

The EU's Trade Policy and China: Cooperation in the Interest of Multilateralism?

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Abstract

This paper evaluates the changing EU-China trade relationship. It argues that the three strategies (or pillars) the EU has employed – engagement, education (capacity-building activities), and enforcement – are under ever greater pressure. The EU is itself learning from its interaction with China, and China is beginning to assert itself as it becomes a more confident player. The paper reviews these strategies and how they connect the two sides. It also looks at the stages of interaction between the two sides, from pre-WTO accession to post-accession. China has yet to find the confidence to take a leadership role in the multilateral trading system, and is careful to protect domestic interests. The EU finds itself caught up in post-financial crisis turmoil and is also becoming more adamant about protecting domestic interests. Given these challenges it is critical that the two sides maintain channels of communication and cooperation, so the tension between multilateral solutions and domestic interests is resolved to the benefit of the global trading system.

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Table of Content

Introduction.....	3
The WTO in Crisis?	4
The EU's Trade Policy and Multilateralism.....	5
The EU's Three Strategies to Promote Multilateralism	8
Education	8
Enforcement	10
Engagement (and Re-engagement).....	11
Stages in the EU-China Trade Relationship.....	12
Pre-WTO Accession	13
The Accession Process	14
Post Accession: Adaptation to the WTO (Slow Penetration) 2002-2015	16
China's Trade policy: Unintended Influences of EU Trade Policy	18
Dispute Resolution	18
Negotiation Process	19
Forum: Where to Pursue Trade Policy?	20
China's Trade Policy: What Impact on the EU?	20
Conclusion.....	21
Turning Strategic Partnerships to the Service of Effective Multilateralism	22
Implications for the EU's Strategy of Engagement, Education and Enforcement	22
Future Prospects	23

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Introduction

The World Trade Organisation (WTO) as currently conceived is proving inadequate to its assigned task of promoting the expansion of global trade based on a multilaterally agreed rules regime. At issue is not only the effective death of the Doha Development round of global trade talks. More generally, the only global institution equipped to provide the legal and diplomatic platform on which the principles of open trade can be established, managed and enforced is being discredited. Why this crisis has come about has been the subject of considerable debate but much of the blame has been placed at the feet of the major trading nations who, arguably, have failed to devote sufficient resources to achieving agreement. Despite its continued and vigorous defense of the liberal trading system, the European Union (EU) is no exception. Its failure to overcome protectionist pressures internally and increasing pursuit of bilateral trade deals have risked serious damage to the multilateral system.

This behavior is at odds with the EU's proclaimed commitment to 'effective multilateralism'.² Accordingly, it is crucial to map how and when the EU has worked to promote *trade multilateralism* and to highlight when and how it has failed to do so. Its relations with China offer a case study to evaluate the extent to which the EU's trade policy objectives and effects have bolstered or weakened a global multilateral trading regime centered around the WTO. The evaluation involves both an exploration of the EU's strategy to promote multilateralism and also an examination of the effects of EU trade policy on China's role in the WTO - its record of compliance, participation in the Doha negotiations, use of the dispute settlement system, and finally pursuit of bilateral agreements. I ask whether the WTO is stronger or weaker as a result of the EU's China-focused trade policy.

² "Multilateralism" has many definitions. For the purposes of this paper I use it to mean countries engaged in institutionalized cooperation on the basis of agreed upon principles and rules of conduct that apply more or less equally to all. Bouchard, Caroline and John Peterson, 2009, conceptualizing Multilateralism, Mercury Working Paper, Cologne, July 2009; and John Ikenberry, 2003 Is American Multilateralism in Decline , Perspectives on Politics vol 1. I consider the global trading regime governed by the WTO to be a prime example of such multilateralism.

The paper proceeds as follows: the first two sections give a brief overview of the challenges currently facing trade multilateralism and the factors which shape trade policy.³ It then proceeds to map out how the EU has promoted trade multilateralism. Guided by this framework, the paper then revisits EU-China trade relations, highlighting throughout remaining sections the pillars upon which the EU's approach to China is built, their impact and implications. Ultimately, the EU's support of multilateralism is affected by shifts in the geography of economic power. These shifts challenge the EU to either 'multilateralise' the successes of bilateral and regional agreements or alternatively to commit to a world where the WTO is not the central institution for advancing its trade policy objectives. In the context of EU-China relations, the challenge is how to manage the changing distribution of economic power beyond the scope of their bilateral relationship.

The WTO in Crisis?

In recent years the WTO has struggled with a variety of challenges. One is how to reconcile diverging national interests (such as developing vs. developed economies, agriculture-dependent vs. subsidized systems, food security vs. open trade). It has also worked hard to ensure the implementation of agreements (particularly in light of the number of exceptions, qualifications and other such modalities), and to build trust among negotiating parties so that they can re-engage in extending the remit of the WTO beyond its traditional policy areas.

The primary responsibility for the lack of movement at the WTO lies with the leading trade powers such as the EU, who over the course of the past five years have diverted their attention to bilateral agreements and preferential trade agreements (PTAs; which may be agreed with or between groups of states).⁴ Explaining the lack of initiative from the US (and to a lesser extent the EU), Evenett argues that the WTO cannot deliver on key issues such as tariff-leverage because the cuts necessary from the EU and US to deliver a result at the Doha round would result in lasting tariff asymmetry.⁵ Thus, the US pressures emerging markets to lower tariff levels to zero on a significant range of industrial imports. Market access issues have also proved challenging, as developed countries seek to address

³ Neither of these sections is intended to be exhaustive and a vast literature on both exists. However they are included on the grounds that they are critical to framing any discussion of the EU's trade policy.

⁴ This preoccupation with seeking alternative avenues of trade promotion is by no means exclusive to the largest economies. According to the latest WTO World Trade Report, all save one of the WTO's 153 members (Mongolia) belong to at least one PTA with the average member a party to 13 such agreements. World Trade Organization, 2011, *World Trade Report 2011: From Co-existence to Coherence*, Geneva: WTO. PTA agreements, as international political economy (IPE) scholars such as Richard Baldwin explain, not only threaten the principal of non-discrimination but also undermine the WTO's central role in terms of rule-making.

⁵ Evenett, Simon, 2007, « The trade strategy of the European Union : time for a rethink ? », CEPR, <http://www.evenett.com/research/workingpapers/BruegelPaper.pdf>

discriminatory or disproportionate regulations or standards as a means to boost exports and promote growth and jobs in Europe.⁶

A major challenge to the WTO's authority is the number of negotiating parties. But increased numbers is, of course, neither a new phenomenon nor unique to the WTO. Neither is it the only problem to confront the institution. Interaction is sufficiently intense and sustained that it should, over time, be possible to adjust. Rather, the problem may be a lack of cohesive leadership. Clearly pursuing effective multilateralism with such a large number of participants is problematic. Often the process of trade negotiations descends into horse-trading and brinkmanship with each actor trying to dislodge their counterparts from entrenched positions by indicating or appearing to offer movement on various issues. This can lead to a far more fluid environment that is difficult to read because coalitions are constantly aligning and dissolving.

What is clear is that the lack progress at the Doha negotiations encouraged disengagement amongst important private sector interests within the EU. Accordingly, a key constituency for liberalisation has devoted its energies to more selective bilateral and regional trade agreements, robbing the major powers of a sufficient sense of urgency to pursue multilateralism in trade policy, and leaving them far more exposed to protectionist interests. Neither new members nor emerging economies possess the necessary resources and relationships to exert any form of leadership.⁷ Reform fatigue in China has encouraged them to let others drive the process. This combination has created a leadership vacuum that is unlikely to be quickly overcome.⁸

The EU's Trade Policy and Multilateralism

Most academic inquiry into the EU's trade policy has focused on institutional and competence issues. The research terrain mapped by such literature has been closely tied to the dynamics of internal trade politics, primarily addressing the relationship between the

⁶ The contention has been made that EU and US negotiators see a direct connection between concessions they are being asked to give on subsidies and market access; i.e. that one way to compensate those constituents that lose out on government support is to secure greater market access for them. Obviously, the coalitions within the EU pressing for market access are drawn from a much broader range of industries.

⁷ Entrepreneurial leadership is exerted using informational advantages and shaping procedure and institutional frames (Malnes, Raino, 1995, « Leader and entrepreneur in International Negotiations : A conceptual analyses », *European Journal of International Relations*, 1 :1, pp87-112). This mode typically involves bargaining innovation, problem solving, and manoeuvring toward agreements, and cross-issue linkages and packaging, the formulation and management of focal points, and reversals in bargaining outcomes.

⁸ The 'Green room' practice is meant to reflect shifts in power within the WTO with various configurations of key players working together in small groups (in a 'green room') to make agreements manageable. These select groups often map with the various GX (that is, the G8 or G20). China was a late comer to this process not simply because it is a new member of the WTO but because of uncertainty and reluctance concerning how to be in the leading group.

Commission and the member states typically from rational choice, institutionalist or principal-agent perspectives.⁹ Corresponding attention as to how policy affects the world beyond has been surprisingly limited, and more often than not has been a servant to broader questions concerning the EU's relationship with developing countries, or its credentials as a leader in global affairs.¹⁰ While such research yields important insights, it also tends to encourage the assumption that the EU first creates internal solutions or positions and then extends their scope – in what Lavenex has referred to as *external governance*.¹¹ The implication is therefore that the EU affects its trade partners in asymmetrical ways. Its influence flows from the internal market and its increasing regulatory activism. The relative indifference in the mainstream literature to the power relations of this pattern of interaction generates a significant gap in our understanding of the EU's global role.¹² In particular, this literature tends to underplay the relevance of other actor's strategies. This blind spot is more than just a curiosity given the degree to which the EU's negotiated order is itself permeable to influences from outside and, more particularly in the context of this paper, given the obvious necessity of cooperation that the management of international trade demands.¹³

Despite our partial understanding of the EU's support for multilateralism, it is clear that the EU is indispensable to both the practice and processes of multilateralism on trade. In this regard, it is possible to approach the EU's actions by looking at what it does *within* multilateral fora, or alternatively by examining what it does to shape conditions within partner countries that pre-dispose them to be more supportive of multilateral projects. When focusing on EU behaviour within multilateral institutions, the emphasis is on the EU as a negotiator, the role of its technocrats in creating the legalistic texts that constitute agreements, the injection of political capital by European ministers to push agreements into place, or the vision of its strategists in seeking to convince the world's disparate trade powers to embrace freer trade. By contrast, the EU's efforts to convince its partners to embrace multilateralism

⁹ See for example, Nicolaidis, K. and Meunier, S. (1999) 'Who Speaks for Europe? The Delegation of Trade Authority in the European Union', *Journal of Common Market Studies*, Vol. 37, No. 3, pp. 477-501. Kerremans, Bart (2004), 'What went wrong in Cancun? A principal-agent view on the EU's rationale towards the Doha development round' *European Foreign Affairs Review*, Vol. 9, No. 3, pp 363-393.

¹⁰ Elgstrom, Ole (2007) 'Outsiders' Perceptions of the European Union in International Trade Negotiations' *Journal of Common market Studies*, Vol. 45, No. 4, pp 949-67.

¹¹ With the recognized exception of the United States.

¹² De Ville and Orbie lodge a similar complaint in justifying their exploration of framing strategies used by the Commission between 2008 and 2010 as a means to understanding the constitutive rationale of EU trade policy. De Ville, Ferdi & Jan Orbie (2011): 'The European Union's Trade Policy Response to the Crisis: Paradigm lost or reinforced?', *European Integration online Papers (EIoP)*, Vol. 15, Article 2, <http://eiop.or.at/eiop/texte/2011-002a.htm>

¹³ As Smith explains whether in terms of the formation, implementation or revision of the EU's trade policy stances there is ample opportunity for lobbying groups or political messengers to operate on officials or member states. Smith, Mitchell (2005) *States of Liberalization: Redefining the Public Sector in Integrated Europe* (Albany: SUNY Press).

involves shaping political and bureaucratic institutions, capacity building, regulatory promotion and monitoring.

The EU has been a proactive supporter of multilateralism, working to develop the governance of trade through a strategy of *managed globalization*.¹⁴ This strategy, although not necessarily (at least initially) intentional, has evolved quickly in the aftermath of the Cold War. In essence, it is nothing less ambitious than a marriage of structured, intensive diplomatic engagement and the promotion of the international rule of law. Part of the impetus for this approach is a strong awareness among EU elites that the Union has a stake in a multilateral world. This perception is evidenced throughout the EU's treaties, and in the rhetoric of European elites, to the extent that officials talk of the symbiotic relationship between the EU and globalisation.

Yet promoting multilateralism at the global level is not an approach that has come naturally to the EU, because doing so means convincing others through more than just words. Providing leadership is a difficult thing for the EU, given its nature as a negotiated order. Indeed from an organizational or negotiations perspective, it is easy to portray the EU as inflexible. As the evidence provided in subsequent sections will suggest, major policy or strategy re-orientations are rare. A further constraint upon the EU is the tendency within some of its branches to try to plan for everything. Yet planning cannot always keep pace with an uncertain environment, particularly one such as trade which has been transformed as rapidly by the sovereign debt crisis as it has been by China's new status as a key global economy.¹⁵

Paradoxically, institutional drag and fractious leadership have ensured that the EU has had to become far more proactive and outward-looking to protect its interests. This means that it is precisely its internal divisions, its nature as a slow moving, legalistic actor that has made it keen to tame an anarchic world by encouraging other powers to participate in institutions that increase predictability and visibility. Rules, negotiation and diplomacy are intended to narrow the range of options open to other actors, thereby reducing the EU's vulnerability. Accordingly the EU has not only a responsibility but a self-interest in ensuring that this system works, and that it works effectively and fairly.

Support for multilateral trade processes is not simply a means to increase the EU's political centrality in the world. It also reflects very practical economic interests. Accordingly, the EU's efforts to shape multilateralism in the past should also be understood as a means to

¹⁴ Jacoby, Wade and Sophie Meunier (2010) (eds) *Europe and the Management of Globalization* (New York: Routledge).

¹⁵ Again this reinforces the case for looking at the EU's trade relationship with China as a key learning case.

service domestic constituents. This is reflected in the type of rules the EU has sought to embed within the system. These, mirroring businesses' demand for a far more penetrating form of cooperation, focus on the type of regulatory environment in which EU traders and investors operate.

A prime example has been the EU's efforts to promote the so-called Singapore issues, which reflect its own interests.¹⁶ Singapore issues also provide insight into the degree to which actors switch between multilateral and non-multilateral channels to promote their interests. For example, having failed to engineer a consensus on the inclusion of these issues during the Doha round, EU officials simply redirected their efforts into bilateral and preferential agreements.

The EU's Three Strategies to Promote Multilateralism

Again, it is worth reinforcing the point: despite its economic strength, the EU has been neither unwilling nor inactive in advancing the cause of trade multilateralism. Indeed, it is a function of the Commission's stewardship of the common commercial policy that EU officials are constantly engaged in a process of reflection and *strategizing* on the purpose and role of trade policy and how it should relate to the international system.¹⁷ What often emerges from this process is a set of actions that play to type (in the sense of reflecting EU negotiating processes), with efforts devoted to crafting complex compromise packages among the different negotiating blocks at the WTO, and tweaking the details to create linkages and wiggle room. In working at the margins as well as the front lines, EU officials engage different actors on different issues at different times, all in a manner that requires sophisticated orchestration. In the following sections I argue that the EU's trade relationship with China has been built on three processes: education, enforcement, and engagement.

Education

Education encompasses the world of EU cooperation and development aid; it involves a particular set of actors operating to specific pressures. Technical experts, gatekeeper bureaucrats and academia inhabit this world with the objectives of enabling participation (and embedding specific regulatory practices). Progress is not autonomous from engagement; without the acquiescence of political elites and ownership by recipient elites, education is a

¹⁶ "Singapore issues" are so named because they were first proposed there at a 1996 WTO meeting. They consist of investment, competition, government procurement, and trade facilitation (which mostly involves cutting red tape and delays for foreign goods at ports and other border entry points).

¹⁷ It should not be ignored, however, just how much bureaucratic hurdles, potentially competing purposes (such as job creation versus trade openness) and divergent member state priorities can influence these reflections.

weak instrument. Moreover, the process is now two-way, as the EU seeks to learn how China operates globally.

Reflecting the extent of economic reforms required by China's accession to the WTO, the EU has sought to upgrade Chinese capacity to be a full member. This particular strategy (or pillar) plays on the Union's credentials as an advanced economy with experience in managing large internal markets. It does so by positioning EU elites and experts as mentors or guides with crucial how-to and why-to knowledge. The approach has gradually been given form through an array of dialogues and cooperation projects that have sought to shape China's reform trajectory.

As such, rather than relying solely on WTO enforcement mechanisms to discipline China, the EU has sought to make use of projects such as EU-China Trade Project (EUCTP) to influence and shape reform trajectories – and in turn eliminate the type of behind the border obstacles to trade that have inspired the EU's PTA strategy. The implicit objective of such interventions is therefore to make China's regulatory environment more compatible with those favoured by EU companies. By extension, it seeks to make Chinese elites more willing to align on issues such as expanding the WTO's mission. This approach also enjoys the virtue of providing EU officials with a broader point of access to bureaucratic agents.

Such contacts, supported by the annual summitry process (that is, a bilateral trade and cooperation committee and bilateral meetings of leaders), allow for the targeted use of political capital to widen the range of discussion and cooperation. These can then be turned to the service of bilateral interests and - more elusively - multilateral ones. The EU's efforts often focus on embedding WTO + and WTO-X provisions within their partner country with the intention of feeding these back into WTO negotiations with the support of the converted country in subsequent rounds.¹⁸ The net effect of this approach from the perspective of strengthening multilateralism remains to be seen.¹⁹ However, given the focus of WTO-X

¹⁸ WTO+ obligations, consist of areas already covered by current WTO agreements; by contrast WTO-X obligations currently fall outside these agreements. Both EC and US agreements contain a significant number of WTO+ and WTO-X obligations. However, the EU's PTAs tend to be more comprehensive, loaded with a host of aspirational and non-enforceable provisions (typically connected to development) that Horn et al. describe as a form of "legal inflation". Horn et al attribute this to a lack of consensus within the EU (both the member states and the Commission) on what trade policy should and can achieve. Numerous goals become conflated and trade policy therefore provides a vehicle for declaratory diplomacy. This also reflects the EU's propensity to seek to reproduce its own order, culture of business and standards.

¹⁹ Indeed it needs to be stressed that attributing a causal connection between the EU's policy promotion efforts and China's regulatory reforms is far from defensible. Such a contention would overlook the extent to which *unilateral* initiatives on the part of Beijing account for many of the changes in China's trade regime. The relationship is therefore not one of asymmetric influence, rather as Breslin and a host of others have highlighted, much of what has occurred beyond that required by WTO accession has taken the form of contained experiment.

provisions there is considerable concern that rules are being constructed *outside* the multilateral system, the strength of which depends precisely on rules applying equally to *all*.²⁰

Enforcement

Enforcement constitutes perhaps the most critical and contentious avenue for promoting multilateralism. Engagement and education without enforcement would be shallow. Intended to ensure the credibility and execution of multilateral agreements, it is a world of lawyers, technocrats, and business leaders. The power of the WTO, in contrast to numerous other international organizations, flows from the fact that its regulations are enforceable. The WTO considers its dispute settlement system to be the “central pillar of the multilateral trading system”. However, this enforceability is only as effective as the willingness of member states to take their complaints to the dispute settlement body and, more critically, to abide by its recommendations. Thus, an evaluation of a nation’s (or union of nations’) commitment to the multilateral system requires an examination of its policy vis-à-vis dispute settlement.

In the period between China’s accession and 2006, the EU brought no complaints against it in the WTO. However, the EU declared in a 2006 policy statement that where dialogue and negotiation fail to resolve disputes, it would resort to the WTO dispute settlement system.²¹ Hence, between 2006-10 the EU filed five cases. The first case (DS339) was filed jointly with the US, and targeted Chinese measures affecting imports of auto parts. The Appellate Body report found that a number of Chinese measures were inconsistent with WTO rules and recommended that China bring them into compliance, which it did in August 2009. This case suggests that China takes seriously its obligations to comply with the WTO and that it regards the dispute settlement system as the legitimate means of determining compliance.

The second case (DS372), involving Chinese measures affecting financial information services, was resolved and the complaint withdrawn. Again the process – in this case the consultation phase – appears to have worked as intended. A panel has just been established (at the time of writing) in the third case (DS395), which involves Chinese measures affecting export of various raw materials.²² In 2010, the EU also requested formal consultations on Chinese antidumping duties against steel fasteners originating from the EU (DS 407).

²⁰ Practice and principle often diverge, given the loopholes, exceptions etc. that states are careful to insert into any agreement. Perhaps the most obvious example is the differential treatment afforded to developing countries on the grounds of ensuring trade multilateralism does not come at the expense of development.

²¹ EU China Trade and Investment, Competition and Partnership- Trade policy paper accompanying Commission communication on EU-China relations, 2006.

²² China began imposing quotas on exports of rare earths such as fluorspar from 2008. In a ruling issued on 5 July 2011, a WTO dispute panel recommended that the Dispute Settlement Body (DSB) request China to drop the

For its part China has filed only two cases against the EU, both involving the use of non-market economy regulations in antidumping cases. In the first case (DS397), the panel report held largely in China's favor. The EU and China jointly requested a delay in the Dispute Settlement Body's consideration of the report until March 2011. If the DSB adopted the report, it would have recommended changes in the WTO-inconsistent EU policies. It is unclear why the delay was requested. The fact that China joined in the request, however, would imply that it is not a stalling tactic by the Union or an indication of an EU policy to ignore rulings against it in cases brought by China. In the second case (DS407) a panel was established but had not yet issued a report at the time of writing.

The shift by the EU and China to more active use of the WTO system to resolve disagreements is likely serve to increase the legitimacy of the multilateral rules-based regime. Admittedly there is a risk that the EU and China will bring issues that are too politically sensitive to be resolved through an appeal to the rule of law. When domestic politics is such that a government cannot abide by a ruling requiring it to alter a WTO-inconsistent policy, the filing of a formal dispute settlement case is not only fruitless but also ill advised. To date, none of the China-EU disputes have fallen into this category.

Engagement (and Re-engagement)

Engagement embraces the world of negotiation, diplomacy, (often tense) brinkmanship, and creative vision. It is a terrain that includes a host of fora that extend beyond the WTO, which can be as varied in their format and opportunistically productive as the G20 or bilateral summits with specific trade partners. This is a world populated by senior diplomats, political leaders, and politically-engaged interest groups. As China's economy has developed, the nature of the EU-China trade relationship has changed too, as the Union seeks to encourage China to take a leading role in the WTO. Closer interaction has created frequent *crisis de jour*, and the EU's institutions have had to adjust accordingly. This is most clearly reflected in the changing profile of the Commission (and now EU) delegation to Beijing which has seen the balance between cooperation experts (interested in education) and trade specialists (interested in engagement and enforcement) steadily favour the latter.

quota system. Article 20(g) of the GATT provides that it is acceptable for a contracting state to make use of a numerical export quota if the quota relates to conservation of natural resources or is adopted in conjunction with a domestic program that imposes similar conservation restrictions on domestic producers i.e. is non discriminatory. The EU and others argued that the use of export restraints provided unfair competitive advantages for downstream Chinese industries at the expense of non-Chinese users of these materials causing harmful disruptions in supply chains throughout the global marketplace.

Growing interaction means a greater need for interventions to prevent disputes and conflicts getting out of hand. Accordingly, an EU-China High Level Trade and Economic Dialogue (HED) was launched in November 2007. Modeled after the US-China Strategic Economic Dialogue, the hope was that periodic meetings would enable the parties to negotiate improved market access through “reciprocal bargains”, thereby deepening bilateral integration and defusing tensions. But both sides also realize that their relationship is of central significance to trade multilateralism at the global level. EU officials point out that “the HED was to focus on the role of EU-China economic and trade relations in the wider framework of the global trading system”.²³ In turn, it was hoped, the parties would be better positioned to cooperate on issues of global import – specifically in terms of the WTO. This additional channel of engagement has yet to produce a clear result of alignment or coordinated action (at least on the WTO) but it does show that both sides realize that a broader agenda is in play - specifically that bilateral cooperation and economic interdependence will only be achieved *through* an improved multilateral system, not at its expense.

This additional platform is intended to allow for the right people to tackle problems as they emerge. It also offers the potential (if properly plugged into the network of dialogues that the two sides have constructed over the past ten years) for them to anticipate problems and resolve them before they become politically entrenched. Thus far, however, discussions have tended to be more competitive, with the EU stressing the importance of undistorted world markets in raw materials and rare earth minerals, improving conditions for foreign investment in China, and encouraging Chinese accession to the Government Procurement Agreement. It has also singled out China’s export subsidies and called for improved protection of intellectual property rights, stating that resolution would strengthen the multilateral rules-based system.

Stages in the EU-China Trade Relationship

In a remarkably short time, China and the EU have integrated economically to a point where it is difficult to imagine how they could survive without each other. They are among the world’s largest trading units and each, in turn, is a major trading partner to the other.²⁴

²³ MEMO/10/698

²⁴ According to the European Commission, EU goods exports to China in 2010 amounted to €113.1 billion (+38% on 2009) conversely, EU goods imported from China in 2010 amounted to €281.9 billion (+31% on 2009). <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/china/>) To give a sense of scale to these numbers in late 2010 bilateral trade between China and the EU was \$100 million per day- a decade ago it was that much per year. In terms of the profile of this trade EU’s imports from China are mainly industrial goods:

Investment flows are significant and growing, contact and collaboration is varied and multifaceted.²⁵ Consequently, each has a recognized stake in the economic prosperity of the other and both in the viability of the global trading system. But it has not always been thus. The EU-China trade relationship started from a most incompatible set of components – a closed, state-owned, planned economy and a diverse, open, and highly interdependent developed economy. Understanding how the relationship has changed, and what impact multilateral processes have had upon this evolution, requires reviewing the key stages in EU-China relations, particularly those that directly relate to the EU's longstanding goal of integrating China into the global system.

Pre-WTO Accession

In the period leading up to its request for WTO accession in 1986, the Chinese economy evolved dramatically from one in which the state exercised considerable control – particularly over the operations of foreign investors – to one in which foreign investors were being granted limited freedom of action. A host of domestic reforms involving conscious and radical experimentation (such as with agricultural markets or the establishment of special economic zones) set the stage for a development strategy that depended on economic integration with the outside world. China was eager to attract capital, technology and management skills from developed markets that would help its own industries mimic, localize, refine and ultimately innovate.

From 1985 onwards, the relationship became more formal with the signing of an Agreement on Trade and Economic Cooperation. This agreement was designed “to promote and intensify trade between the European Community and China and to encourage the steady expansion of economic cooperation”.²⁶ It committed the parties to cooperate in a wide variety of economic areas, including industrial and agricultural development, environmental protection, foreign aid, and the expansion of trade and investment not only between themselves but globally.

machinery and transport equipment and miscellaneous manufactured articles. EU's exports to China are also concentrated on industrial products: machinery & transport equipment, miscellaneous manufactured goods and chemicals.

²⁵ Chinese investment in the EU, while still low, is on a growth path. Investment in the EU by Chinese enterprises increased 5 fold in the first three quarters of 2010, creating thousands of EU jobs. EU investment in China is also on the rise as EU companies seek to benefit from strong Chinese demand. Evidence suggests that investments in China were an important source of support for EU multinationals.

²⁶ European Commission treaty office database.

As such, it has ensured that EU trade policy has worked in partnership with China to promote sustainable global economic growth – this goal remains intact.²⁷ Remarkably, the agreement has gone on to serve as the main legal framework for relations between Europe and China for the past quarter century. It remains so even though the two partners and their trade strategies have altered so dramatically.

The Accession Process

During the 1990s, a major component of EU trade policy toward China was the negotiation of China's WTO accession. This stance was predicated on extending the geographical reach of multilateralism and reflected a recognition that China's economic presence was destined to grow.²⁸ As such, the goal of serving EU commercial interests and advancing the cause of trade multilateralism were one and the same.

A committed and active lobby of mostly large European companies pushed the process forward. Having identified China as the emerging market on which to focus in the 1990s, firms began to establish themselves in China.²⁹ Frequently finding their efforts channeled into export production by the Chinese government, many of these companies grew frustrated at their inability to exploit the domestic market. Yet these early entrants helped to create a constituency that pushed for China's rapid inclusion into the international trading system, encouraging EU policy makers and negotiators to push China to increase market access for foreign firms.

The EU is credited with having played a major and positive role in the integration of China into the WTO, both in its bilateral negotiations and in the multilateral working party (WP), by promoting Chinese accession on terms that would increase the viability and legitimacy of the WTO. Yet, despite a general recognition that China needed to be brought into the system, the actual process of agreeing how to do so was fraught with difficulties and obstacles. By October 2000, the Chairman of the WP on Chinese accession refused to reconvene the WP

²⁷ This seems to be an example of "bi-multilateralism" as defined by Smith and Xie- the bilateral relationship creating externalities for the multilateral system, in this case positive externalities. Smith, Michael H and Xie, Huaixian, 2009 "The European Union, China and the US: Complex interdependence and bi-multilateralism in Commercial Relations"

²⁸ The EU's official recognition of this state of affairs can trace its lineage as far back as 1994 with the advent of its first Asia policy. European Commission, 1994, "Towards a New Asia Strategy", Communication from the Commission to the Council, COM (94) 314 final, Brussels. This was followed by a dedicated China paper, European Commission, 1995, "A Long-term Policy for China-Europe Relations", Communication from the Commission, COM(95)279 final, Brussels.

²⁹ As Hewko (2002) has observed counter to the assumption that without the rule of law, clear property rights or elaborate, and appropriately crafted regulatory environments businesses make investment decisions based on market fundamentals i.e. costs of production and market potential.

until progress had been made on outstanding issues through bilateral discussions. In response the EU convened an EU-China Summit to discuss ten issues. These talks were separate from and in addition to the concurrent bilateral accession negotiations. The issues discussed included obtaining Chinese commitments on services, technical barriers to trade (standards), subsidies, transparency, and the protection of intellectual property. Clearly, EU companies would benefit from the Chinese concessions, but no more so than companies from other WTO members and there is no evidence to suggest that the EU negotiators focus was on concessions of particular import to EU. The motivation was the belief that the long-term viability of the WTO and the multilateral trading system of which it is the center depended on Chinese membership and that such a system was in the interest of the EU.

Simultaneous to the multilateral accession negotiations in which all WTO members participated, the EU and China held bilateral accession talks that more particularly reflected European preferences. These later negotiations resulted in the Chinese agreeing fully to comply with the WTO and to open its market on an most-favoured nation (MFN) basis. The results include Chinese agreement to lower tariffs on an MFN basis on 150 manufactured products and 8 agriculture products. China also agreed to comply with sanitary and phytosanitary standards; gradually to limit its state monopoly on imports of oil and fertilizer and exports of silk; to lift joint-venture restrictions on large department stores, expedite the opening of its telecommunications market, and liberalize its insurance market; to provide seven new licenses to EU insurance companies; and to provide a range of improvements for EU auto firms producing in China. Only the last item offered a benefit to the EU that was not shared by other countries.

Supported by EU action, China entered the WTO in 2001. Yet, the difficulties that had to be overcome made it clear to EU officials that supplementary action would be required to guarantee EU economic interests and also to support multilateralism. At least initially, education was the most important of these supplementary efforts, an initially over-optimistic but ultimately prudent approach to help China's institutions and regulatory system to become compatible with the international system. Such efforts were well received by the Chinese side, as Long Yongtu, China's chief negotiator during the GATT/WTO accession pointed out: "countries with planned economies have never participated in economic globalization."³⁰ China, as a socialist market economy could hardly be considered to fit easily with the various trade-related disciplines that had emerged during the transition from GATT to WTO.

³⁰ Cited in Liang, Wei Liang, 2007, "Bureaucratic policies, inter-ministerial coordination and China's GATT/WTO accession negotiations", in Ka Zeng (ed), *China's foreign trade policy: The new constituents*, pp20-39, Routledge: London, pp30.

Numerous aspects of its foreign trade regime were in conflict with the GATT/WTO's principle of free trade as imports were traditionally constrained by the state plan. This meant having to change its system, which in turn created enthusiasm for working with the EU and, above all, learning from its experiences.

Post Accession: Adaptation to the WTO (Slow Penetration) 2002-2015

The EU's policy towards China following its entry to the WTO has been to work to ensure full compliance with the WTO. To give form to this objective, a number of policy initiatives were launched and progressively expanded upon to facilitate China's reform path. A cornerstone to these efforts was the EU-China Trade Project (EUCTP). Established in 2004, the six year project was intended to explore, understand and - on occasion - advise on the different policy, legislative and regulatory configurations needed to bring China's legal system into compliance.³¹

The common thread to the EU's approach has been to help China achieve compliance, but also to identify reform windows rather than dictate terms. The collective purpose of EUCTP and similar projects has been to position the EU as a facilitator, guide and mentor as a means to help monitor Chinese elites and by extension strengthen their commitment and engagement to trade multilateralism. However, equipping personnel with the "right" thinking and approach to trade – particularly in terms of issues and ideas relevant to EU trade interests – has not been an easy task. This is in no small part due to the increasing prominence given to enforcement (of the three strategies noted earlier).

Since 2001, the number one objective of the EU's trade policy towards China has been to ensure that Beijing fully implements its WTO accession obligations: that is, that it upholds its commitment to the multilateral system.³² This stance is largely guided by self-interest, since many of China's obligations were negotiated specifically in light of opening areas of its economy where EU companies enjoy particular advantages in technology, scale and expertise. But it is also important to note that the Commission has been careful to play up the virtue of compliance. It has sought to provide examples and evidence to assure domestic

³¹ In 2011 a new EU-China Trade Project was launched to work alongside the HED (high level economic and trade dialogue) in building EU-China trade. While the HED works to ensure China's compliance with its WTO obligations, the EUTP will devote 25 million Euros in the next 4 years to carrying out over 400 separate activities to support sustainable development of China's trade and investment systems.

³² Trade Policy Paper, 2006

constituencies of the benefits and effectiveness of trade multilateralism. It has also pushed the member states to reciprocate by granting Chinese companies more access.³³

Although the EU has remained consistent in its use of *education* to generate support for multilateralism within third countries, it has grown impatient. Indeed, China's rapid economic growth has fueled demands to make it easier for European companies to share in the benefits of China's emerging market. Changes in the Commission's thinking have begun to register in a new agenda of market access. Signaling the shift in approach, the EU re-launched its trade policy under the banner *Global Europe*. Not only did the new strategy announce that the EU would focus more on tackling the type of barriers to trade that had been kept off the WTO agenda, but it also made the establishment of new free trade areas arrangements with fast-growing economies a priority. Given staunch resistance, in particular from India, to any inclusion of the Singapore issues in multilateral trade negotiations, the only realistic avenue for EU negotiators to make progress would be bilateral and preferential trade agreements.

The significance of this latter move should not be underestimated. By ending a de facto moratorium on bilateral trade talks, the new strategy reflected a more pragmatic approach intended to promote EU's own growth and jobs strategy as well as to open markets. In this sense, the *Global Europe* policy was intended to expand public support for its trade stance by making more visible and understood the benefits to the EU. In subsequent years, the EU would target countries with market potential as a competitive response to what other trade powers were doing (that is, to prevent European companies being locked out of the privileges that other country's agreements would create). Despite its obvious candidature for special treatment, trade negotiators acknowledged that China could not yet be the target of such an FTA given what would have to be offered in return. Still keen to advance its market access agenda, the European Commission seized on the obvious need to update the structure of the EU-China relationship by looking to open up new areas for collaboration and cooperation.³⁴ This meant the launch of negotiations on a new, extended Partnership and Co-operation Agreement (PCA). Conscious to ensure a consistent message on their support for multilateralism, the EU agreed that the fundamental approach to China would remain one of engagement and partnership in which the two nations would work together to support a strong and effective multilateral system. In its success, they declared, each shared a common interest.

³³ In contrast US trade policy towards China, including working towards its WTO accession, is most often explained in terms of its direct benefits to US exports and fdi. And, as the EU paper notes, Chinese noncompliance has already led the US to resist opening its market to Chinese companies.

³⁴ Com(2006)632) (IP/06/1454)

In addressing bilateral trade irritants, the trade policy paper affirms that the EU policy is to seek resolution first through dialogue and negotiation. Where this fails, the aim is resolution through use of the WTO dispute settlement system- an approach supportive of the multilateral system. No mention is made of unilateral measures that would weaken the rules-based system. One effect is to draw a contrast with the United States, from whom threats of unilateral, WTO-inconsistent, measures are common. This is not to suggest that things run smoothly: the trade irritants on which the EU is negotiating and working with China include Chinese standards that differ from international standards, sanitary and phyto-sanitary (SPS) measures lacking scientific justification, restrictions on foreign direct investment (FDI), protection of intellectual property, forced technology transfer, lack of transparency regarding subsidies, export restrictions and the exchange rate. Despite Chinese suspicions that such issues disguise extensive European protectionism, Chinese companies are working to match or exceed many EU requirements.

With the possible exception of the exchange rate issue, resolution of these matters to the EU's satisfaction would bring China into fuller compliance with the WTO - a benefit not just for the EU but for the multilateral system as a whole. For China, the key complaints are the failure of the EU, and the US, to accord it "market economy" status prior to 2015 and EU limits on Chinese foreign investment. In both cases, China is seeking to be treated equally with other members of the global trading community.

China's Trade policy: Unintended Influences of EU Trade Policy

The final question this paper addresses is the impact of the EU's trade policy on China, particularly on its own trade policy and role in the WTO. Here the focus is less on what policy instruments the EU deploys to shape China's system and more on its broader practice, both within and outside the WTO. Such influences can be divided into issues of dispute resolution, negotiation process, and choice of forum.

Dispute Resolution

China has slowly moved away from a pattern of relative inactivity in the WTO and has become a more active member, both in terms of trade round negotiations and via its use of the WTO's system for resolving disagreements, the Dispute Settlement Understanding (DSU). Arguably, Europe's use of the DSU to resolve EU-China disagreements has encouraged China to do the same. Yet, this is not the only lesson being drawn. China has begun to rely more on anti-dumping measures. For example in 2009 alone, roughly 1.2 per

cent of China's imports from developed countries were subject to new investigations. Antidumping duties have disproportionately targeted high-income countries.³⁵ This suggests that China has learned from EU practice on the when and how of using the rules.

China's growing market strength can also be a catalyst for PTAs, as developing nations scramble to avoid losing export markets to Chinese competitors that can outflank them in terms of scale and price.³⁶ The impact on multilateral cooperation of such tensions should not be overlooked because they have created another layer of criss-crossing alignments on different issues that further complicates the coalition-building and issue management that are central to the WTO. Indeed, China's shadow has lengthened since talks on NAMA (market access for non agricultural goods) began to come into focus within the Doha round negotiations in 2007.³⁷ The issue is not so much *Chinese* market access (that is, what concessions China offers to make its market more open) as it is about China *gaining* market access to the developing world. Many countries fear that concessions to appease US and European interests will (because of MFN) inevitably be extended to Chinese companies. This has led to discussions about "policy space" (such as attempts to preserve tariff lines to protect against Chinese imports not just in the short term, but also the longer term), which are becoming as critical as liberalisation itself.³⁸ Thus, the strategy and practice of EU trade policy is becoming far more complex. Not only must it determine what to offer and what to ask for in trade negotiations, but it must coordinate such moves with actors whose industrial structures and commitment to liberalisation is far from the same.

Negotiation Process

While China has demonstrated a willingness to comply, it has been less supportive of an expansion of global trade liberalisation. Like the EU, its participation in the WTO has irrevocably changed its policy-making landscape by creating new constituencies. Despite early optimism and overwhelming faith in market reforms, there is nothing inevitably liberal about these constituencies. Thus, despite European efforts to form a working partnership with China to bring the Doha round to a successful conclusion, China mostly failed to use its position among developing nations to help resolve roadblocks. It involved itself in key

³⁵ Chandra, Piyush (2011) "China: A Sleeping Giant of Temporary Trade Barriers?", in Chad P. Bown, editor, *The Great Recession and Import Protection: The Role of Temporary Trade Barriers*, London, UK: CEPR and the World Bank.

³⁶ Cf. The Central American FTA which was in part inspired by fears from Central American countries for their textile industries.

³⁷ NAMA is a key issue for EU economies, because industries such as medical devices and chemicals are pressing for greater access to emerging economies.

³⁸ For example a key factor in recent rounds of negotiations has been the Brazilian position that it needs to maintain its right to impose high tariffs on manufactured goods in order to stave off competition from China.

discussions (having begun to accept that it needs to increase its presence) but China is also clearer on its interests, and it chooses its fights carefully. Such insights only come from observing the experience of big players such as the EU.

Forum: Where to Pursue Trade Policy?

If the EU has struggled to convince China to take a more leading role in the Doha talks, Europe's pursuit of multiple PTAs since the mid-2000s has helped reinforce the view among Chinese elites that bilateral avenues might constitute a preferable means to pursue its trade agenda. Certainly a comparison of trade policy timelines since China's accession to the WTO suggests similarities in the sense that both actors have sought to advance their trade agendas through targeted PTAs. Yet there are differences, as Ravenhill and Jiang note: "China has become a very active player in negotiating and implementing PTAs in the brief period since its accession and has shown no great concern for the compatibility of its agreements with WTO rules."³⁹

Yet, while clearly open to making use of PTAs, Chinese elites themselves do not see the practice as detrimental to the multilateral system. To date, Chinese PTAs have been mainly concerned with political agendas rather than non-tariff barriers (NTBs) to trade. The Chinese argument echoes that of other trade powers: namely that the pursuit of PTAs is complementary to, not contrary to, its commitments to the WTO. A spokesperson for the Ministry of Commerce (MOFCOM) put the argument most clearly by explaining that while "bilateral free trade agreements and the multilateral WTO are both important channels to facilitate global trade and liberalize investment...FTAs can be considered as important supplements to the WTO."⁴⁰ Chinese elites are encouraged to view negotiating PTAs in which China is considered a market economy (ME) as a means of putting additional pressure on the EU, US and the WTO to review its non-ME status ahead of schedule.

China's Trade Policy: What Impact on the EU?

The rise of China as an economic power has had a dramatic effect on the landscape of EU trade policy-making. Perhaps the most important has been that China's trade policy now has

³⁹ Ravenhill, John, and Yang Jiang (2009) "China's Move to Preferential Trading", *Journal of Contemporary China* Vol. 18, No. 58 (2009). pp 27-46.

⁴⁰ Xinhua news service, "China to advance bilateral and regional free trade negotiations", 15th Sept. 2006. The counter argument is that as the driving force behind FTAs in East Asia, China is clearly more comfortable with a strategy of reactive bilateralism than multilateralism. Indeed most commentators refer to China's patterns of FTAs as *trade light*, i.e. not extending beyond tariff elimination to tackle the non-tariff and regulatory barriers that constrict bilateral trade.

implications for all of the EU's trade relationships. In simple terms, this means that China dominates the agenda for all trade discussions. Chinese influence also manifests itself in the realignment of EU interests, in particular because of the nature of Europe's involvement in global production chains. This alignment depends on the degree to which firms have been affected by or chosen to engage in outsourcing to China, or by their reliance on Chinese exports. Often the positions taken by such constituencies can be polarised. Their positions are also affected by China's exchange rate policy: the undervalued renminbi is tantamount to imposing an import tariff and export subsidy not just on selected manufacturing sectors but across the board.⁴¹

EU officials are in a bind. Whatever results they seek from multilateralism, dealing with China only reinforces demands for the EU to become more adversarial in securing results. Trade is after all a key element of the Union's strategy for surmounting the current economic crisis, but a multilateral process that is deadlocked will not produce quick results.⁴² It is not surprising, therefore, that the key message of the new EU trade strategy is that in parallel to its engagement (negotiating) agenda, which services both multilateral and bilateral objectives, it needs to take a more proactive and assertive approach to secure its own interests. Accordingly, the focus of its attention has shifted to market access, which places much stronger emphasis on the EU's enforcement activities, and on ensuring that trade agreements are translated into action.⁴³ This involves reaching well beyond tariff barriers to address the regulatory practices, particularly between developed and emerging economies. What it means is that enforcement may become more adversarial, even after China attains market economy status in 2016, because states will have fewer means to push back against China's economic strength.⁴⁴

Conclusion

⁴¹ Mattoo, Aaditya, Francis Ng, and Arvind Subramanian, 2011, "The Elephant in the "Green Room": China and the Doha Round", Peterson Institute for International Economics, Policy Brief 11-3. Criticism of the exchange rate policy often fails to acknowledge the degree to which exports attributed to China usually contain a large percentage of imported components with modest value-added attributed to China itself. Plasschaert, Sylvain, 2011 "Is the Renminbi undervalued? The myths of China's trade surplus and global imbalance", ECIPE, Working paper 2/2011.

⁴² Mintzberg, Henry, 2007, *Tracking strategies: Towards a general theory*, Oxford : Oxford University Press. The EU's trade strategy is not always the result of deliberate decisions, but involves a process of learning and adaptation. The recent debt crisis added to the pressure on the EU to change its approach to trade policy.

⁴³ Karl DeGucht, 2010, "The international trade and investment policy of the EU in the next decade", Speech given at the Peterson Institute for International Economics, Washington, 16 December 2010, available at http://trade.ec.europa.eu/doclib/docs/2010/december/tradoc_147139.pdf; Karl DeGucht, 2011. "Open markets as the driving force of prosperity", Speech given at Hannover Messe, Hannover, 4th April 2011.

⁴⁴ Mattoo, Ng, and Subramanian.

Turning Strategic Partnerships to the Service of Effective Multilateralism

What can the EU's relationship with China tell us of the former's efforts to promote more effective multilateralism? Clearly the EU acknowledges that *effective* must mean including those actors able to affect the make-up and break up of coalitions within the WTO. Yet, turning "strategic" partnerships to the service of multilateralism is not a matter of common sense. Even guided by a set of principles on what multilateralism should achieve, EU officials have no road map that can tell them how to proceed. These tensions translate into a series of mixed messages.⁴⁵ On the one hand, it is clearly acknowledged that the involvement of Chinese elites is critical not only to navigating any future round of WTO multilateral trade negotiations but also to revive growth in world trade. Yet on the other, protectionist groups coalescing around the use of trade defence measures continue to marginalize China as an outsider, improperly equipped (as a state-controlled, non-market economy) and unwilling to play its part in the multilateralism system. This has resulted in an expectations gap, and the fueling of a sense of victimhood among Chinese elites. They, for instance, point to the political favours shown to Russia in its quest for WTO accession as evidence of double standards. Even so, the Commission has identified the need for closer relations with fast growing emerging markets, noting that by 2015, 90 per cent of world growth will be generated outside the EU, one third of it in China alone.⁴⁶

Implications for the EU's Strategy of Engagement, Education and Enforcement

Achieving success using the current strategy of engagement, education and enforcement is far from guaranteed, particularly now that the credit crisis has damaged the credibility of some eurozone economies (with the notable exception of export-orientated Germany). The EU's failure to resolve its own internal difficulties has had the knock-on effect of undermining its claims to authority and leadership within multilateral fora. This makes it harder for the Union to marshal examples of best practice and position itself as a guide or mentor in shaping developing countries' trade policies. The implication is that one of the key pillars of the EU's support for multilateralism – education (in effect a form of directional leadership) – may have to be retooled and refocused to take into account the lessons that arise from the Union's own weaknesses and failures.

⁴⁵ The Commission's latest China strategy (Partnership and Competition) typifies this problem. While it makes perfect sense from a European perspective to call for China to trade fairly, it is not easy to digest for policy elites in Beijing.

⁴⁶ Karl DeGucht, 2011, Made in China: what next for EU firms?, Speech at the annual seminar "EU Business in China: 2011/2012" organised by the European Union Chamber of Commerce in China, Brussels, 20 September 2011

Equally, efforts to construct common positions through engagement, which are based solely on fears of what might happen in the absence of a multilateral agreement, are unlikely to reap dividends, despite China's willingness to acknowledge that it cannot grow alone. Such arguments have gained little purchase with elites in other economies. Positions on the future of trade multilateralism remain far apart, while at the same time enthusiasm to work multilaterally has diminished. Re-engagement must therefore involve more than just additional lines of communication, but rather a re-orientation of the relationship that the EU seeks to impose on its partners. In the case of China, this will mean acknowledging and accommodating Chinese involvement in meaningful leadership roles and the setting of agendas. This will be hard to achieve given that most of the issues that held the attention of Doha negotiators did not coincide with Chinese priorities. As a RAM (recently acceded member), Beijing has little enthusiasm for engaging in bargaining over the further extension of rules, particularly in areas such as industrial policy. Opening up new and often highly controlled markets is simply unattractive.

In any event, the Chinese approach to trade policy coordination has changed in tandem with the restructuring of its economy. The pattern of unilateral liberalisation and accommodation has shifted as Chinese elites have grown more confident about their ability to assert China's interests, and more sensitive to protecting and promoting state champions. However, this has not yet translated into a more offensive agenda at the WTO. As Sally observes, "China has evident difficulty in acting like a rule setter and system shaper."⁴⁷ Meanwhile, the increased WTO focus on enforcement has made many states cautious about allowing its reach to be extended – even where it allows protectionist domestic constituencies to be safeguarded, something to which Chinese elites are sensitive given close relationships between industry, the state and the party.⁴⁸

Future Prospects

In a relatively short space of time, China has found itself catapulted to the centre of discussions on world trade – both as object of inquiry and as participant. It is now feted as being as critical to the future of the world trading system as Europe has been to its past. Yet, what China's increased importance means in terms of the effectiveness of multilateral trade institutions remains to be seen. Much depends on how these institutions evolve, the agendas

⁴⁷ Razeen Sally, 2011, « Chinese trade policy after (almost) ten years in the WTO : A post crisis stocktake », ECIPE Occasional paper no.2/2011.

⁴⁸ cf. Goldstein, Judith L. and Richard H. Steinberg (2009) 'Regulatory Shift: The Rise of Judicial Liberalization at the WTO' in Walter Mattli and Ngaire Woods(eds) *The Politics of Global Regulation* (Princeton, NJ: Princeton University Press), p 212.

they tackle, and the roles and processes they generate. It also depends critically on the relationships that support the trade institutions and that they in turn shape.

What is evident is that the impact of the recent financial crisis upon trade flows has impressed upon Beijing that it can ill afford to neglect these issues. For the foreseeable future, its economy will remain dependent on exports, making it particularly vulnerable to turbulence in the world trading system. This in turn means that the value of the EU-China relationship will continue to increase. Trade liberalization can be encouraged through a number of channels that vary in exclusivity and ambition. All the major trade powers have made use of *all* avenues, relying on multilateral fora to shape the context, and preferential agreements – both regional and bilateral – to secure their interests selectively. Whether these strategies can work in harmony with one another is the subject of considerable debate.⁴⁹

As the post-crisis financial stimulus packages are slowly withdrawn, new demands for fiscal responsibility will test EU policy-makers. The Union may revisit its strategy on multilateralism given that it is likely to endure a period of subdued domestic demand. Pragmatic bilateral strategies which allow for relatively rapid problem-solving may become more tempting. The EU is not devoted solely to principles; interests must be served. Indeed if the Commission's recent review of trade policy provides any indication, then the EU will focus primarily on the latter. As the Union's Trade Commissioner, Karl DeGucht, explains, the EU intends to help European businesses of all sizes to access global markets and open closed paths by launching legislation to "secure improved symmetry in access to public procurement markets" in large emerging economies. "Where the EU is open, such as in public procurement, we need to ensure European businesses can benefit from the same terms of access to our partner's markets... Where Europe's openness is not matched elsewhere, I want to redress that balance."⁵⁰

Therefore, it seems that the wrong set of questions may be driving the agenda. Rather than first figuring out how to promote European business, the Commission might be better-served by considering the impact of an adversarial and tense relationship with China. Likewise, a further downgrading of multilateral solutions in favour of a bilateral approach might undo the very system that has ensured prosperity for both the EU and China.

⁴⁹ Article XXIV of the GATT allows for exceptions to Most Favoured Nation status that essentially permit/encourage preferential trade agreements.

⁵⁰ Karl DeGucht, 2010, "A renewed trade strategy for Europe", Presentation of the "Trade, Growth and World Affairs" Communication, European Commission, Speech delivered at Brussels, November 10th, 2010, http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146984.pdf

As the assumptions underlying the EU's strategy for building effective multilateralism evolve, so it needs to reconsider its policies of engagement, education, and enforcement. It must reassess their design and deployment to determine how best to further the cause of multilateralism, while still addressing the issues that matter from a purely bilateral perspective. A healthy sense of realism is needed in order to keep expectations on both sides within the realm of the possible and to avoid antagonising either side with impractical or unreasonable demands. There is reason for optimism, though, as both China and the EU have substantial contacts and exchange, and common cause in supporting a dispute resolution mechanism that fosters the credibility of the trading system. Deeds and not words will reveal whether both sides are committed to the cause of trade multilateralism.