<td>France—French Global Environment Facility/French Development Agency</td>
<td>Ministry of Science and Technology</td>
<td>2006–08</td>
<td>CDM Capacity building</td>
<td>Yes</td>
<td>Second phase being considered</td>
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<tr>
<td>7.3</td>
<td>Bilateral CDM programmes</td>
<td>Italy, Denmark</td>
<td>MOST, NDRC</td>
<td></td>
<td>Assist China in achieving SD and EU in achieving compliance with commitments under the Kyoto Protocol</td>
<td>Yes</td>
<td>Also relevant for other priority areas</td>
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<td>7.4</td>
<td>CDM Cooperation</td>
<td>Italy</td>
<td>MOST</td>
<td>2007–08</td>
<td>Capacity Building activity and CDM projects scouting</td>
<td>Yes</td>
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<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
<td>Chinese partner(s)</td>
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<td>7.5</td>
<td>Enhanced CDM application in conservation agriculture</td>
<td>Spain—UNDP MDG Fund</td>
<td>MOA</td>
<td>2008–10</td>
<td></td>
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<td>7.6</td>
<td>Stimulation of the establishment of rural household-scale and larger biogas digesters through CDM facility</td>
<td>Spain—UNDP MDG Fund</td>
<td>Energy Bureau of NDRC</td>
<td>2008–10</td>
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<tr>
<td>8</td>
<td>Adaptation to the impacts of climate change (paragraph no 10 of the joint declaration adopted on 5 September 2005)</td>
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<td>8.2</td>
<td>Understanding the dynamics of the coupled climate system (DYNAMITE)</td>
<td>Commission CAS</td>
<td>2005–08</td>
<td>Capacity building</td>
<td>No</td>
<td></td>
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<tr>
<td>8.3</td>
<td>Impacts of climate change on Chinese agriculture</td>
<td>UK MOST (CAAS)</td>
<td>2005–08</td>
<td>Research and capacity building</td>
<td>No</td>
<td>Phase 1 complete, phase 2 underway, final reports to be issued in autumn 2008</td>
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<tr>
<td>8.4</td>
<td>Basic collection for danger zone planning in mountain areas of the province Beijing and in Xibailianyu</td>
<td>Austria Beijing Forestry University</td>
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<td>8.5</td>
<td>Developing eco-hydrology based watershed management plan to adapt to the coupling effects of land use change and climate variability</td>
<td>Austria Beijing Forestry University</td>
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<td>8.6</td>
<td>Effects of climate warming on carbon cycling in alpine meadow ecosystems on the Tibet plateau</td>
<td>Austria</td>
<td>CAS</td>
<td></td>
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<td>8.7</td>
<td>Responses of soil, water and nutrients processes to global warming in Songnen steppe and Transilvanian steppe</td>
<td>Romania</td>
<td>Northeast Normal University</td>
<td>2007–08</td>
<td>Comparative study</td>
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<td>8.8</td>
<td>Surveillance system for assessing and monitoring of desertification</td>
<td>Commission</td>
<td>CAS</td>
<td>2005–10</td>
<td></td>
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<td>8.9</td>
<td>Hydrometeorological data resources and technologies for effective flash flood forecasting</td>
<td>Commission</td>
<td>Wuhan University</td>
<td>2006–09</td>
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<td>8.10</td>
<td>Yellow River climate change scenario development</td>
<td>Commission</td>
<td>Ministry of Water Resources, Yellow River Commission</td>
<td>2008–09</td>
<td>Study of potential impacts of climate change on water resources management, protection and development at basin level and possible responses</td>
<td>No</td>
<td>Support through the EU-China River Basin Management Programme</td>
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<tr>
<td>8.11</td>
<td>Biodiversity and climate change mitigation and adaptation</td>
<td>Commission</td>
<td>Ministry of Environmental Protection</td>
<td>2007–10</td>
<td>Development of China biodiversity and climate change action plan and integration of climate change into the National Biodiversity Strategy Action Plan</td>
<td>No</td>
<td>Support through the EU-China Biodiversity Programme</td>
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<tr>
<td>8.12</td>
<td>UK-China Impacts of Climate Change Project</td>
<td>UK</td>
<td>NDRC</td>
<td>2009–11</td>
<td>Research and capacity building</td>
<td>No</td>
<td>Project design in progress</td>
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<td>No</td>
<td>Description</td>
<td>EU partner(s)</td>
<td>Chinese partner(s)</td>
<td>Time schedule</td>
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<td>8.13</td>
<td>Capacity building on impact assessment and adaptation strategies in less developed areas of Western China and vulnerable coastal areas of Southeast China</td>
<td>Spain—UNDP MDG Fund</td>
<td>MHRSS</td>
<td>2008–10</td>
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<td>8.14</td>
<td>Enhanced strategies for climate-proofed and environmentally sound agricultural production (C-PESAP): Agricultural development in selected agro-ecosystems of the Yellow River Basin</td>
<td>Spain—UNDP MDG Fund</td>
<td>MOA</td>
<td>2008–10</td>
<td>Adaptation to climate change and reduce agricultural pollution</td>
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<td>8.15</td>
<td>Policies and capacities developed to manage environmental health issues from climate change</td>
<td>Spain—UNDP MDG Fund</td>
<td>MOH</td>
<td>2008–10</td>
<td>Monitoring health risk assessments (National Environment and Health Action Plan, Nov 2007)</td>
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<td>8.16</td>
<td>Capacities enhanced and policies developed for understanding and adapting to impacts of water supply changes on China’s environment and development</td>
<td>Spain—UNDP MDG Fund</td>
<td>MOWR</td>
<td>2008–10</td>
<td>Comprehensive view on the situation of water resources in Yellow River Basin</td>
<td></td>
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<td>8.17</td>
<td>A study of environmental and climate changes from the sedimentary records of remote lakes—II</td>
<td>SLOVENIA National Institute for Biology, Ljubljana</td>
<td>Institute of Tibetan Plateau, CASS</td>
<td>2007–09</td>
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<td>No</td>
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<tr>
<td>9</td>
<td>Capacity building, strengthening institutions and raising public awareness (paragraph no 11 of the joint declaration adopted on 5 September 2005, “Knowledge for energy policy making, energy strategy visions and foresight; awareness raising”)</td>
<td>MOST, NDRC, SEPA BJ, EPB SH, EPB CASS</td>
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<tr>
<td>9.1</td>
<td>Training courses</td>
<td>Venice International University</td>
<td>Italy</td>
<td>MOST, NDRC, SEPA BJ, EPB SH, EPB CASS</td>
<td>2002–08</td>
<td>Comprehensive capacity building program on climate change issues for institutional organizations officers</td>
<td></td>
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<tr>
<td>9.2</td>
<td>Cost assessment for sustainable energy systems</td>
<td>Commission</td>
<td>Energy Research Institute</td>
<td></td>
<td>2006–08</td>
<td></td>
<td></td>
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<tr>
<td>9.3</td>
<td>Adaptation and mitigation strategies: supporting European climate policy</td>
<td>Commission</td>
<td>CAS</td>
<td></td>
<td>2006–09</td>
<td></td>
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<td>9.4</td>
<td>Euro-Asia research and training on climate change management</td>
<td>Italy and Commission</td>
<td>MOST, NDRC</td>
<td></td>
<td>2006–09</td>
<td>Creating a scientific network on climate change management between European and Asian academic institutions</td>
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<tr>
<td>9.5</td>
<td>Addressing barriers to clean technology deployment</td>
<td>UK</td>
<td>Tsinghua University</td>
<td></td>
<td>2008–09/10</td>
<td>A clear vision of the international mechanisms and frameworks necessary to advance and accelerate the deployment of clean technologies</td>
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<td>9.6</td>
<td>Low Carbon Economy Task Force in the China Council for International Cooperation on Environment and Development (CCICED)</td>
<td>UK, Sweden, Norway</td>
<td>CCICED, Development Research Centre (DRC)</td>
<td></td>
<td>2008–10</td>
<td>Task Force reports containing recommendations for State Council, 12th 5YP, etc.</td>
<td></td>
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<td>9.7</td>
<td>Financing of CCICED’s Task Force on sustainable urban development</td>
<td>France/French Development Agency</td>
<td>CCICED</td>
<td></td>
<td>2007–10</td>
<td>Policy recommendations</td>
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<td>9.8</td>
<td>Establishing a methodology and piloting Low Carbon Development Zones in China</td>
<td>UK</td>
<td>CASS, Energy Research Institute</td>
<td>2008–10</td>
<td>Development of pilot low carbon development zones which will test out low-carbon friendly policies</td>
<td>No</td>
<td>Chatham House and E3G involved</td>
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<td>9.9</td>
<td>Improve soil nutrient management towards a low carbon economy in China</td>
<td>UK</td>
<td>China Agricultural University, Northwest Agricultural &amp; Forestry University, Nanjing University, CAS Centre for Chinese Agricultural Policy</td>
<td>2008–11</td>
<td>Recommendations to the Chinese government to encourage low carbon approaches in agriculture whilst maintaining high production</td>
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<td>9.10</td>
<td>Inclusion of climate change modules in Communist Party School Curriculum</td>
<td>UK</td>
<td>Global Environmental Institute, Communist Party School</td>
<td>2008–09</td>
<td>Inclusion of climate change modules in Communist Party School curriculum</td>
<td>No</td>
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<td>9.11</td>
<td>Provincial strategies &amp; actions for climate change mitigation &amp; adaptation in China</td>
<td>Commission</td>
<td>NDRC, China International Centre for Economic &amp; Technical Exchange (CICETE)</td>
<td>2008–11</td>
<td>Support the government of China in translating its National Climate Change Programme into on-the-ground action by developing local policies, institutional frameworks, partnerships and implementation capacities</td>
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<td>With Norway and UNDP</td>
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<td>Chinese partner(s)</td>
<td>Time schedule</td>
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<td>9.12</td>
<td>Europe-China Clean Energy Centre (EC²)</td>
<td>Commission</td>
<td>National Energy Administration</td>
<td>2008–14</td>
<td>Tools for decision-makers, platform for capacity building and advice on regulatory conditions for the energy market, facilitating exchange of knowledge and emerging technologies, advisory role on clean energy issues</td>
<td>No</td>
<td>Project design in progress</td>
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<td>9.13</td>
<td>Support to institutional and capacity building of the Institute for Clean and Renewable Energy (ICARE)</td>
<td>Commission</td>
<td>Ministry of Education</td>
<td>2008–13</td>
<td>EU-China Institute for Clean and Renewable Energy (ICARE) is established. Clean and renewable energy engineering education in China is permanently enhanced</td>
<td>No</td>
<td>Project design in progress</td>
</tr>
<tr>
<td>9.15</td>
<td>Establishment of Global Climate Change Centre in Beijing</td>
<td>Spain—UNDP MDG Fund</td>
<td>ONLGC and NDRC</td>
<td>2008–10</td>
<td>South-South cooperation. Knowledge hub for good practices. Policy making</td>
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<td>No</td>
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<td>9.18</td>
<td>Engagement of multinational and local companies through a UN-Business Compact on Climate Change</td>
<td>Spain—UNDP MDG Fund</td>
<td>CICETE</td>
<td>2008–10</td>
<td>Corporate responsibility for climate change and energy</td>
<td></td>
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<td>9.19</td>
<td>Demostration of best practices of “green employment” in three selected companies</td>
<td>Spain—UNDP MDG Fund</td>
<td>MHRSS</td>
<td>2008–10</td>
<td></td>
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Memorandum by Human Rights Watch

Human Rights Watch welcomes the opportunity to respond to the “Call for Evidence” regarding “The European Union and China”. The European Union (EU) can and should be more confident in its dealings with China. China needs the EU as much or more than the EU needs China. The EU should take greater advantage of the value the Chinese government places on the relationship to promote not just diplomatic and trade ties but also respect for internationally recognized human rights and the rule of law, which fundamentally underpin many of the EU’s core objectives.

EU Obligations to Promote Rights in China

The rights embodied in the Universal Declaration of Human Rights are just that, “universal”. No matter how vigorous China’s objections may be from time to time, EU member states should never hesitate to speak, in private and public, about human rights problems in China. In this way the EU and its people are working in common cause with those in China working to achieve the level of respect for human rights which citizens of EU states now take for granted, indeed, collectively we have won the argument, as the Chinese constitution and Chinese law now use the term “human rights” and the government has now announced a “national human rights action plan”. All of this provides a strong platform for EU advocacy on problems such as workers’ rights; protection of the rights to freedom of speech, association and religion; repression of minority populations; release of political prisoners; and rejection of the death penalty. The EU’s stated support for these internationally recognized rights speak for Europe’s empathy with those striving for similar protections around the world.

More than a decade ago, the EU agreed to abandon scrutiny of China’s human rights record at the United Nations Human Rights Commission. The minimal commitments China offered to obtain that assurance remain largely unrealized, as the government has yet to ratify the International Covenant on Civil and Political Rights (ICCPR) or follow through on many other commitments made at the time.

With the demise of the Human Rights Commission, the primary venue in which the Chinese government’s human rights record is challenged by EU members is the new Human Rights Council’s Universal Periodic Review (UPR) mechanism. In China’s first appearance before the Human Rights Council in February 2009, several EU member states, and most notably the Czech Republic on behalf of the EU, raised multiple issues of grave concern, ranging from torture in police custody to abuses of ethnic minorities in Tibet and Xinjiang. We appreciate these interventions, but to be effective they require follow up, and now is the time to do so with the Chinese government. At present, there is little indication that the recommendations made through the UPR process will be adopted or pursued in any meaningful way. As Chinese rights activists regularly tell us, progress will not happen without sustained international interest and pressure. China’s key partners, such as the EU, need to use the human rights dialogue process to press China publicly and privately on its international obligations and make clear that implementation of Human Rights Council recommendations is of utmost importance.

The challenge for the EU is to make equally powerful interventions in all of its interactions with the Chinese government, particularly in the forums important to the Chinese government, such as trade discussions. Even if the Chinese government rejects the EU view, the EU should make human rights an important and meaningful part of its own message to the Chinese government outside the established EU-China human rights dialogues (see below) or the UN framework, and articulate consequences for failing to alleviate those abuses.

Such discussions will be difficult, but they need not be confrontational. The Chinese government respects, though does not welcome, honest dialogue between partner states on human rights issues, particularly when there is a mutual recognition that no country has a perfect rights record. It takes advantage of signs of weakness. The EU can lead these discussions by example through demonstrating the efforts and progress the EU has made to comply with international human rights standards both with regards to civil and political rights as well as economic, social and cultural rights. Through such interaction, the EU can more meaningfully position itself as a partner to assist China in meeting its own human rights challenges. Moreover, implementation of recommendations made during such discussions will largely be a function of the EU’s willingness to move human rights issues further up on its political agenda, coupled by regular reminders of expectations of compliance.

One fruitful strategy may be to identify a few common human rights goals linked to international standard setting, ratification of an agreement, or establishment of better enforcement mechanisms. Topics the Chinese government may find acceptable could include ratification of the Convention against Enforced
Disappearance, or adoption of a Security Council mechanism on behalf of women affected by armed conflict. The Chinese government has shown some support for similar efforts on other issues, including children in armed conflict, and may therefore be likely to respond positively to being seen as an international standard-setter. It does, however, bear mention that China has on some occasions worked to weaken international norms, such that the EU would have to be prepared to defend the highest standards.

The State of Human Rights in the People’s Republic of China

The government of the People’s Republic of China has committed itself to strengthening human rights protection, as embodied by the inclusion in 2004 in the Constitution of a provision that says that “the State respect and protect human rights”. The government has endeavored to further develop legal institutions, sought to improve legal protection for workers, renewed pledges to improve access to education and health care, supported large poverty-alleviation and basic infrastructure, implemented national policies to combat HIV-AIDS, and pledged to ratify the International Covenant on Civil and Political Rights, which it signed a decade ago.

But extensive human rights violations, including sharp limits on the exercise of fundamental freedoms, continue. These limits are compounded by the fact that the ultimate source of authority at every level of government is not the government itself but the Communist Party of China (CPC). The legal system, including the judiciary, remains explicitly under the “supervision and guidance” of the Party despite being nominally independent. Party control is reinforced by the constitutional prohibition of any action that detracts from the “four cardinal principles”, which include upholding the “leadership of the CPC” and the “people’s democratic dictatorship”. These imperatives bar any direct criticism of the CPC by any individual or organization. Every year, hundreds of prosecutions for “subversion” and “separatism” attest to the strict enforcement of these prohibitions.

In addition to these institutional constraints, urgent human rights concerns in the People’s Republic of China include: harassment and prosecution of dissidents and human rights defenders; the use of re-education-through-labor and administrative detention; deprivation of liberty without court procedures; forced confessions and torture in the justice system; active and overt political censorship of media and internet content; executions and judicial procurement of organ transplants; child labor including in state schools; abuses against petitioners and other citizens seeking redress against state institutions; persecution of religious believers who refuse to join state-controlled churches; large-scale forced evictions and involuntary resettlements to make way for infrastructure projects; forced abortions and abuses of family planning regulations; illegal land seizures by corrupt officials; discrimination against rural citizens formalized by the household registration system; and repression of ethnic Tibetans in Tibet and Uighurs in Xinjiang.

An ongoing failure to rectify these problems has serious consequences not just for the people of China, but for the European Union and others. China cannot today be considered to function according to the rule of law, which compromises its ability to make and uphold in a predictable fashion legal commitments in areas including civil and commercial law. China’s increasingly globalization has been a boon for its export sector and benefited consumers in the EU and other import destinations. However, domestic censorship in China can make it virtually impossible for foreign governments and their consumers to be aware of—let alone respond effectively to—public health and product safety crises which originate in China. Obstacles to justice for ordinary citizens, and persecution of lawyers and legal activists who take up sensitive cases, present a grave challenge to the government’s advocated goal of a “harmonious society”, triggering instead a sharp increase in domestic social unrest. And at a time of dire economic straits, discrimination against already-vulnerable populations such as ethnic minorities and migrant workers is likely to increase, further compromising social stability. Each of these problems makes China a less reliable diplomatic, economic, and strategic partner, and compromises global efforts to meaningfully tackle international environmental problems, contagious disease control and corruption.

The Efficacy and Coherence of the EU’s Efforts to Promote Human Rights in China

It has been almost a decade since Human Rights Watch wrote that we “supported the European Union in its attempts . . . to bring about improvements in human rights in China through on-going dialogue with Chinese government officials, combined with rule of law exchanges. However, we continue to believe that dialogue and exchange programs alone are insufficient, and we are deeply concerned that the China-EU bilateral dialogue has become largely a rhetorical shell, lacking in accountability, transparency, and clear benchmarks for progress”. That stance has been reiterated on the occasion of each dialogue, as benchmarks have yet to be publicly articulated, and we remain unclear as to what the EU itself considers progress in the dialogues.
Moreover, while Human Rights Watch appreciates the EU’s efforts to include nongovernmental organizations such as ours in the human rights dialogue seminars, the reality is that the EU has allowed the Chinese government to dictate which NGOs maybe included even in meetings held in Europe. This has forced those who are invited into an invidious position: participate in the hopes of having some positive input into the discussion knowing that we are divided as we do so, or refuse to participate to protest the exclusion of some groups and have no input at all. It is unclear to us how hard the EU has pushed back against Chinese efforts to censor NGO participation.

Even on the occasions when Human Rights Watch has participated in such forums, it is clear that the discussions are maximally structured to prevent frank discussions about human rights conditions inside China. While there is some merit to helping establish connections between Chinese and European experts in areas such as labor law and the protections of ethnic minorities, this should not be a substitute for fact- and case-based discussions of real and serious abuses. That the organization and management of these dialogues is now being handed over to an academic network further suggests that the discussions will be just that: academic in nature, not a matter of political concern or governmental obligation.

The dialogues have also suffered because they have not been buttressed by comparable, consistent high-level political efforts and expressions of concern highlighting the EU’s expectations across the full spectrum of the EU-China relationship. EU-China summits are given extraordinary levels of political attention and resources, and diplomats are extremely careful in their choice of words. On human rights, however, the messages are often mixed. For example, some EU heads of government have met publicly with the Dalai Lama; others have abruptly withdrawn invitations for him to visit. Some have altered their positions on Tibet (though deny having done so), while others have stood firm and insisted that Beijing engage in negotiations with Tibetan representatives.

While Human Rights Watch recognizes that that there maybe differences of opinion between member states on some of these issues, an inability to generate and display consistency to Beijing on rights concerns reduces the likelihood of achieving change. The Chinese government notes and exploits inconsistencies in order to further undermine efforts at meaningful dialogue on human rights issues.

Human Rights Watch believes that the Chinese government not only responds to international pressure, but responds all the more when countries express concerns jointly and with one voice. One of the best mechanisms for doing so in the past—the Berne Process—has become virtually invisible. We strongly urge that these meetings be convened regularly and publicly, and that they include input from relevant experts and NGOs.

HOW THE EU SHOULD DEAL WITH CHINA AS A FOREIGN POLICY PLAYER
generally

China’s role as a major international actor is now indisputable, and Human Rights Watch has credited the Chinese government for some of its positive actions, such as contributing large numbers of peacekeepers to UN peacekeeping missions.

Yet there are many ways in which the model and practice of Chinese foreign policy crucially undermines international efforts to defend human rights. First, the Chinese Communist Party’s model of development—rapid economic growth without a commensurate increase in civil or political rights, alongside general resistance to international pressure—is hardly a positive example. Economic development in China has brought a greater degree of social freedoms, and of course reduced the number of people in poverty, but the fact remains that it is a government highly repressive of its critics, often on the grounds that their criticism jeopardizes state stability and growth, in addition, that rapid growth has been enabled by gross violations of labor rights, rampant expropriation by officials of land and other public resources, environmental devastation, and suppression of public discontent about these developments. In this sense, the Chinese “model” is not one rights activists wish to see replicated.

Second, in the context of the United Nations, Chinese diplomats have become adept at undermining or obstructing the work of the organization’s promotion of human rights. For example, Chinese officials often block UN Security Council resolutions that entail targeted sanctions against gross offenders such as a proposed resolution in January 2007 on Burma and a later resolution condemning the Burmese junta’s September 2007 assault on thousands of peaceful demonstrators. By obstructing multilateral efforts against an abusive government or impeding international investigations into the nature and scope of human rights abuses, such actions contribute to the misery of those who are already suffering. However, on at least two issues on which the EU engaged China at the highest levels—Security Council resolution 1593, which referred the situation in Darfur to the International Criminal Court, and on resolutions on the Middle East-China has been willing to either show support or abstain.
China’s actions at the UN Human Rights Council also demonstrate a concerted effort to roll back structures and procedures for protecting rights. China was one of several countries to propose that country mandates and “special procedures” be abandoned or restricted. It suggested that only governments should be able to submit statements in the Universal Periodic Review process. Chinese diplomats have complained that non-governmental organizations’ involvement in the Human Rights Council should be “controlled”. In 2006, China objected to the council accepting a report on human rights conditions in Darfur on the grounds that the authors had not actually been inside the country and therefore its report could not be accurate. That entry into the country had been denied by precisely the people thought to be responsible for human rights abuses (and precisely in order to evade scrutiny) seemed immaterial to China.

Third, while Beijing may have deep philosophical differences with the EU on the efficacy of conditioning aid, it has indisputably provided a crucial financial lifeline to countries with poor human rights records. This has often undermined efforts made by other international actors, including the EU to use financial leverage to improve rights. Without steady flows of Chinese aid, investment, weapons, and political support it is possible that the governments of Burma’s General Than Shwe, Sudan’s President Omar al-Bashir, and Zimbabwe’s President Robert Mugabe, among others, might already have had to answer for their human rights crimes before a court of law, be consigned to history or had their ability to abuse their citizens dramatically limited by a lack of resources.

Finally, there is growing evidence to suggest that official and unofficial Chinese investment in developing economies compromises local labor standards, particularly in large-scale infrastructure or extractive industry projects. While Human Rights Watch has not yet conducted research into allegations of paying subminimum wages, abusive working conditions, or the use of prison labor (either local Chinese) in such countries, credible evidence exists, and is consistent with extensively documented poor labor practices in China. While it is true that the labor conditions in many of the investment-receiving countries are already poor, the Chinese government and entrepreneurs appear to have no strategy or intention of making higher standards a hallmark of their presence.

There are some steps China can take that are consistent with its current world view which will help victims of human rights abuses. At a minimum, Beijing should reconsider its aid strategies. It seems highly unlikely that China will begin imposing human rights conditions on aid projects, but it can at least suspend gratuitously inappropriate projects, such as the new presidential palace for Sudanese President Omar al-Bashir, and reallocate those funds to other projects that would help those most in need. In the direst circumstances, such as the crackdown in Burma in September 2007, it should suspend some non-humanitarian aid to send a political signal. Should it fail to do so, the Chinese government should recognize that its actions will give others legitimate grounds to criticize its agenda and question its motives. Simply being more transparent about aid, particularly in countries with serious human rights issues, would also be a significant improvement.

China could also articulate the conditions under which it will set aside its insistence on sovereignty and non-interference, particularly with respect to human rights crises. By ratifying legally binding international human rights treaties China’s obligations are clear. When in 2005 it affirmed the “responsibility to protect” at the UN, China agreed that member states are obliged to intervene when a government fails to protect its own population against crimes against humanity, genocide, ethnic cleansing and war crimes. It is not yet clear under what circumstances China will endorse the doctrine’s use—if it is serious, the discussion in China (and elsewhere) should move on from whether to treat state sovereignty as an impregnable boundary to how it will join with other countries to intervene in the most egregious humanitarian crises when circumstances require. In order for the responsibility to protect to be implemented, a standby UN force, including civil police and human rights monitors, that can be quickly mobilized should be developed. Chinese support for creating such a force would indicate true international responsibility.

Adopting legislation to hold Chinese companies to international standards on labor rights, matched by resources to enforce such regulations, would be a key step forward. Doing so would demonstrate the Chinese government’s commitment to being a truly positive force in developing economies, possibly leverage reforms at home, and make it a more equitable international economic competitor.

Finally, China should be truer to its own rhetoric that it is a devoted friend of the developing world. It should see its foreign policy as not just about relations with other governments, but about helping improve the well-being of the people of those states. This would earn China the gratitude of people around the globe. But it will require a policy that accepts that human beings need civil and political rights as well as economic development.

43 As a member of the United Nations, China is expected to uphold the Universal Declaration of Human Rights. China is a party to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention to Eliminate All Forms of Discrimination against Women, the Convention on the Rights of the Child, and the International Covenant on Economic, Social, and Cultural Rights. It has signed but not ratified the International Covenant on Civil and Political Rights.
Human Rights Watch believes that not only has the European Union failed to press the Chinese government to take steps such as these—ones that remain within the confines of China’s general foreign policy philosophy—nor has it done enough to resist Chinese efforts to block international action on serious human rights crises, such as Burma, Sri Lanka, Sudan, and Zimbabwe. Doing so effectively requires vigorous, concerted diplomacy not just within the EU, but with other like-minded governments. If the EU remains unwilling to match China’s diplomatic resources on issues such as these, progress will remain elusive.

THE EU ARMS EMBARGO ON CHINA

In the wake of the bloody crackdown on prodemocracy protestors in China in June 1989, the EU imposed an arms embargo. Some EU member states, such as France, have suggested in recent years that the arms embargo be lifted, while others insist that it remain in place. In the two decades since the Tiananmen Square massacre, the EU has never collectively articulated a set of concrete benchmarks the Chinese government must meet in order to reverse the decision, once again eroding a sense of unity and suggesting to the Chinese government that it need not do anything to address the Tiananmen legacy.

Those benchmarks could include a serious, transparent, and impartial investigation into the massacre, accountability for those who ordered soldiers to open fire on demonstrators, compensation to victims and family members, release of those still in prison, and accounting for those who are victims of enforced disappearance. Establishing these standards would enable a process of implementation to begin, and even meeting only some of the benchmarks would be considered progress.

Human Rights Watch believes that this embargo should remain in place until the reasons for its imposition have been addressed. These include:

— a general amnesty for all persons imprisoned for any form of peaceful protest related to the Tiananmen massacre;
— new trials that meet international fair trial standards, attended by international observers, for all persons still serving sentences for cognizable criminal offenses related to the 1989 demonstrations; and
— an independent investigation into the events surrounding the massacre and prosecutions of those responsible for serious human right violations.

We can think of no better way to both demonstrate the EU’s commitment to human rights and to commemorate the 20th anniversary of the Tiananmen massacre than by putting this topic at the center of your upcoming summit.

17 April 2009

Memorandum by Professor David Shambaugh, Director, China Policy Program, George Washington University, Non-resident Senior Fellow, Foreign Policy Studies Program, The Brookings Institution, Washington, D.C. USA

PREAMBLE

It is a distinct honor and privilege to be invited to contribute evidence to the House of Lords and this committee on the important subject of the EU's relationship with, and policies towards, the People's Republic of China. As the committee notes in its call for evidence, Europe’s—and Britain’s—relations with China have evolved and developed profoundly over the past decade, with significant implications for global order as well as European and Chinese interests. I date the EU’s “autonomous” relationship with China from the mid-1990s—prior to that time Europe did not really have a relationship with China that was independent of Cold War dynamics or on a firm independent foundation. But since then, we have witnessed an extraordinary expansion of bilateral and multilateral ties between China and the now 27 member states of the EU; the European Commission, Council, and Parliament. The unofficial relationships between EU members with Taiwan (Republic of China) and the Hong Kong and Macao Special Administrative Regions have also moved forward on a solid track.

It is a particular privilege for an American to be invited to give evidence to this Inquiry. My own personal interest in China-EU and China-UK relations developed during my time teaching at the University of London’s School of Oriental & African Studies (SOAS) from 1987–96. I published my first study of the subject
during this time.\textsuperscript{44} Since that time my interest in China-Europe relations have further developed and deepened significantly. This includes having published many more studies of China-Europe relations.\textsuperscript{45} I wish that more of my American colleagues paid attention to China-Europe relations, as they hold significant implications for the United States, but at least there has been an upsurge in transatlantic discussions (official and unofficial) on China in recent years. This upsurge was primarily precipitated by the 2004–05 arms embargo imbroglio, but at least it belatedly refocused attention on the need for transatlantic dialogue and policy coordination concerning China. These dialogues have produced several significant studies in recent years,\textsuperscript{46} which should be read by policymakers on both sides of the Atlantic.

Permit me to respond briefly to some of the excellent questions posed by the committee’s inquiry (I am not competent to respond to all).

\textbf{CHINA TODAY}

\textbf{QUESTIONS}

1. What are the main successes and challenges of economic, social and political modernization in China, and how do these shape the context for China’s external strategy? In particular how do development priorities and foreign and security objectives interact?

\textbf{ANSWERS}

In my view, the main accomplishments of China’s modernization are: becoming the world’s third largest economy; lifting more than 200 million citizens out of “absolute” poverty and creating a growing middle class; significantly liberalizing social, cultural, intellectual, and religious life for the vast majority of citizens; and pluralizing the political system to provide participatory opportunities for large numbers of citizens. The principal challenges are to continue to grow the economy and navigate the current global economic recession; provide employment for an ever-growing and laid-off workforce; address severe environmental degradation; provide humane and responsible governance; tackle corruption; respect human rights; and further pluralize the polity. Externally, China’s foreign policy has been oriented around four principal goals: (1) maintaining stable relations with other major powers, particularly the United States; (2) creating a peaceful environment with China’s neighbors around its periphery; (3) securing access to foreign technology, capital, and markets; and (4) contributing to global governance while attempting to redress perceived inequities in the international system. China’s external policies are largely oriented towards furthering its internal development.

2. How does the EU’s policy on promoting the rule of law and human rights, including women’s rights, as well as political pluralism, freedom of expression and civil society interact with its broader foreign policy objectives on China? What is the scope and content of the bilateral human rights dialogue and how well is it working? How successful has the EU been in encouraging Chinese participation in international conventions and institutions in this area, such as the International Convention on Civil and Political Rights; and the UN Human Rights Council?

\textbf{ANSWERS}

The EU (including individual member states, particularly the UK) has done much good work inside and outside of China to promote the rule of law; promote respect for human rights; improve capacities in the Chinese legal system; improve the penal system; educate intellectuals; and enfranchise civil society. This has been done largely by private sector actors, although they often are funded by public funds from the European Union. Permite me to respond briefly to some of the excellent questions posed by the committee’s inquiry (I am not competent to respond to all).

\textbf{CHINA TODAY}

\textbf{QUESTIONS}

1. What are the main successes and challenges of economic, social and political modernization in China, and how do these shape the context for China’s external strategy? In particular how do development priorities and foreign and security objectives interact?

\textbf{ANSWERS}

In my view, the main accomplishments of China’s modernization are: becoming the world’s third largest economy; lifting more than 200 million citizens out of “absolute” poverty and creating a growing middle class; significantly liberalizing social, cultural, intellectual, and religious life for the vast majority of citizens; and pluralizing the political system to provide participatory opportunities for large numbers of citizens. The principal challenges are to continue to grow the economy and navigate the current global economic recession; provide employment for an ever-growing and laid-off workforce; address severe environmental degradation; provide humane and responsible governance; tackle corruption; respect human rights; and further pluralize the polity. Externally, China’s foreign policy has been oriented around four principal goals: (1) maintaining stable relations with other major powers, particularly the United States; (2) creating a peaceful environment with China’s neighbors around its periphery; (3) securing access to foreign technology, capital, and markets; and (4) contributing to global governance while attempting to redress perceived inequities in the international system. China’s external policies are largely oriented towards furthering its internal development.

2. How does the EU’s policy on promoting the rule of law and human rights, including women’s rights, as well as political pluralism, freedom of expression and civil society interact with its broader foreign policy objectives on China? What is the scope and content of the bilateral human rights dialogue and how well is it working? How successful has the EU been in encouraging Chinese participation in international conventions and institutions in this area, such as the International Convention on Civil and Political Rights; and the UN Human Rights Council?

\textbf{ANSWERS}

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\textsuperscript{44} David Shambaugh, China and Europe, 1949-1995 (London: Contemporary China Institute, School of Oriental & African Studies, 1996).


\textsuperscript{46} See for example, David Shambaugh and Gudrun Wacker (eds), Transatlantic Relations and China: Deepening the Cooperation (Berlin: German Institute of International and Security Affairs, 2008); Bates Gill and Gudrun Wacker (eds.), China’s Rise: Diverging U.S.-EU Perceptions and Approaches (Berlin: German Institute of International and Security Affairs, 2005); Charles Grant and Katinka Barysch, Can Europe and China Shape a New World Order? (London: Centre for European Reform, 2008); David Kerr and Liu Fei (eds.), The International Politics of EU-China Relations (Oxford: Oxford University Press for the British Academy, 2007); John Fox and Francois Godement, A Power Audit of EU-China Relations (London: European Council on Foreign Relations, 2009).
Union and individual member states. Collectively, European nations and the EU have done far more than any other country in these areas. By investing “on the ground” they have had a substantial impact. I am not in a position to judge how well, or how poorly, the various EU human rights dialogues with China are working—but I would observe that securing China’s ratification of, and adherence to, the UN Convention on Civil and Political Rights should be the Number 1 priority at present.

**Mutual Perceptions**

**Questions**

3. *How is the EU—and its Member States—perceived by China: what are the values, interests, and ambitions held by China in terms of its European strategy? What priority does China place on its relations with Europe; and how is this level of priority shaped, not by what Europe does, but by the positions adopted by others?*

**Answers**

Concerning Chinese perceptions of Europe see the chapters by Zhu Liqun and David Shambaugh in *China-Europe Relations: Perceptions, Policies & Prospects.* Chinese understanding of Europe—both at the popular and expert levels—remains relatively shallow and ill-informed. European understanding of China is similarly afflicted and public perceptions of China across Europe (as measured by various public opinion polls) have deteriorated markedly since 2006. Europe’s expert competence on China remains severely limited—particularly when compared with the United States, Canada, Australia, Japan, even India. *Europe needs a large and sustained infusion of funds into building university and think tank training and research programs on contemporary China!* This should be a high and long-range strategic priority, given the strategic importance of China to Europe’s future.

**Nature of the Relationship**

**Questions**

4. *What is the current nature of EU-China relations in the broader context of political, trade, economic, environmental, demographic-migratory and social-cultural terms? What should be the primary objectives of EU policy towards China; and notably how do Europe’s interests in closer interactions with China on trade, investment, and technology relate to its foreign and security strategy?*

**Answers**

There are various indicators of the breadth and depth of China-Europe relations: trade, investment, student exchanges, science and technology cooperation, diplomatic interchange, etc. There is no doubt that relations have developed dramatically, particularly over the past decade. Some of these measures—such as total trade and the number of Chinese students studying in EU universities (approximately 190,000)—are quite impressive. However, there is no doubt that the relationship has encountered difficult times since 2006—after which the Sino-European “honeymoon” turned into a real “marriage.” Encountering and managing difficulties are part of any marriage, as are now being experienced by China and Europe. I expect the rocky patch to continue, but hopefully an “equilibrium” may begin to emerge and relations will hopefully stabilize. This said, the very disunity of the European Union (27 member governments, parliaments, and publics) will continue to weigh against establishing a lasting and stable relationship.

**China’s Foreign Policy Principles**

**Questions**

5. *China treats its sovereignty as a fundamental determinant of its foreign and security policy, with the result that its general approach to political and civil rights, and its specific posture on questions such as Hong Kong, Macao, Taiwan, Tibet and Xinjiang have significance in international politics. How does the EU’s position on these questions shape its relations with China?*

**Answers**

The territories mentioned in the question—Hong Kong, Macao, Taiwan, Tibet, and Xinjiang—are all sovereign parts of China. However, they are all different cases with respect to the outside world. Governance of Hong Kong and Macao are governed by the documents of 1997 and 1999 agreed with the UK and Portugal respectively, as well as domestic legislation of the People’s Republic of China. Tibet and Xinjiang are
“Autonomous Regions” governed entirely by domestic Chinese law and political authorities, and are seen as highly sensitive entities in China’s relations with other nations. Taiwan (Republic of China) is administered by local “authorities” and virtually all governments in the world (except 21), including the European Union, do not recognize the independent sovereignty of Taiwan. Europe’s relations with these Chinese territories is thus different in each case, but in all cases they are highly sensitive as China “brooks no interference” in its “internal affairs.”

MANAGING THE EU-CHINA RELATIONSHIP

QUESTIONS

6. What does the EU have to offer China as a partner and how can it best influence, and learn from, Chinese thinking and policy? How successful has the EU’s diplomacy towards China been in attaining its stated objectives, and how could it be improved? How does the degree of coherence of the EU’s policy impact on the EU’s ability to engage and negotiate with China? How effective are the channels of communication and diplomacy of the EU in China, including the European Commission delegation in Beijing, and vice versa?

ANSWERS

The Inquiry asks a number of complicated questions on this subject. Generally speaking, I would submit the following. First, China offers multiple opportunities for partnerships with Europe—on reforming global multilateral institutions and architectures; addressing climate change; ensuring global financial stability and growth; providing peacekeeping in unstable states; controlling the proliferation of nuclear and dangerous technologies and WMD; and addressing a wide range of “non-traditional security” challenges (terrorism, organized crime, cyber attacks, human smuggling, piracy, narcotics, etc.). Second, I give the European Commission and Council generally high marks for formulating and articulating, since 1995, a series of well thought-through policy “Communications”. EU member states have, unfortunately, not kept pace with either a parallel conceptualization or articulation of policies toward China (an exception being the recent UK policy statement). A related problem has been that the Brussels bureaucracy, via these “Communications,” have been out of sinc with the more skeptical and negative views of China existent across European publics. The October 2006 Communication was intended to “bring Brussels back in line” with broader member state opinion, and it succeeded in doing so—although it deeply antagonized the Chinese side. Third, the broader incoherence of supposedly “common” foreign and security policy (CFSP) across Europe definitely has (negatively) affected how the EU is perceived in China and how the EU attempts to manage relations with China. In other words, the sheer diversity of the EU is a substantial weakness in gaining either China’s respect or effectively negotiating on substantive concerns.

THE INSTITUTIONAL FRAMEWORK

QUESTIONS

7. What is the perspective of different EU Member States in relations with China; and how do these different perspectives shape the conduct of European foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy? How close is the European Union to designing a strategy that will ensure that China regards convergence or compliance with EU objectives as a significant priority?

ANSWERS

The current institutional framework for the conduct of relations between the EU and China seem appropriate and function fairly effectively, and (from what I know) intra-EU communication among policymakers also functions effectively. The most glaring problem, in my view, is the general lack of China competence among officials in Brussels as well as the ministries of member states (the UK being the exception to the rule)—and the almost complete lack of input from the non-governmental expert community to governmental policymakers. While this is routine in the United States, it is virtually absent in Europe. There are far from enough officials with professional training in Chinese affairs and language to manage the relationship. On the academic side, there is a real dearth of expertise on contemporary Chinese affairs across the continent. To my knowledge, there is not a single nongovernmental specialist on Chinese military affairs or Chinese elite politics in all of Europe, and specialists on China’s economy and Chinese foreign relations can be counted on one hand. In the Mediterranean and Central European states there is a virtual absence of contemporary China expertise.

To repeat my major recommendation: (1) there is a pressing need for a sustained infusion of funds into building competence in think tanks, universities, and governments on contemporary Chinese affairs who will feed personnel and expertise into member governments and the EU in Brussels (note: the same applies to India), and (2) there need to be established mechanisms for non-governmental expertise on China to be fed to government policymakers. Improving this capacity can not be left solely to member states to fund and develop—there must be a Europe-wide strategic initiative stimulated by the EU itself. Chinese studies are in steady decline all across Europe—except in the UK, where they have rebuilt over the past decade following significant atrophy during the 1990s and as a result of specific Inquiries undertaken by the FCO and other bodies. Improving such competence and expertise will have a direct impact on improving the substance and execution of policy towards China. If the EU would only put resources into building contemporary China studies in Europe commensurate with the resources it has invested in building European studies in China it would make a big difference!

COHERENCE OF THE EU’S POLICY

QUESTIONS

8. What is the perspective of different EU Member States in relations with China; and how do these different perspectives shape the conduct of European foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy? How close is the European Union to designing a strategy that will ensure that China regards convergence or compliance with EU objectives as a significant priority?

ANSWERS

Perspectives on China vary greatly across member states. Some (in Central Europe) are quite hostile to China; some (in the Mediterranean states) are naïve about China; some (UK and Scandinavian states) are much more positive about China. Only Germany and the UK can be said to have national “strategies” for managing relations with China, and both have published government documents to this end. For its part, the European Commission and Council have done very well, in my view, to fashion and articulate detailed strategies and policies for dealing with China since 1995. The “problem” has been that the member states do not “follow” the strategies and policy guidelines formulated by the Commission and Council—thus undercutting the authority of Brussels as well as the substance and wisdom of EU policies. Thus, compliance with EU objectives is the real problem. Europe simply must act more coherently and in concert with (well formulated) policies set in Brussels.

FOREIGN AND SECURITY POLICY

QUESTIONS

9. What is the level and kind of cooperation being conducted at present between the EU and China on questions of foreign and security policy, including non-proliferation; counter-terrorism; and crisis management and peacekeeping? To what extent does the technical and scientific cooperation between Europe and China assist in China’s modernisation in areas such as defence and space; and is the EU confident that it has adequate mechanisms in place for oversight and regulation of these interactions?

ANSWERS

To my knowledge, mechanisms for China-EU dialogue and cooperation on foreign and security policy are not many. Of course, France and the UK regularly interact with China on such questions within the context of the UN Security Council, while Germany also plays a role in the “Sextet” concerning Iran’s nuclear program. The UK also has its own bilateral “strategic dialogue” with Beijing, and some other member states that have similar ones. In the UK’s case, this is carried out between officials of the two foreign offices, with some military representation. The European Commission also has, as one of its 22 dialogues with Beijing, one concerning non-proliferation. There is also a loose “dialogue” between NATO and China. In addition, the Chinese military (People’s Liberation Army) has a variety of bilateral exchanges with defense ministries and militaries of individual member states. In some case (eg UK, Germany) there are Chinese military officers resident in European staff colleges. It would be useful to collect pan-European information on member state’s exchanges with the Chinese military, as quite a lot seems to be going on but it is not well understood. Concerning the Inquiry’s question concerning the whether European technology transfer to China benefits the modernization of the Chinese military, the answer is definitely! With respect to the parallel question as to whether there are adequate safeguards in place to oversee and regulate these exchanges the answer is no (from an American perspective).
Questions

10. How successful has the EU been in persuading China to increase the transparency of its defence objectives and military expenditure? What is the state of play regarding exports of arms made in the EU to China? How effective is the newly adopted Council Common Position to replace the Code of Conduct on arms exports in limiting arms exports to China? Should the EU continue to pursue its stated ambition of lifting the arms embargo on China imposed in 1989? What is the EU’s policy on cross-strait relations between China and Taiwan, and how successful has the EU been in encouraging peaceful dialogue and confidence-building between the two sides?

Answers

The EU has not been very effective in persuading China to improve its defense transparency, largely because it has not been an issue on the EU’s agenda with China (until perhaps the past year), but it is definitely an issue worth pursuing—in tandem with the United States and other Asian nations. Moreover, Europe has the world’s two leading security institutes that publish such defense data (IISS and SIPRI)—efforts should be made to have both institutions work with Chinese defense authorities on questions of transparency and publication of defense data. With respect to the complicated question of the “arms embargo” and European arms and defense technology transfer to China, I would observe the following: (1) while there has been some “leakage” of defense technologies to China, the ban on end-use weapons transfers has been respected; (b) the EU should not pursue the stated intention to lift the “arms embargo” (as this would jeopardize the security interests of a number of China’s neighbors in Asia (one does not hear them calling for the lifting of the embargo) as well as the United States; (3) the Council Common Position seems an improvement over the Code of Conduct. Finally, with respect to the Inquiry’s questions concerning Taiwan, I believe that the EU’s statements on this question over the past two to three years have been quite correct and helpful in encouraging peaceful dialogue between China and Taiwan. Firm European adherence to the “One China Policy” is mandatory.

Questions

11. How does the foreign and defence policy of the United States impact on EU-China relations? To what extent and with what consequences will the EU-China relationship be determined by the course of the transatlantic relationship? What is divergent and convergent about US and European approaches to China? How do the EU’s other partners, notably Japan, India and Russia, view the development of EU-China relations?

Answers

EU-China relations do not generally impact US-China relations, which operate on their track. However, should the EU lift the “arms embargo” and begin to transfer weapons or defense technologies to China it would definitely negatively impact US national security interests and would stimulate robust resistance from Washington (as it did in 2004–05). More broadly, however, there are two other points to make. First, there are quite a large number of issues concerning China on which the EU and United States have common perspectives: human rights, rule of law, non-proliferation, good governance, IPR enforcement, anti-dumping, WTO compliance, trade deficit reduction, global financial stability, energy security, climate change, military transparency, anti-piracy, maritime security, and many other issues. The convergence of transatlantic perspectives and policies concerning China far outweigh any differences. Thus, to this end, there should be enhanced and more institutionalized transatlantic coordination concerning these issues. Second, there are an increasing number of issues in world affairs in which all three parties (Europe, United States, and China) share similar interests and perspectives—including on a number of the aforementioned issues. Thus greater trilateral dialogue and cooperation is called for as well. On some issues, other nations (Canada, Japan, South Korea, Australia, India, perhaps Russia) should also be brought into these dialogues and multinational efforts to improve global governance and address global problems.

Questions

12. To what extent should Europe regionalize and internationalize its China strategy? Europe and China increasingly meet in common neighborhoods and in global forums, most obviously the UN. What is the role of regional multilateralism—for example, the ASEM process—and institutions of global governance in promoting the EU’s objectives in the China relationship?

Answers

The EU’s China policies and relations with the PRC should be embedded in broader and deeper regional relations and policies towards the Asian region. It does no good to have a China policy that is separate from a nation’s broader regional policy. However, to date, the EU has not developed (or at least has not articulated) a broader Asia strategy. It has been a number of years (eight?) since the European Commission last published a
“Communication” on Asia, although it has published a series of such documents on China, India, Japan, and ASEAN. The Commission needs to put these pieces together within an overall regional strategy, and update the 2001 “Communication.” As for the question about ASEM: it does not appear to be a particularly effective institution. Broadly speaking, as noted above in question 11, there is considerable scope for China-EU collaboration on a wide range of global governance issues in a wide range of multilateral and regional forums. This includes, for example, on Africa—and particularly the ODA (aid) policies of China and the EU in Africa.

Environment, Climate Change, and Energy

Questions

13. What is the scope of the EU’s environmental cooperation with China, and assisting China on policy mitigating and adapting to climate change? What is the EU doing to persuade China to commit to binding targets for reductions in its greenhouse gas emissions under the post-Kyoto UN framework on climate change? What is the EU’s policy on cooperation with China on energy? How has China’s growing demand for energy and raw materials shaped its foreign policy, and to what extent is there scope for greater cooperation between the two sides on security of supply?

Answers

The EU has done much excellent work in China over the past decade in the area of environmental protection and raising “green consciousness”. The website of the EU Delegation in Beijing is full of good examples of these EU-funded projects. This has been a commendable effort. Moving towards Copenhagen in December, however, the EU needs to raise the level of interaction on the climate change issue to the highest possible level, preferably in conjunction with the United States. Energy security is an issue ripe for greater inter-governmental and non-governmental interaction with Chinese interlocutors.

Europe and China’s Strategy for Africa

Questions

14. What is the Chinese view of promoting security and development in Africa; and how far does this approach correspond to that promoted by the EU? Can the EU, China and Africa cooperate to improve the effectiveness of regional development and security through the trialogue mechanism and UN forums?

Answers

China promotes development in Africa through a wide range of ODA related programs. China has made a real and positive difference in Africa in the following areas: public health, medical clinics, and paramedics; agricultural technology; primary and secondary school building and teacher training; and the building of hard infrastructure (roads, dams, bridges, buildings, stadiums, ports, railroad, etc). These have been commendable efforts—and they are in areas in which the EU, US, World Bank and other external donors have been reluctant to invest. China has also undertaken debt relief and extended a variety of credits, grants, and loans to African countries. The problems, however, lie in: (1) China’s “no strings attached” aid policies—as these projects have frequently undercut other donors’ efforts to improve domestic governance in particularly authoritarian African states; and (2) in the total lack of transparency in China’s ODA policies (worldwide). As China is not a member of the OECD, it does not comply with or provide data to the OECD’s Development Assistance Committee on its aid activities around the world. The EU, as well as other donor countries and international bodies such as the World Bank, all need to engage China directly and robustly on this issue—so as to better coordinate various donor efforts and not allow Chinese aid to undercut efforts to improve domestic governance in recipient nations.

16 April 2009

Memorandum by Mr Sukhdev SHARMA, Member of the EESC, President of the follow-up committee of the EU-China Civil Society Round Table

The EU-China Civil Society Round Table

1. In recent years, the European Union has established formal relations with the majority of the world’s countries and regions. At the same time, international relations have opened up to new actors, primarily from civil society, and the international agreements signed by the EU include arrangements on an almost systematic basis aiming to establish dialogue at civil society level. In its capacity as institutional representative of
European organised civil society, the European Economic and Social Committee\(^{49}\) has been requested to engage in structured relations with the equivalent body in China, the Chinese Economic and Social Council (CESC), by operating a civil society round table.

2. The EESC has close relations with the Economic and Social Council of China (CESC) with whom it signed a joint declaration when the latter was set up in 2001. The ninth EU-China Summit, held in Helsinki in September 2006, acknowledged that the exchanges and cooperation that had been going on were an integral part of EU-China relations and advocated the setting up of an institutional Round Table, which has been up and running since June 2007.

3. Established in 2001, the CESC is an organisation gathering of economic and social research institutes, public and private enterprises, media representatives. It is considered as an independent body, partly funded by private enterprises. The CESC’s executive body is the Board of Directors, under which 5 committees work: Economic Affairs, Social Affairs, Environmental Affairs, Educational, Scientific and Cultural Affairs and External Affairs. The President of the CESC is Mr Wang Gang, member of the Politburo of the CPC Central Committee and Vice-Chairman of the 11th CPPCC National Committee.

4. The objectives of the CESC are to support China’s reform, to contribute to China’s opening-up process and economic and social development. The CESC carries out research, offers advice and provides information and counselling.

5. The Round Table has 15 members from each side and is co-chaired by the President of the EESC and the President of the Chinese ESC. It meets twice a year, alternating in China and in Europe. It works on the basis of written contributions on relevant topics, presented by the two rapporteurs, one for the Chinese side, one for the European side, for discussion. The reports drawn up by each delegation are available to the public, but the discussions are held “in camera”.

6. Four Round Tables have been organised so far. They have focussed on the following items:
   - Sustainable development; Climate change
   - Corporate social responsibility
   - Trade and investment
   - Recycling industries

7. On **Sustainable Development**: After debates and negotiations, the Chinese delegation has accepted the concept of “civil society” and of “sustainable development”. Consequently, the Round Table has recognized “the importance of the three pillars of “Sustainable Development”: the economic, social and environmental pillars, as a key element of economic, social and regional cohesion, and of solidarity between not only generations, but also countries and regions of the world. It has acknowledged that consultation and active involvement of organized civil society are necessary to achieve the objective of Sustainable Development”\(^{1}\). (RT 1, June 2007).

8. On **Climate Change**: The Round Table noted that organized civil society should have a key role to play in meeting the challenges of climate change. It called for intensification of the dialogue between EU and China and for consolidation of the multilateral process. (RT 1, June 2007) It is convinced that organized civil society has an essential role to play in bringing the issues of climate change to the citizens, and in promoting discussions at the local level on how communities can take concrete steps to mitigate and to adapt to climate change. (RT2, November 2007). More specific recommendations on forestry were adopted in November 2007.

9. On **Trade & Investment**: Two meetings have taken place on Trade & Investment (June and November 2008); the different chapters of the Partnership & Cooperation Agreement negotiations have been discussed, some common ground has been found, in particular in identifying where the problems actually lie.

10. On **Corporate social responsibility (CSR)**
    The discussion on Corporate Social Responsibility has been one of the most fruitful. The starting point was difficult because of opposed views on the nature of Corporate Social Responsibility. The Chinese side considered CSR as the responsibility of employers to organise charity for the poor when their profit was high; the European side saw CSR as (1) the respect of international rules and conventions related to labour rights and (2) the voluntary contributions of the employers over and above what is legally required by them.

\(^{49}\) The European Economic and Social Committee is a consultative body set up by the Rome Treaties in 1957. It consists of representatives of the various economic and social components of organised civil society. Its main task is to advise the three major institutions, European Parliament, European Commission and Council of the European Union. The Committee is made up of 344 members split into three groups, the “Employers’” group, the “Employees’” group and the “various interests” group. The third group brings together representatives from sectors of economic and social life that are not covered by the first two groups, ie bodies representing craftsmen, farmers, SMEs, consumers, family associations etc. EESC members are appointed by the Council of Ministers of the EU for four years on the basis of nomination by the member States.
After 3 rounds of discussions, a broad definition of Corporate Social Responsibility has been endorsed and several commitments taken on further aspects related to rights, implementation of these rights, association of all players, reporting and exchange of best practices. See main endorsed recommendations and conclusions on CSR in annex 1.

11. On the agenda of its 5th meeting are two topics: Economic and social rights in Europe and in China, as along with the numerous problems related to this issue, such as the protection of rights in a context of crisis, the debate on International Labour Organization (ILO) core labour standards which have to be respected by all states, whether they have or not ratified the relevant international conventions and the issue of "Recycling industries". Before the Round Table some members will meet several civil society organisations in Hong Kong in particular on the topics of economic and social rights in mainland China and in Hong Kong & Macao and on the impact of the financial crisis from a civil society perspective.

12. A joint declaration is adopted at the close of each Round Table. This enables members to summarise the issues on which they have reached consensus in discussions and to continue talks at the following Round Table on those issues on which points of view differ. It includes recommendations to the political authorities of the European Union and the Chinese Government. At the close of the third Round Table, held under the French Presidency, Bernard Kouchner, French Minister for Foreign and European Affairs, wrote: "Rest assured that the next EU-China summit will certainly take account of the joint work carried out by the European Economic Council and its Chinese counterpart. I should like to underline the importance and usefulness of this original body for discussion between economic and social partners in the EU and China”.

Annex 1

Main EU-China Round Table joint recommendations and conclusions on corporate social responsibilities

— The aim of CSR is to contribute to the improvement of living and working conditions for all in a harmonious society. CSR is based on respect for and the effective and dynamic application of basic labour standards and laws, the principles of sustainable development and includes voluntary commitments by businesses that go beyond the normative framework.

— The RT agrees that reflection and the exchange of good practices as regards CSR are among the priorities for all the economic, social and political actors within the framework of relations between China and Europe.

— It notes that convergences between Europe and China as regards the aims of CSR and convergences as regards definitions and standards are more numerous than in the past.

— It also note that difficulties of implementation exist on both sides and that the lessons drawn from the experiments undertaken could be used more to bring points of view closer together, in an approach respecting diversity while adhering to universal values and principles.

— It recalls the importance of the conventions of the International Labour Organisation, the Universal Declaration of Human Rights, and other international instruments. It notes the importance of the initiative taken by the International Organization for Standardization (ISO) in a spirit of mutual understanding.

— It notes that both China and Europe have recently made great progress in reporting, and that measuring of CSR has become more reliable and transparent, although major progress still needs to be made, particularly as regards the quality of information.

— It calls for a reinforcement of the structures for dialogue and partnership between CSR stakeholders and proposes organising other workshops to continue the reflections.

17 April 2009
Memorandum by the Taipei Representative Office in the UK

PART I: THE STRATEGIC IMPORTANCE OF TAIWAN TO THE EU—IN RELATION TO EUROPEAN CONCERNS REGARDING CHINA

1. Taiwan is comparatively the best role model and catalyst for China’s democratization

Given the shared cultural background and common historical legacy of the two sides of the Taiwan Strait, the Republic of China (ROC) on Taiwan, probably more than any other western democracy, can serve as the best role model and catalyst for China’s democratization along EU expectations. For example, we have seen many in the younger generation in China question each other through electronic exchange as to why the people in Taiwan can elect its own president and vice president while they cannot.

2. Taiwan is a major contributor to China’s economic modernization and market economy

According to our statistics, by the end of March 2009, the total number of applications of investment to China was 37,251, with a total investment amount of US$76.399 billion. More than 5 million jobs in China have been created due to this investment, and, according to a report published three years ago by the World Economic Forum (WEF) in Geneva, about 70% of China’s IT capability can be attributed to Taiwan investment.

3. Taiwan is a unique business partner for EU investors in China

Taiwan enjoys special privilege of accessing the growing China market, particularly that of the yet-to-be developed inner China. According to two of the nine agreements Taiwan signed with China since President MA Ying-jeou was inaugurated on 20 May 2008, China has opened 63 ports exclusively to Taiwan’s ships, including some river ports into inner China, such as Wuhan and Chenglingji along the Yangtze River; and 27 cities for direct Taiwan air links, including some remote provincial capitals such as Harbin in the Northeast and Guiyang in the Southwest. It can be said that few foreign countries have such easy access to the inner part of China, and this has made Taiwan an ideal business partner and unique gateway for EU investors who would like to explore the big market in China’s remote provinces.

4. Taiwan is a determining factor in the regional peace and military balance in East Asia

Mainland China is 265 times larger than Taiwan geographically and 58 times more populous. However, China’s GNP is only about eight times that of Taiwan (US$3.2 trillion vs US$400 billion). The military balance in the Taiwan Strait area, as indicated in the attachment, shows that Taiwan’s defense capability cannot be overlooked and Mainland China still has more than 1,500 missiles targeted at Taiwan. The MA Ying-jeou government is now seeking improvement of China-Taiwan relations, and has put into effect policies to help significantly ease the tension with the hope that Beijing will reciprocate this Goodwill. Taiwan’s departure or deviation from the current policy may revive the previous confrontation, even in military terms, which nobody would like to see.

5. Taiwan, due to its unique assets, is the right place to learn Chinese culture and history

A large volume of China’s historical archives, dated from as early as the mid-19th century, as well as around 700,000 pieces of imperial art collection originally in Beijing’s Forbidden City, were brought over to Taiwan in 1949 by the Chiang Kai-shek government. Together with the preservation of the classic Chinese written characters, Taiwan has been made a unique place for the study of culture, language, and modern history of China. As a matter of fact, as of today, 30 years after the American recognition of the People’s Republic of China (PRC), the Chinese language school of the US State Department is still located in Taiwan.

6. Taiwan is willing to learn from the EU integration experience

Taiwan’s current approach to its relationship with Mainland China is similar to the European path of integration, i.e. starting from social and economic integration so as to reduce military tension and to increase the possibility of political accommodation and reconciliation. Since the new policy was in place after the government of President MA Ying-jeou took office in May 2008, the EU has issued eight statements to welcome relevant measures and developments. As integration is likely to be an endless process, Taiwan is willing to learn from the EU integration experience that is helpful for the development of cross-strait relations.

7. **The importance of Taiwan as an EU trading partner**

According to the EU’s 2007 statistics, Taiwan is the 13th largest trading partner of the EU with a two-way trade volume of about €40 billion. If we single out exports to the EU, amounting to roughly €26 billion, Taiwan has a global standing between India and Canada as the 12th largest supplier. It has been estimated that such a trade volume, together with Taiwan’s investment in the EU countries, has created 400,000 jobs for EU member states. In 2007, Taiwan also stands as the 21st largest market for EU goods followed by the 2008 purchase of big-ticket items such as 20 A350-900 Airbus aircraft for a total value of US$ 4.3 billion. The plane deal also marks the first time that Taiwan’s air fleet have ordered European (UK-made Rolls-Royce) engines.

8. **Taiwan is a major air and maritime transportation hub in East Asia**

Centrally located in East Asia, the island of Taiwan is a major air hub to approximately 1.5 million–1.8 million controlled flights a year, including those of 69 airlines from 30 countries (10 from six EU member states). Taiwan’s harbors receive about 80,000 international ships annually. Around 120 direct flights operate between Taiwan and Europe a week, not to mention thousands of the European overflights crossing Taiwan’s airspace weekly. The Taiwan Strait is also an important waterway linking Northeast and Southeast Asia where tens of thousands of European ships travel through each year.

9. **Taiwan’s international aid currently goes to 28 developing countries with 306 projects to share EU’s burdens**

Turning from a recipient country just a few decades ago, Taiwan now is a donor nation that, in 2008 alone, spent US$430 million in Official Development Assistance (ODA), in addition to the donation from the private sector of another hundreds of millions of dollars. Altogether thirty-three technical and medical missions with 326 experts are stationed permanently in 28 developing countries, providing humanitarian relief, education and training, as well as technical assistances ranging from agricultural demonstration to food processing, and from public health to power supply. Taiwan has also made a strong effort in helping the infrastructure building in those countries who still maintain diplomatic ties with it, mostly former European colonies. The projects include building hospitals, airports, highways and government offices.

**PART II: TAIWAN’S EXPECTATIONS OF THE EU—A WISH LIST**

1. **The granting of the Schengen Visa waiver to the Taiwan (ROC) passport holders**

We appreciate the kindness of the United Kingdom in offering the British visa waiver to our passport holders as of 3 March 2009. Taiwan has also granted visa waiver to 24 out of the EU’s 27 member states, with the remaining three already arranged to be included under the principle of reciprocity.

2. **The EU’s continuous support for Taiwan’s participation in the UN’s Specialized Agencies as observers**

With EU support, Taiwan just received an invitation letter from the World Health Organization (WHO)52 to attend the 2009 World Health Assembly (WHA) as an observer. As a matter of EU policy, Taiwan’s “meaningful participation”, including observer status, in the UN Specialized Agencies was recently endorsed by the two amendments, adopted by the European Parliament on 5 and 19 February respectively. Just like the WHO, other UN Specialized Agencies cannot accomplish fully their respective goals without Taiwan’s participation. Taiwan is willing to participate in and contribute to the works of the UN Specialized Agencies. Besides, Taiwan needs to learn about and observe the international rules made by these Agencies so as to keep its pace of development up to international standards. For those purposes, observer status in these Agencies will make Taiwan’s participation meaningful and systematic, different from the nowaday sporadic and random arrangement.

3. **Establishment of a Free Trade Agreement (FTA) between Taiwan and the EU**

More and more EU trading partners have signed or about to sign FTAs or similar arrangements with the Union. In order to offer equal opportunities for Taiwan traders and producers, it is only fair to let Taiwan also conclude a FTA or similar arrangement such as Trade Enhancement Measures (TEM) with the EU. According to a study done by a Copenhagen research institute specialized in FTA matters, such an agreement will help increase EU exports to Taiwan by €11.8 billion within two to five years, a big benefit to both sides.

4. A balanced EU policy toward the two sides of the Taiwan Strait

It is utmost important for EU not to define its “One China” policy as recognizing Beijing’s sovereignty over Taiwan. As a matter of fact, while all 27 EU member states recognized the PRC diplomatically, only six of them explicitly indicated their recognition of Beijing’s sovereignty over Taiwan in the joint communiqués for diplomatic relations. Recognition of such will not only impede EU’s own freedom in its future dealings with Taiwan, but also tend to invite PRC intervention on all occasions related to Taiwan. In particular, we hope that in the current negotiation for the Partnership and Cooperation Agreement (PCA) between the EU and China, the issue of Taiwan sovereignty will not be mentioned at all. It is also expected that no dealing between the EU and China concerning Taiwan will be conducted before the Taiwan authorities are fully consulted.

5. Continuation of the EU’s arms embargo against China until relevant conditions are met

On January 18 2007, the Commissioner for External Relations and European Neighbourhood Policy, Mme. Benita Ferrero-Waldner of the EU said to the Chinese Prime Minister that there are three conditions China must meet before the arms embargo imposed in 1989 can be lifted. The conditions are: (1) to ratify the UN International Covenant on Civil and Political Rights; (2) to free those jailed for the involvement in Tiananmen Square incident; (3) to abolish the “re-education through labour” system of imprisonment without trial. We would like to suggest another two conditions which are also important to both the EU and Taiwan: (1) China must remove the 1,500 missiles deployed along China’s southeast coast targeting at Taiwan; (2) China must formally renounce the use of force against Taiwan.

6. The acceptance of Taiwan as an international legal person by the EU

Although the ROC is not widely recognized as a nation-state, Taiwan, at the very least, is an international legal person entitled to enjoying rights and undertaking obligations under international law. To date, 109 countries who do not recognize the ROC have signed over 800 bilateral agreements or arrangements with Taiwan. Courts in the countries not recognizing Taiwan, such as Canada, USA, and Switzerland, have confirmed in legal cases and precedents that Taiwan is capable to sue and to be sued in those countries. As international agreements and conventions signed by the PRC cannot legally cover Taiwan, the legal vacuum in this regard has to be dealt with by accepting Taiwan as a separate international legal person, similar to the arrangement in the World Trade Organization (WTO), in which Taiwan appears as a “separated customs territory” but with full membership. Another example is that, for the implementation of the International Health Regulations (IHR) in Taiwan, the health authorities in Taipei were already invited in January 2009 by the WHO to designate a “Point of Contact” so as to directly communicate with the WHO’s Contact Points, instead of going through Beijing’s Focal Point. Only the government in Taiwan, and no one else, can undertake international obligations and enforce international rules and laws in and for Taiwan. By the same token, the legal rights under the same international agreements and conventions should also be bestowed upon Taiwan accordingly and directly.

18 May 2009

MILITARY POWER OF THE PEOPLE’S REPUBLIC OF CHINA
TAIWAN STRAIT MILITARY BALANCE, GROUND FORCES

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Total</th>
<th>Taiwan Strait Area</th>
<th>Taiwan</th>
<th>Total</th>
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<tr>
<td>Personnel (Active)</td>
<td>1.25 million</td>
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<td>18</td>
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<tr>
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<tr>
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<tr>
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<tr>
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<td>6</td>
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<tr>
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<td></td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Amphibious Divisions</td>
<td>2</td>
<td></td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
China | Total | Taiwan Strait Area | Taiwan | Total
---|---|---|---|---
Amphibious Brigades | 3 | 3 | 3
Tanks | 6,700 | 2,800 | 1,100 | 1,100
Artillery Pieces | 7,400 | 2,900 | 1,600 | 1,600

Note: PLA active ground forces are organized into Group Armies. Infantry, armor, and artillery units are organized into a combination of divisions and brigades deployed throughout the PLA’s seven MRs. A significant portion of these assets are deployed in the Taiwan Strait area, specifically the Nanjing, Guangzhou, and Jinan MRs. Taiwan has seven Defense Commands, three of which have Field Armies. Each Army contains an Artillery Command roughly equivalent to a brigade plus.

Memorandum by the Tibet Representative Office in the UK

The Chinese Government’s treatment of Tibetans inside Tibet has from the very start been in breach of human rights: the rights to life, liberty and security; and the freedoms of expression, religion, culture and education. The Chinese Government’s approach has been to carry out a very systematic and strategic cultural genocide against anything ‘Tibetan’. Since the Chinese occupation, Tibetans have become a minority in their own country due to the massive influx of ethnic Han Chinese population (6 million Tibetans as opposed to 7.5 million Chinese in Tibet), who are the main beneficiaries of China’s “economic progress” in Tibet; Tibetans are subjected to racial discrimination by the Chinese; photos of His Holiness the Dalai Lama, spiritual and temporal leader of the Tibetan people, are banned even today. The Tibetan language is systematically being made redundant in various sectors; and Tibet’s natural and mineral resources are exploited.

Despite China’s accession to 25 international conventions on human rights and their re-election in the UN Security Council, the degree and extent of suffering and repression experienced by Tibetans under the authoritarian control of the PRC government is equivalent to being, as His Holiness the Dalai Lama remarked, a “hell on earth”. Tibetans in Tibet are still at risk of facing arbitrary arrests and detentions and more often than not, Tibetans who are arrested are often denied legal representation; torture is still a tool used in Chinese prisons and detention centers; there are Tibetan political prisoners below the age of 18; and 70% of the Tibetans in the “Tibet Autonomous Region” now live below the poverty line.

The Central Tibetan Administration of His Holiness the Dalai Lama also known as the Tibetan government in exile based in Dharamsala in northern India, has confirmed information on the death of 110 Tibetans, and as of 24 April 2009, it estimates the death of 220 Tibetans, sentencing of nearly 300 Tibetans and over 1,294 Tibetans as injured, in the brutal crackdown by the Chinese Government, that took place after the March 2008 protests alone.

Tibet remained closed and covered for much of 2008 and 2009 amid massive deployment of armed security personnel, intensified vigilance and surveillance over Tibetans as political education campaigns for Tibetans were stepped up not only in monastic institutions but among party members and general populace. The atmosphere in Tibet was aptly described as virtual martial law, reminiscent of the martial law period imposed in Lhasa on 8 March 1989 under President Hu Jintao, the then TAR Party Secretary.

In order to lock Tibet down in the run up to the politically sensitive anniversary of the Tibetan Uprising on 10 March 2009, Lhasa City Tourism Bureau decided in mid-February to ask tour agencies to stop organizing trips for foreigners to Tibet, until 1 April, 2009.

According to Reporters Without Borders, at least 14 foreign reporters were either arrested or expelled from Tibetan regions while trying to cover events surrounding Tibet. Jonathan Watts, head of the Foreign Correspondents Club of China said, “These detentions must stop. The government should live up to its promise of openness in all areas of China, including TAR and Tibetan areas.”

1 April 2008 saw the re-launch and a strengthening of the “patriotic re-education” campaign in monasteries and nunneries. The campaign strictly required the monks and nuns to affirm their loyalty to the Chinese “motherland” and to denounce His Holiness the Dalai Lama as a “splitist”. Monasteries are put under strict control by sending “work teams” to carry out “patriotic re-education” classes for monks and nuns to make them, among other things, write essays denouncing the Dalai Lama, accept Tibet as an inalienable part of China, etc. Zang Qingli, present Communist Party Secretary of the TAR who called for the intensification of the “patriotic re-education” campaign, has called His Holiness the Dalai Lama “the biggest obstacle hindering Tibetan Buddhism from establishing normal Buddhist order” and has said that the Party is engaged in a “fight to death struggle against the Dalai Clique”.

STARS AND DRAGONS: THE EU AND CHINA: EVIDENCE
The much-dreaded “Strike Hard Campaign” also was re-launched on 18 January 2009. The 600 officers deployed under this campaign conducted extensive raids of nearly 3000 rented houses, guesthouses, hotels, bars and internet cafes. Within three days of the launch of the campaign, 5,766 Tibetans suspects were held and interrogated. Meanwhile a notice was issued from the Lhasa City Government strictly requiring all outside visitors that wished to stay longer than three days and less than a month to apply for temporary stay permit. Later, China’s state-run Tibet Daily acknowledged the detention of 81 Tibetans from Lhasa under the “Strike Hard Campaign”. The detainees include two Tibetans whose mobile phone had “reactionary music”, probably songs in praise of His Holiness the Dalai Lama.

The Tibetan Administration has managed to obtain a rare footage (http://footage.tibetanbridges.com/) that exposes the Chinese authorities brutality against Tibetans in the aftermath of the spring 2008 protests. The footage reveals heavy presence of paramilitary forces in Tibet; indiscriminate beatings of Tibetan protestors even while they remain handcuffed and stretched on the ground. Moreover, it reveals extensive wounds on a young Tibetan named Tendar, who later succumbed to his injuries on 19 June 2008. A staff in China Mobile Company in Lhasa claimed that Tendar’s only crime was his attempts to stop Chinese security forces from beating a lone monk, while on his way home from work on 14 March 2008. According to reliable information received from Tibet, Tendar was “fired at, burned with cigarette butts, pierced with a nail in his right foot, and severely beaten with an electric baton.”

He was denied medical care at the military hospital and later shifted to TAR People’s Hospital in Lhasa, where the doctors removed about “2.5 kgs of his body part to clean the rotten wounds”.


According to the National Human Rights Action Plan of China (2009–10), death penalty shall be “strictly controlled and prudently applied” and all death sentences must be reported to the Supreme People’s Court for review and approval. However, in April 2009, two Tibetans Lobsang Gyaltseten and Loyak received immediate death sentences on charges of burning two clothing shops in downtown Lhasa on 14 March 2008 and burning down a motorcycle shop that allegedly left the owner, his wife, his son and two employees dead. A Tibetan girl named Penkyi was also issued a suspended death sentence for allegedly “starting fires in two downtown clothing shops on 14 March 2008”. Two other Tibetans, Tenzin Phuntsok and Kangtsuk have been given suspended death sentences with two-year reprieves.

The recurring protests in Tibet before and since 2008 are clear indicators of China’s failed Tibet policies and its failure in political development. In order to resolve the issue of Tibet, His Holiness the Dalai Lama has even gone to the extend of giving up the Tibetan people’s right to an independent state and agreed for Tibet to remain within the People’s Republic of China to help it maintain its unity and stability. He has said that history is history and no one can change history. Even the former British Prime Minister Mrs Margaret Thatcher in her book, “Statecraft—Strategies for a Changing World” stated; “The Chinese claim to Tibet is dubious on historical grounds”.

As for the future, keeping in view the long term interests of both the Tibetan and Chinese peoples, the Tibetan leader and Nobel Peace Laureate, His Holiness the Dalai Lama, has for the last many years consistently declared that he is not seeking independence or separation of Tibet from China. However, despite all positive efforts from the Tibetan side, China has continued breaking promises and international laws in the last one year, and this too despite the fact that the European Union (EU) still asserts its commitment to support China’s transition towards an open society.

**Recommendations**

- EU should help start the practice of debating China’s human rights behaviour at the annual sessions of the UN Human Rights Council.
- EU should urge China to invite impartial international bodies to investigate who is behind last year’s uprisings in Tibet.
- EU should urge China to open all Tibetan areas to independent monitors and the international media.
- EU should push China for the release of all Tibetan political prisoners of conscience.
- All the detained Tibetans must have access to independent lawyers and the right to lodge complaints, in an atmosphere free of reprisal and harassment.
EU should insist on immediate access to all detention centers and prisons in Tibet for international observers and to provide details about every Tibetan detained such as name, name of prison or detention center the accused is being held in.

EU should urge China to prohibit extortion of confessions by torture and wrongful or prolonged detention.

EU should support the recommendation made by the UN Committee on the Rights of the Child in 2005, for China to allow an independent expert to visit and confirm the well being of Gedhun Choekyi Nyima, the 11th Panchen Lama, still held hostage by the Chinese authorities.

19 May 2009

Memorandum by Dr Steve Tsang, Fellow and University Reader in Politics, St Antony’s College, Oxford University

1. In this submission I focus on how the EU should deal with China’s rise, and on contextualizing the basis for the EU to engage China with a clear understanding of the nature of the political system now in place in China. I take the view that the Chinese government’s handling of China’s rise and its foreign and security policy is intended to serve the national interest of China as interpreted by the leadership of the Communist Party. I start by highlighting the nature of the political system now in place in China, as this is the key to understanding what drives the Chinese government’s approach to the rest of the world.

Nature of the Chinese Political System

2. The Chinese leadership after the death of Deng Xiaoping in 1997 has become increasingly confident. It now seeks and experiments with a development model that is married to a political system distinctly different from liberal democracy. Under Hu Jintao the Communist Party is promoting a sense of national pride that uses terminology borrowed from the Confucian past to make its development appear ‘Chinese’ without giving up the basic Leninist nature of the political system. This use of ‘Confucian’ terms does not imply the restoration of Confucianism in China. Indeed, the Communist Party’s use of ‘Confucian’ terminology is against the most basic tenor of Confucianism, namely that an individual or a government must do right in the judgement not of those in power but of history.

3. As defined by the Communist Party ‘Chineseness’ is not whether an idea or institution is based on China’s tradition but on what the Party leadership chooses to describe as Chinese. Leninism is therefore deemed Chinese rather than an import from Russia (or strictly speaking the Soviet Union). In spite of the fact that real and significant changes have taken place in the political arena, the Communist Party still vehemently rejects democracy. ‘Chinese democracy’ as interpreted and implemented under the Communist Party does not tolerate any scope for it to lose power. ‘Political reform’ as used by the Party does not imply democratization. It means governance reform.

4. Communism effectively ceased being the state ideology in China sometime between the Tiananmen protests of 1989 and the collapse of Communism in Eastern Europe and the Soviet Union in the following two years. Its Leninist political system has, however, been kept though modified significantly. Since then the Communist Party has imposed what amounts to a social contract on the people of China. In a nutshell, the Party delivers stability, order, rapid growth and general improvement to the living conditions of the people in return for its continued dominance of government and politics. The ‘general improvement in living conditions’ includes not only economic prosperity but a larger scope for individual freedom and improved government responsiveness to public demands.

5. This new political set up can best be described as consultative Leninism, a system that blends together the Leninist disposition to and instrument of control with innovations from other sources. It has five defining characteristics:

— The Communist Party is obsessively focused on staying in power, for which maintaining stability in the country and pre-emptively eliminating threats to its political supremacy are deemed essential. For this end any means can be justified.

— A focus on governance reform both within the Party and in the state apparatus in order to pre-empt public demands for democratization. Enhanced governance is considered essential to make both the consultative and the Leninist elements work effectively.

— A commitment to enhance the Party’s capacity to elicit, respond to and direct changing public opinions. The Communist Party propaganda machinery remains the primary instrument to channel public opinions in the direction the Party leadership desires.

— A commitment to sustain rapid growth and economic development by whatever means and, where the party leadership deems politically expedient, regardless of its previous ideological commitment to Communism.

— The promotion of a brand of nationalism that integrates a sense of national pride in a tightly guided narrative of China’s history and its civilization with the greatness of the People’s Republic under the leadership of the Party. The objective is to indoctrinate Chinese citizens to take a ‘my government right or wrong’ attitude when foreigners criticize the Chinese government, the Communist Party or their policies. Underpinning this brand of nationalism is the narrative that China was the greatest civilization that became a century long victim of Western and Japanese imperialism—a state of affair that was put an end to by the Communist Party. The Party is thus portrayed as the guardian of China’s honour and dignity and the instrument for restoring China’s greatness and its ‘rightful place’ in the world. Following this line of argument, anyone who publicly opposes the Party is unpatriotic.

FROM ‘HARMONIOUS SOCIETY’ TO ‘HARMONIOUS WORLD’

6. Given the nature of consultative Leninism the primary focus of the Communist Party leadership is domestic. At the top of its political agenda are the mutually reinforcing requirements to maintain the Party’s political dominance, social and political stability, order and sustained rapid growth. The shift of focus from Jiang Zemin’s concept of the ‘Three Represents’ to Hu Jintao’s ‘harmonious society’ marks the putting of greater emphasis on the Party maintaining political, social and economic stability, rather than on the Party broadening its ‘representativeness to include the advanced social productive forces, advanced culture, and the interests of the overwhelming majority of the Chinese people’.

7. This focus on stability and order domestically also implies a general policy of keeping a low profile internationally. Hence, the adoption of a policy of promoting China’s peaceful rise, which was later revised to make it sound even less confrontational by renaming it a policy to promote China’s peaceful development. The subsequent adoption of the language of promoting a harmonious world marks a further move to make China appear even less threatening to the rest of the world as it rises. Despite the change in presentation, China’s foreign policy remains devoted first and foremost to promote its ‘peaceful’ rise.

8. In the short to medium term the Chinese government’s commitment to rising peacefully is real, notwithstanding sustained double digit annual increase in defence spending. This is because the Chinese government prefers to avoid provoking reactions from other great powers, particularly the USA, that may pre-empt China’s rise. A peaceful environment in East Asia and resisting international entanglement are also regarded as essential to sustain rapid growth domestically.

9. But the Chinese government’s commitment needs to be set against a wider context. This commitment says nothing about longer-term intentions. The really weighty question is what will the Chinese government do when it considers China has finally ‘risen’ or risen sufficiently for it to assert or re-assert China’s ‘rightful place’ in the world. What is China’s ‘rightful place’ in the context of the early 21st century?

10. Also important in this connexion is the rise of nationalism. Even though the Communist Party and in particular its propaganda machine has been primarily responsible in promoting and shaping it, being emotionally driven, the manifestation of nationalism does not always subject itself to the effective control of the Party. The judgement of whether and when China has risen sufficiently to get more assertive over any dispute is open to debate within China. A major outburst of nationalism over an unexpected incident, such as over the bombing of the Chinese Embassy in Belgrade by US aircraft during the Kosovo War or the collision of a Chinese fighter jet and an American navy EP3 aircraft over Hainan, can seriously constrain the hands of the Chinese government. Tibet, Taiwan and relations with Japan are, for examples, other major issues that can provoke strong nationalist sentiments in China.

11. When nationalism raises its head vehemently, the consultative Leninist regime is likely to accommodate the nationalist sentiments and at times tactically put aside its peaceful rise policy. The government’s commitment to the peacefully rising policy should therefore not be seen as sufficient to pre-empt it from tactically taking assertive stances on specific matters. The harassment of USNS Impeccable by five Chinese ships 75 miles off Hainan Island in March 2009 is such an example. Orchestrating such an incident shortly before Foreign Minister Yang Jiechi was scheduled to meet with President Barack Obama in the Whitehouse, suggests the Chinese government calculated that the Obama Administration would not allow this incident to put the wider US-China relationship in jeopardy.
12. The implication is that while the Chinese government is determined to reassure the world that its rise is peaceful it will not desist from asserting itself in the international community when it sees fit. What the Chinese government insists on is to hold the initiative in its own hands.

13. How China will conduct itself when its government finally considers that it has ‘risen’ remains unclear. Indeed, the conditions under which the Chinese government will do so have not been explained. Since China sees itself as a pre-modern superpower prior to the Celestial Empire being humbled (or, in Chinese government approved narrative ‘humiliated’) by British gunboats in the 1840s, it is reasonable to assume that its leadership will be satisfied when China is embraced as the pre-eminent power again. Whether the Chinese leadership at that time will be willing to share this pre-eminence with another power (notably the USA) cannot be ascertained with any degree of certainty—not least because we do not know if and when this will materialize and who will be the top leaders in China at the time.

ENGAGEMENT

14. The uncertainty above provides a particularly strong case for the EU (and the rest of the world) to adopt a policy of engagement with China. The rise of China needs not necessarily lead to a confrontation between it and the USA or, for that matter, the EU. Much will depend on how the rise of China is handled by China and by the rest of the international community.

15. In working out the best way to engage China, the EU should not lose sight of the reality that China itself has its own policy of engaging the EU, in order to direct the EU to adopt policies that the Chinese government sees as positive and appropriate. Specifically, China’s engagement of the EU is focused on getting the EU to support a multi-polar international order (against US uni-polar dominance), co-operate with China in economic and technological developments, and endorse China’s efforts to rise peacefully.

16. Engagement is merely an instrument. So is confrontation or taking a robust stance. None is inherently superior to the other. They should be used adroitly to support one’s diplomacy. But diplomacy requires one to adopt a language of engagement and downplay the applicability of the other companion instruments in order to advance one’s foreign policy objectives effectively.

17. The ‘rightful place’ for China should not be seen as a static concept that requires a restoration of China’s pre-eminence within the world it could reach—a position China enjoyed prior to the arrival of the British Empire in East Asia. In the context of the early 21st century there is no greater status any power can enjoy than being a veto holding permanent member of the UN Security Council, and an economic and military power whose views are, in general terms, taken very seriously by the rest of the international community. China already enjoys such a position. So does the USA.

18. The EU should engage China in such a way that ensures the Chinese accept that it has already secured its rightful place in the world, and the so called ‘century of humiliation’ had already been relegated to the dustbin of history for several generations. China sits prominently at the high table in the international community and there is no higher podium that any power can aspire to place itself.

19. China is a rising major military power and its capabilities will increase. The reality is that the outside world cannot put a stop to this development. It is more constructive to think about how to manage this and turn this into a positive force than try to pre-empt it, as the latter will be counter-productive.

20. A rise of Chinese military power should cause concern if it is being used or groomed for adventures beyond its borders. In terms of enhancing its national security or integrity, China has so far focused primarily on Taiwan. Given the Communist Party’s adherence to a strategic concept known as ‘the united front’ the Chinese military will stay focused primarily on Taiwan in the foreseeable future. Until the Taiwan issue is resolved to China’s satisfaction, its strategic doctrine requires it not to seek a major confrontation elsewhere.

21. The EU should do all it can to help tension across the Taiwan Strait to be eased. The EU has an interest in Taiwan having sufficient means to defend itself so that it can preserve democracy there and decide on its own future in accordance with the democratically expressed collective will of its people. The EU also has an interest in ensuring that no government in Taipei will adopt any policy that will make it impossible for the Chinese leadership to resist hard-line domestic political pressure to use force against Taiwan.

22. More generally China should be encouraged and supported to play a positive role in international affairs, including the deployment of its armed forces for peaceful or constructive international missions.
23. China already leads the permanent members of the Security Council in the number of soldiers it deploys on peace keeping missions. This should be applauded and supported. Indeed, China should be encouraged to send the bulk of peacekeeping force required and take over the UN peace keeping operation in Darfur. There are indeed many advantages for China to gain in such a large scale deployment over a very long distance but such a deployment for peace keeping purposes should not cause alarm. On the contrary the more the Chinese military establishment is engaged in peace keeping operations, the more it will think of operational needs that are not geared purely to fighting and winning wars.

**REALPOLITIK vs SUPPORTING RIGHTS**

24. As the EU engages China it must adhere to its fundamental values in upholding human rights. However, this should not imply the EU needs to interfere with China’s domestic affairs. China’s own Constitution outlines clearly the rights to which its citizens are entitled. The EU should work with the Chinese government, Chinese NGOs and international NGOs to ensure such constitutional provisions for rights are enforced in China, on the understanding that China, for its part, is free to monitor and comment either on its own or in conjunction with INGOs on human rights protection in the EU in accordance with EU laws.

25. The EU should of course not incite or encourage Chinese citizens to rise up against the Chinese government, but it must give moral support to Chinese citizens who seek to exercise their constitutional rights. This should include Chinese citizens of all nationalities or ethnic background. For those Chinese citizens who become prosecuted as a result of asserting their constitutional rights, the EU should offer asylum to them if necessary.

26. In the cases of Hong Kong and Macau the two former colonies of two EU member states which are now Special Administrative Regions (SARs) of the PRC, the EU should take an active benevolent interest in the implementation of the agreements between the UK and China over the former and between Portugal and China over the latter. In light of Chinese sensitivities over the colonial legacy in the two SARs, it is particularly important that the EU should take a common approach towards them, in the protection of human rights and in monitoring the implementation of the basic laws in these two regions.

27. As to Taiwan the EU should support the consolidation of democracy there. While the EU should not get involved in China’s dispute with Taiwan over the sovereignty of Taiwan itself, the EU should insist that whatever solution to be reached must ensure that the rights of the people of Taiwan and its democratic system are respected and protected. The right of the people of Taiwan, who have never been subjected to the jurisdiction of the PRC, to determine their own future should be upheld as a basic principle, though the EU should also insist that its support for this principle does not imply support for the Taiwanese government to take any measure that will trigger a war across the Taiwan Strait. The maintenance of peace and security across the Taiwan Strait and the upholding of democracy and human rights in Taiwan do not need to be mutually exclusive and it is in the EU’s interest to ensure this remains the case.

**CONCLUSIONS**

28. Consultative Leninism will not allow China to embrace liberal democracy or what it represents. Under consultative Leninism China will not subscribe to the democratic and liberal values that underpin the EU. While China under the Communist Party will not be a soul mate of the EU, it should be treated as an equal partner with shared interest in maintaining and improving the existing international system.

29. Whether the Communist Party leadership may have longer term ambitions that are less then benign or not, EU policy makers should recognize the reality that treating China or any country as an enemy will make sure it will become one. The more China is engaged as a full and equal partner in international affairs, the lesser later generations of Chinese will subscribe to the nationalistic narrative that portrays China as having been unfairly treated by the Western world. While this will not remove or significantly undermine nationalism as the ideology of China under consultative Leninism, any other means to counter the rise of Chinese nationalism is likely to be counter-productive.

30. In engaging China the most important principle is to treat China like any other great power. While it must not be made to feel discriminated against it must not be accorded any special advantage either. The only way to persuade a rising great power to behave as a responsible stakeholder is to treat it like one. Any rising power that is allowed to claim that it is special and require others to accord it special treatment will continue to demand such a privilege, particularly when it deems itself to have risen sufficiently to assert itself.

17 March 2009
Supplementary written evidence from Dr Steve Tsang, St Antony’s College, Oxford University

Five Hong Kong Legislators have resigned from the Legislative Council in order to use the by-elections as what they call a de facto referendum for faster democratisation. This is an act of desperation and reflects the great sense of frustration democratic politicians in Hong Kong feel about the lack of progress in democratisation. Five by-elections are, of course, not a “referendum” but their rhetoric will lead to Beijing taking an even harder line. This puts Hong Kong in a kind of a vicious circle whereby its pro-democracy politicians will continue to act out their frustration and in a way that makes the Chinese Government uncomfortable with political developments in Hong Kong. A harder line response from the Chinese Government will cause Hong Kong’s frustrated politicians to go further. This will benefit neither the Chinese Government nor Hong Kong. If the Chinese Government is willing to see the by elections for what they really are, understand the frustration of Hong Kong’s democratic politicians, who do enjoy significant support and sympathy in society at large, the vicious circle can be broken. The demands of Hong Kong’s pro-democratic elements are for a genuine review and dialogue that will find a way forward for Hong Kong to progress further and faster in developing democracy without posing a threat or challenge to the authority of the Central People’s Government. This is allowed for in the Basic Law and progress in this direction is in the interest of all concerned. The EU should encourage the Chinese Government to look at the requests behind the protests in Hong Kong and work with the citizens and politicians of Hong Kong for a mutually beneficial outcome. Supporting human rights in Hong Kong is not incompatible to the basic interest of the Chinese government in the HK Special Administrative Region. On the contrary, they are complementary. The CPG’s wish to see the SAR succeed and flourish requires people in Hong Kong to feel contended, for which seeing their democratic rights within Hong Kong being allow to be exercised is an important part.

25 January 2010

Memorandum by Dr Gudrun Wacker, Senior Fellow, German Institute for International & Security Affairs, Berlin

Mutual Perceptions

How is the EU—and its Member States—perceived by China: what are the values, interests, and ambitions held by China in terms of its European strategy? What priority does China place on its relations with Europe; and how is this level of priority shaped, not by what Europe does, but by the positions adopted by others?

The EU (in contrast to member states) was taken seriously as an international actor by China for the first time when negotiations on WTO entry started. In the years after China’s entry into the WTO in 2001, China might have had the expectation that the EU would also become a relevant international actor politically and might even become a counterweight to the United States (EU expansion, Constitutional Treaty, declared “strategic partnership” with China), but disillusionment set in after 2004–05 (failure of Constitutional Treaty, identity crisis of the EU). The EU’s inability to deliver on issues like lifting the arms embargo against China was interpreted in China as caving in to US pressure. The expectation that the EU would become a partner for China in building a “multi-polar” world was not met.

The EU has become the biggest trading partner of China after the expansion and also due to the decline of the US $ vis-à-vis the Euro, so Europe is an important market. The European Union is also important for China as a source of investment and of modern technology (where US exports to China are more restricted).

In sum, Europe is a central economic partner for China, but politically the EU is not seen as a unified actor and therefore the focus here is still on bilateral relations with individual member states, especially the “big three” Germany, France and UK. China’s strategy here is to “divide and conquer” (or in Chinese: “use the barbarians to control the barbarians”), ie to play the EU member states against each other (example: meetings with the Dalai Lama). Of course, this strategy only works because the member states allow it to work. Even in economic terms, member states of the EU compete with each other for business contracts in China.

A ranking in (political) external relations from the Chinese perspective would certainly give highest priority to the United States (not least due to the US position in the Asia-Pacific region), followed by Japan (economically and politically) and Russia (especially on the global level—UN Security Council), then ranking fourth, the EU including its three biggest member states. Sino-Russian relations have been dependent on the state of Sino-US relations (and US-Russia relations). The priority given to the EU also depends to a certain degree on the state of Sino-US relations. The EU could be further marginalized, if the US upgrades her relations with China under the new US administration ("G-2"). Strategic and Economic
Dialogues). The ranking above could change as a result of the global financial and economic crisis, depending on what power shifts the crisis will bring about. But it is not likely that this would lead to a higher position for the EU.

**Nature of the Relationship**

*What is the current nature of EU-China relations in the broader context of political, trade, economic, environmental, demographic-migratory and social-cultural terms? What should be the primary objectives of EU policy towards China; and notably how do Europe’s interests in closer interactions with China on trade, investment, and technology relate to its foreign and security strategy?*

Primary objectives of the EU policy towards China should be to engage China on global challenges like climate change, energy security, proliferation, trans-border security issues like pandemics etc. For all these global issues, China already is part of the problem, and it is in the EU’s interest that it also becomes part of the solution. Europe should engage China on all these issues to come to rules-based solutions. Economically the EU should focus on a level playing field (market access, IPR, direct and indirect subsidies etc.) with China. But the level playing field works both ways, so European member states should, for example, not be afraid of Chinese investment in Europe. If the EU is applying double standards, it loses credibility and legitimacy.

**The Institutional Framework**

*What is the current state of the institutional framework for the conduct of EU-China relations? How well do the summits, dialogue mechanisms, technical agreements and programmes meet their aims? What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?*

There is no lack of institutionalized dialogue mechanisms (among them more than 20 “sectoral dialogues”) between EU and China and broad technical co-operation. As far as I am informed, the EU has commissioned an assessment of these dialogues a few years ago, but the results were not published. Cooperation/assistance projects funded by the EU were also evaluated, the results can be found on the website of the OECD (!).55

The added value of holding so many “bureaucratized” dialogues is far from clear (maybe some of these formats should be taken to a higher political level, others should be dropped altogether).

The newly introduced “High Level Economic and Trade Mechanism” (modelled after the US Strategic Economic Dialogue) could be helpful because it brings different government institutions on both sides together, but it also reflects difficulties that stem from the peculiar setting of the EU: Who, for example can negotiate currency issues and the exchange rate Euro-Renminbi, if not all member states of the EU are members of the Euro-zone?

The annual summit meetings are of course important to build trust in the long-term orientation or the partnership. However, the setting (Troika) is difficult to handle (this is not China-specific, of course): Each Presidency wants to introduce something special and new into the EU-China partnership, but then there might not always be substantial follow-up, so that many issues remain nice words in the Joint Statements but no more. The EU should be less ambitious in bringing more/new topics in, but should be more consistent in following up and implementation.

As for the negotiations on the new PCA, only the Commission can say where they really stand at present. The mandate of the Commission (decided by the Council) for the negotiations has not been published. But China will have problems to agree to some of the “standard clauses” (eg on human rights). Moreover China will insist on clauses on Taiwan, and maybe now also Tibet. This will (or should) pose a problem for the EU.

The more fundamental question is: Do we really need such an agreement? What is the added value (compared to the agreements already in existence)? But now that the train has left the station, nobody will question the necessity or feasibility anymore. Again, an assessment of the implications of the PCA (based on PCAs with other countries) has been produced for the Commission, but not published (as far as I know).

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COHERENCE OF THE EU’S POLICY

What is the perspective of different EU Member States in relations with China; and how do these different perspectives shape the conduct of European foreign and security policy? To what extent have the Commission, the Council and the Member States been prepared to conduct a common strategy? How close is the European Union to designing a strategy that will ensure that China regards convergence or compliance with EU objectives as a significant priority?

It is hard to detect the willingness of Commission, Council and Member States to really subscribe to a common strategy with respect to China, even on paper, not to mention in implementation. Good examples were the two Commission papers on economic and on political relations with China published in 2006 and the “Council Conclusions” on these two documents: The Council conclusions in essence modified substantially almost everything in the Commission papers (for example on the arms embargo). The Member States are either not willing or not able to formulate their interests and priorities with respect to China. Instead, national reflexes prevail.

A small step forward were the Guidelines on East Asian Security that were initiated by the UK in 2005 and finally published in December 2007, since they provide a frame of reference for statements of the Council or the respective Presidency. So the EU can react faster on events and developments in East Asia.

FOREIGN AND SECURITY POLICY

How successful has the EU been in persuading China to increase the transparency of its defence objectives and military expenditure? What is the state of play regarding exports of arms made in the EU to China? How effective is the newly adopted Council Common Position to replace the Code of Conduct on arms exports to China? Should the EU continue to pursue its stated ambition of lifting the arms embargo on China imposed in 1989? What is the EU’s policy on cross-strait relations between China and Taiwan, and how successful has the EU been in encouraging peaceful dialogue and confidence-building between the two sides?

One should not overestimate the ability of the EU (or any other external actors) to influence China on anything that concerns China’s perceived core national interests. As for transparency on defence objectives and military expenditure, the progress that China has made (by, for example, publishing bi-annual White Papers on Defence), other external actors (US, but also neighbouring states, especially ASEAN) also play a role. Nevertheless, the EU (and MS) should be consistent in trying to convince China that more transparency is in her own interest.

Since the Common Position on the Code of Conduct on arms transfers was only decided in December 2008, it is too early to see what the practical impact on arms exports will be. Even with the Common Position, decisions ultimately rest with the national governments which then report to the EU. One problem could be that defence companies in countries that have stricter laws on arms exports will complain that they are disadvantaged by their national laws. If this would then lead to a softening of national legislation, it could have negative implications. In addition to that, the so-called Tool Box for post-embargo countries does not seem to be part of the Common Position. This could either mean that there is resistance from individual member states against the provisions of the Tool Box or it could mean that since no member states presently plans to bring up lifting the arms embargo against China, there was no need to deal with the Tool Box, either.

The EU declared at its summit in 2005 that it will work towards lifting the arms embargo. Adopting the Common Position was one necessary step. However, the lifting might have real implications, but it sure has (very strong) symbolical dimensions. The US, Japan and Taiwan are unlikely to be convinced that the Common Position is enough to restrict arms exports from European countries to China, so they will certainly protest against any attempt to bring the embargo up again, no matter what it would mean in reality to lift an embargo (which has never been legally binding). From China’s perspective, the embargo is an obstacle in the partnership with the EU.

The EU member states should sit down and discuss under what conditions they would be willing to lift the arms embargo (some conditions were mentioned in the Commission paper 2006, but this passage was practically neutralized by the Council’s Conclusions). If such conditions can be agreed on, the EU should stick to them. The wavering and constant mind changes only add to the impression on the Chinese side that the EU is not to be taken seriously.

How does the foreign and defence policy of the United States impact on EU-China relations? To what extent and with what consequences will the EU-China relationship be determined by the course of the transatlantic relationship? What is divergent and convergent about US and European approaches to China? How do the EU’s other partners, notably Japan, India and Russia, view the development of EU-China relations?

Part of this question has been addressed above. The major difference between the US and European approaches to China derive from the fact that the US has strategic interests in the Asia-Pacific region, a strong military presence, alliances and commitments (like the Taiwan Relations Act), and the EU (or its member states) has none of that. EU-China relations are still mainly driven by economic and not strategic interests. The US is taking China’s perceived rise and the ongoing global power shift more seriously than the EU. The US is not only a trans-Atlantic power, but also a trans-Pacific one, while the EU plays no role as a military power in the Asia-Pacific.

The US therefore doesn’t see Europe as a relevant actor in East Asia. The only time that the US became interested in Europe’s activities in Asia was when the EU made plans to lift the arms embargo against China, because this was seen as a move against US interests. Beyond this issue, it is hard for the EU to attract sustained interest of the US in a dialogue on China and/or East Asia.

10 April 2009