Dear Heads of State and Government of the Member States,

Re: The EU’s relations with its strategic partners

In a few days, you will discuss Europe’s relations with our strategic partners, following your Foreign Ministers’ informal debate on emerging powers. This unprecedented event reflects two key interlinked facts: firstly, the step towards greater co-ordination that our new Lisbon Treaty institutions now allow, but have yet to take decisively; secondly, a historical acknowledgement of the international system’s shift towards emerging economies. In this light, crafting a coherent foreign policy and security institutions to deal with rising powers like China comes not a moment too soon. Europe is often stronger than it may think, provided it mobilises its resources and streamlines its institutions.

**Defining the challenge**

The rise – or renaissance – of powers such as China and India should be seen as a triumph of the trade liberalisation and open investment policies pursued by industrialised nations. But these new major powers also pose challenges to Europe at several levels.

- Their rise brings a need to rebalance the representation of nations within international institutions, from the UN to the IMF, G8 and G20. However, surrendering seats or voting rights will not automatically make states with a narrow definition of their national interests accept our world view of a multilateral legal order above nation-states.
- The fast growth of these nations also brings the challenge of dealing with increased strain on natural resources, along with environmental pollution and climate change.
- Questions about how the rising nations will use their power and voice on a range of security challenges - from Iran to North Korea.
- They will have to be persuaded that democratic governance is still the best long-term guarantee of further peace.

These challenges make it imperative to put in place the new institutions allowed by the Lisbon Treaty while working on coordination and sharing of responsibility between member states and the Council, with the help of the Commission. Nowhere is the challenge more real than with China. It is an industrial producer almost equivalent in size to the United States. It is now climbing the technology ladder with determination, has the world’s second military budget, and - many in Asia would also add - with territorial claims to match. For Europe the Chinese question is a multifaceted one, ranging from Africa to proliferation to international governance.
What does China want from the EU?
How should Europe respond to ensure a stable and mutually beneficial relationship with China? Your discussion next week presents a golden opportunity to address the goals of the relationship as well as its ways and means, starting by examining Beijing’s shortlist of what it wants:

1. Above all, to keep Europe’s markets open and expanding to absorb Chinese exports. China is therefore concerned about currency fluctuations, deflationary policies, and holding on to its own status of a developing economy for as long as possible.

2. Secondly, limiting the impact of interdependent trade and exchanges on China’s domestic economy and society. Here, Beijing needs a healthy, deep and open European capital market (reflected for example by key purchases of Spanish public bonds in July 2010) to allow China to hedge against overdependence on its largest debtor, the US. The 2008 global crisis has made China’s continued growth more dependent on Europe regardless of the short-term trends of bilateral trade. We have gained leverage, both positive and negative.

3. Thirdly, Europe’s policy towards external investment matters in Beijing – and reciprocally of course, it matters to Europe how our investors are treated by China in this sector, which is largely outside the purview of WTO. High technology and its corollary – intellectual property rights and patent protection – are also the heart of our future relations. They are the alternative to lose-lose protectionist conflicts. But we must remember that unilateral openings to Chinese goods have not necessarily paid off so far. And China’s request for market economy status is by now a symbolic claim, since it will happen automatically in the near future.

4. Almost all of China’s other needs are negative: non-interference in domestic issues, which unfortunately encompass human and religious rights as well as claims of territorial sovereignty. Only the lifting of the 1989 arms embargo would fill positive Chinese needs. A strong and well-coordinated Europe might well use a review of the embargo as a source of leverage, looking at dual use, confidence-building and China’s cooperation on issues such as the Iran nuclear portfolio.

What does the EU need?
Because the EU defines its interests more widely, Europe’s needs are much more extensive and varied than China’s. You should begin to prioritise these, and initiate a review process which will show how they can realistically be implemented, while making use of like-minded global partners on each of these goals. Europe’s short-list should include:

1. A “second opening” of the Chinese economy. Since China’s entry into WTO, it has retained – and sometimes reinforced – all the protection it had been allowed to keep from an earlier era. The opening that’s now needed coincides with China’s own goal to rely more on its domestic purchasing power and growth, and on a global agenda to reduce economic imbalances. Company ownership and IPOs, IPR, the financial and service sectors, and public procurement are all areas of pressing interest for Europe in this context. Effective cooperation on the environment and climate change hinges on these issues more than on any other.

2. Europe’s second need lies with capital investment into our market. Although Europe’s external account balance remains positive, there is much that Chinese firms – and others – can contribute to our growth. This coincides with a more pressing need by China to diversify its present holdings – and Europe is by far a safer investment than many other destinations.

3. Europe’s third need towards China concerns our security. Although all acts of proliferation set the wrong example by undermining rules, the developments in Iran concern directly Europe’s core security interests. China should be left in no doubt that its equivocations on this issue contradict any hope for a true strategic partnership. You should bring leverage to bear on China, both positive and negative.

4. Human rights in their wider sense – including good governance and accountability – remain an area of difficult relations with China. You should ensure that no European government is taken to task for meeting with representatives of its own choosing. While acknowledging and encouraging the growing diversity of China’s society, you
should not shy away from pointing at abuses when they occur. By abdicating universal values, Europe would lose the respect of the world’s citizenry.

**Designing a review process**

It is important that the discussion of 16 September launches a political process for identifying priorities and leverage. The Council meetings could try to (a) formulate an *overall concept* for dealing with China; (b) to agree on the premises of a *code of conduct* for mutual accountability and solidarity in areas where a common policy stance is agreed as important/attainable; (c) to decide on the *process after September* to develop more concrete ideas in a number of core policy areas. This could include some of the following elements:

1. A *taskforce* that brings together key Commissioners and a few targeted participants from member states. This taskforce would *canvass the interactions between our goals and the dialogues* we hold with China, linking up for example our management of issues such as cooperation in energy efficiency and intellectual property rights. Meetings could take place in various European capitals, *securing the involvement of member states which are key to each issue*. Once started this process would generate ideas and maintain the momentum for coordination.

2. The taskforce could help the EU *set a few collective priorities*, and take these priorities to Beijing as government leaders and members of the Commission. This will answer a Chinese call, not wholly unjustified, for clarity in European policies.

3. It could make suggestions about how to *improve the coordination* of the numerous dialogues which exist with China, and decide as member states to cut down on duplicate channels or tie them to the European process.

4. It could look at how to mobilise the best expertise and contacts of member states on China as well as building a stronger cadre of civil servants. As a revolving door is not the best way to bridge the cultural and political distance to China, the new EEAS should *enlist and retain expertise* in the field.

5. Finally, you should also conclude that Europe must *improve its game in dealing with all of its global partners*. Indeed, the review of our strategic partnerships should improve our success with each of them. An accumulation of ever-changing goals may discredit Europe with the strong realist powers emerging in the 21st century. But precisely because these powers are often shy in implementing a compact of common values, they are as likely to split on any issue of interest as to unite against external pressure. On each of its interests and values, Europe will gain respect from China if it has built like-minded clubs and partnerships.

The skills of Europe’s national diplomatic services would be well-employed if they seconded the new EEAS in these directions. By minimising their separate endeavours, they would achieve economies of scale in a world which has suddenly become much larger. Europe has more power than it allows itself to think, but only if it chooses to use it in an effective way.

Yours sincerely,

Mark Leonard        François Godement
Director        Senior Policy Fellow
European Council on Foreign Relations        European Council on Foreign Relations