

Introduction: China's rise as a global actor, its consequences for global governance and how Europe copes with it

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After four centuries of isolation, followed by one century of colonisation and three decades of inward-looking industrialisation after its return to unity, China has now fully reinserted itself into the world economy as a sovereign power. The Chinese empire had been the largest economy in the world until the early nineteenth century when capitalist industrialisation allowed the Western powers to overtake the Middle Kingdom. However, in the pre-modern world China's hugeness was not appreciated as the global economy was fragmented into highly insulated and inward-looking economic blocs within which international trade was quite marginal compared to local trade. Between the sixteenth and twentieth centuries, European powers, driven by capitalism, made the world economy less fragmented through economic and colonial expansion. At a daunting human cost, they built a globalised economy by the early twentieth century. During that century the Western powers – Europe and successively the US – naturally shaped the governance structure of the global system that they had dominated for centuries.

In the aftermath of the Second World War the US and Western Europe (except for defeated Germany) set up the multilateral institutions in charge of global governance. The trading system was progressively liberalised within the framework of the General Agreement on Tariffs and Trade (GATT). The new monetary system designed at Bretton Woods secured fixed exchange rates that gave the dollar the role of international reserve currency under the supervision of a US-dominated International Monetary Fund (IMF). Post-war reconstruction and economic development of the countries in the South would be facilitated by the

World Bank. The maintenance of peace and security was entrusted to the United Nations (UN), in particular its Security Council.

Despite the proclaimed multilateralism, the design and the functioning of the new institutions in charge of global governance reflected the strength of the great powers, notably the US. At Bretton Woods, the US government rejected Keynes' proposal of a supranational currency, the 'bancor', to impose an international monetary system based on the dollar. By the end of 1950, President Truman renounced the fight to gain Senate consent for the Havana Charter (1947), which would have created an International Trade Organization based on one country-one vote. Instead, the US used the GATT as a negotiation forum with little formal institutionalised powers and managed to impose its agenda of trade liberalisation during the first decades of its functioning. The US and Western European powers clearly dominated these multilateral institutions, reflecting their economic and strategic weight in the global system.

The Western European powers gained more influence thanks to their economic integration. The establishment of the European Economic Community (1957), with the creation of a customs union, a common commercial policy with representation in the GATT (Article 113, later 133 of the Treaty of Rome), the common market project, followed by the move towards the single market by 1993 and the setting up of the Eurozone in 1999, enabled Western Europe to strengthen its bargaining position vis-à-vis the US hegemon. The US and Europe dominated the governance system of the global economy organised under the market capitalism system.

After 1949, China became part of the group of developing economies which followed the Stalinist model of economic development based on state-led import-substitution industrialisation. They insulated themselves from the capitalist world and attempted to build a socialist economy in a rural country which was lagging behind in terms of technology and industrialisation. China built up a heavy industrial base and strengthened its infrastructure, enabling the country to reduce substantially extreme poverty and to improve considerably education and health standards, albeit at a terrible human cost during the tragedies of the Great Leap Forward and the Cultural Revolution. After having pursued an extensive growth path based on Soviet technology, the economic development of China was slowed down by its isolation, especially in terms of access to technology. A turn in US foreign policy taken by the Nixon administration enabled China to join the global capitalist economy. The Chinese government opened the economy, giving up its state monopoly on foreign trade and enabling multinational enterprises to invest in China. The Chinese leadership managed the transition towards a less centralised

and more market-oriented economy, but at the same time took a hands-on stance using macroeconomic (currency and international capital flow control) and industrial policy tools both to provide for relative macroeconomic stability and the emergence of large Chinese firms. Access to world markets and better technology enabled the Chinese economy to experience an exceptional growth rate for three decades. Forecasts suggest that the Chinese economy will overtake the US and Europe by the 2040s.

In the 1970s, the Chinese leadership gave up confronting Western powers directly. It no longer challenged the global capitalist order and decided to compete economically rather than politically within the economic and political governance framework designed by the Western powers. The Chinese leadership started by securing its role in global governance and by making the necessary internal adaptations to do so. It progressively learned about the functioning of the global economy, especially after having joined the World Trade Organization (WTO) in 2001. During this adaptation and learning process, China adopted a low profile based on Deng Xiao Ping's '24-character principle', which was to 'observe calmly; secure our position; cope with affairs calmly; hide our capacities; bide our time; be good at maintaining a low profile; and never claim leadership'. European and US officials and commentators complained sometimes about the lack of visible strategy and action in different fields. However, from 2000 the Chinese leadership became more confident and more able to express China's views on global affairs. The sheer size of the Chinese economy, its trade surplus and financial reserves, its pollution emissions and the modernisation of its armed forces meant that China could no longer maintain its low profile on global governance.

The financial crisis of 2008 accelerated this change, as it challenged the existing global governance structures designed by the Western powers and the latter's traditional hegemonic position. The G7 made way for the G20 as a 'premier forum of international cooperation' between the main industrialised and emerging economies. The European Union (EU), US and Japan are no longer able to impose their agenda in the WTO's Doha Development Agenda (DDA), whose success is nowadays in the hands of the emerging economies. A 'new Bretton Woods' is required to adapt the evolving needs of the international monetary system. The US is suffering from a legitimacy crisis in terms of economic governance due to its incapacity to correct its macroeconomic imbalances and the destabilisation generated by the deregulated US financial system. The neo-liberal model of economic governance, enshrined in the so-called 'Washington Consensus' and triumphant in the early 1990s following the collapse of the Soviet Union, is now openly contested by most emerging economies. These favour a model characterised by more state intervention (exchange

rate policy, industrial and trade policies, social and education policies), a model that has been hastily labelled the ‘Beijing Consensus’. China reacted more swiftly to the crisis than Europe, which was confronted with severe tensions within the Eurozone.

These developments highlight that the Western-designed global governance rules and institutions will have to adapt to give way to the new emerging powers – most notably China. This book aims to explore the different fields of global governance that are likely to be affected by the recent rise of China, as well as analysing Europe’s attitude to this phenomenon. Since opening its country to the world in the late 1970s, the Chinese leadership has promoted its vision of a multipolar world in trying to counter the US hegemonic position and avoid unilateralism. For decades, the EU has been a strong supporter of a universal rules-based multilateral system in the different domains of global governance. To what extent are these two visions compatible? The Chinese leadership has often stated that there is no great conflict of interest between China and Europe. The EU and the People’s Republic of China (PRC) managed to engage in a strategic partnership in 2003. Nevertheless trade, monetary policy, environment, energy, security and human rights have been a source of tension throughout the past decade. This book delves into these different key areas and examines the Chinese and European perspectives on global governance in these fields.

SHIFTS IN THE GLOBAL ORDER

The first part of the book focuses on the rise of China in the world, a comparison of Chinese and European points of view on global governance and a look at how global governance has already been reshaped by China’s rise in world affairs. Jean-Christophe Defraigne takes a long-term perspective to analyse the origins of and prospects for China’s re-emergence as a global power and the implications for the US, Europe and the global governance system. Yiwei Wang outlines the problems of perception and identity between China and Europe which are at the root of tensions in Sino-European relations. Stewart Fleming shows how the rise of China and other emerging powers has created a new geopolitical context. He analyses how this new configuration and the financial crisis of 2008 generated the need for a new forum on global governance which became the G20. He assesses the prospects for this new global governance body and the roles China and the EU could play in it.

THE WORLD TRADING SYSTEM

In the second part of the book 'The World Trading System', the contributors analyse the impact of China–EU relations on world trade as well as on the institutionalisation and reform of its regulatory mechanisms.

In Chapter 4, Jan Wouters and Matthieu Burnay examine the interactions between China and the EU within the WTO. In contexts where bilateral negotiations do not prove successful in tackling trade concerns, the WTO has become an important venue for the EU and China to discuss their trade disputes. Both have increasingly brought cases before the WTO's Dispute Settlement System. The authors argue that mutual misperceptions prevent China and the EU from developing a constructive collaboration aimed at restructuring the WTO.

In Chapter 5, Xiaodong Wang explains the root causes of the current stalemate in the negotiations in the WTO's DDA. After having emphasised the specificities of the Doha Round with regard to the former Rounds, he argues that the current leadership vacuum, the extensive use of Free Trade Agreements as well as the difficulties in finding trade-offs, strongly impede the ability to conclude the Round and pursue the necessary reform of the institution. In this context, he insists on the positive role China and the EU can play in negotiating the future agenda and fighting against protectionism.

In Chapter 6, Chien-Huei Wu draws a detailed comparison of European and Chinese policies towards Africa. In this respect, he puts forward the differences between the main European and Chinese policy instruments, namely the Cotonou agreement and the Forum on China–Africa Cooperation (FOCAC), as well as current practices. He argues that a middle way exists between the European conditional engagement and the Chinese non-interference principle. In this respect, he supports the development of a trilateral cooperation that would decrease the confrontation between both actors to the benefit of the African continent.

THE WORLD FINANCIAL AND MONETARY SYSTEM

The third part of the book focuses on the Chinese and European positions on the changing international monetary system. In Chapter 7, Pierre Defraigne explains the origin of the global macroeconomic imbalances by analysing US and Chinese macroeconomic policies. He shows how the US and Chinese models of growth have been complementary since 2000 and how the savings of the world – and notably of China – contributed to the

US rising trade deficit and to a speculative bubble, generating unsustainable growth for the world economy. He identifies three key issues which have to be addressed: pragmatic macroeconomic cooperation to cope with current account imbalances; the taming of global finance through strict domestic and regional regulation, supervision and taxation; and ultimately a new Bretton Woods based on a basket of currencies of Special Drawing Rights (SDR) type.

In Chapter 8, Michel Aglietta outlines the nature of the international monetary system since Bretton Woods, emphasising the contradictions of a key currency system in which the dollar is only a semi-standard and the imbalances are generated by US monetary policy. He explains how the international monetary system should be restructured and proposes a new governance system for the IMF, notably advocating more regulation of the financial markets, the strengthening of a regional monetary zone in East Asia with a limited convertibility of the renminbi (RMB) and a political role for the Eurozone in the IMF.

In Chapter 9, Sylvain Plasschaert looks into the issue of the valuation of the Chinese currency, the RMB, and the frictions it generates between China and its Western partners. He assesses to what extent the RMB is really undervalued. His analysis indicates that the value of the RMB over the past decade has not been the main reason behind China's important trade surplus; instead, structural domestic characteristics of the Chinese economy have been more significant. Plasschaert concludes from this analysis that the Western demands for an appreciation of the RMB do not constitute an adequate means to correct the trade imbalances between China, Europe and the United States.

In Chapter 10, Qu Bo considers China's management of its insertion into the global financial and monetary system and the Chinese approach to the restructuring of this system. He shows how China's position in this domain was driven by necessities imposed by domestic reform of the Chinese economy. He explains to what extent the Asian financial crisis in 1997, China's entry to the WTO in 2001 and the financial crisis of 2008 influenced China's engagement in international monetary cooperation. He concludes by examining China's propositions to regulate the global financial system, including the views of the Chinese government on key issues such as the internationalisation of the RMB and the Asian Monetary Cooperation Mechanism.

CLIMATE CHANGE AND ENERGY

Part 4 of the book is dedicated to two interrelated areas of global governance that are very much influenced by the changing international world order: global climate change, the most serious ecological crisis of our time, and the energy challenge, referring to the difficult task of transforming and finding sustainable and reliable energy production and consumption pathways.

In Chapter 11, David Belis and Simon Schunz investigate the material realities and policy responses in China and Europe and the evolution – driven by China's rise – in the global governance of climate change and energy policy. It is especially since the Copenhagen Conference in 2009 that China's changing position has become obvious in the climate regime. Due to massive growth in domestic energy consumption and demand, China has become the largest greenhouse gas emitter and energy consumer in the world. Its leverage, therefore, in both international climate as well as energy fora, has increased exponentially. In Chapter 12, Richard Cooper argues for an action-based multilateralism to cope with the challenges arising from Chinese and American passivity in climate and energy governance. Challenges are embodied in the 'pledge and review approach' adopted by the Copenhagen Accord and Cancun Agreements, which focus on concrete policy actions rather than on binding targets.

Under the 'pledge and review approach', China translated a number of its domestic policy actions into international – but voluntary – pledges. In Chapter 13, Jingquan Chen elaborates on China's domestic climate and energy actions through the lens of the Chinese government. One consequence of China's swift rise has been Europe's loss of leverage in international climate negotiations. An interesting issue in this context, linking the EU to China, is the future of the Clean Development Mechanism (CDM). In Chapter 14, Pei-fei Chang, David Belis and Hans Bruyninckx elaborate on the use, role and validity of the CDM for EU–China cooperation in the renewable energy sector, with a particular focus on the wind power industry.

Bernard Snoy's contribution in Chapter 15, as well as Chapter 16 by Bram Buijs and Lucia van Geuns, elaborates specifically on an intersecting issue for climate and energy policy: renewable energy and low-carbon technology cooperation and competition. Snoy focuses primarily on the emergence of European, Chinese and EU–China energy policies while Buijs and van Geuns scrutinise EU–China bilateral energy competition, but also highlight instances of cooperation in the field of renewable energy in the broader context of existing international, bilateral and domestic regulatory frameworks.

SECURITY AND POLITICS

The fifth part of the book focuses on global security and starts with a closer look at how China's rise and the consolidation of its status as a major power in East Asia challenge the US hegemonic position in the region. In Chapter 17, Elena Atanassova-Cornelis analyses the manifestation of strategic mistrust and security dilemmas between Tokyo and Washington, and Beijing, and then moves on to explore recent trends of engagement and cooperation between the three powers. Subsequently, she examines the primary components of the evolving regional security order and looks at the EU's policy towards East Asia. She concludes by arguing that while the US-led security system continues to be the main provider of East Asian stability and hence ensures America's regional primacy, it is increasingly complemented by regional multilateralism in non-traditional security areas. In turn, this opens the way for Europe's strengthened engagement with the region, including with China, and hence for the EU's implementation of a more multilateral approach to global governance.

In Chapter 18, Tanguy de Wilde d'Estmael begins with the assumption that the EU and China share at least two common points in international relations: in the latter part of the twentieth century, they embodied, each in their own very different manner, a kind of third way in the then bipolar world; and in the twentieth-first century, they leave some doubt about the kind of power they are developing. It is this unique facet of these two atypical powers that the author intends to clarify before moving on to a more controversial aspect of their relationship, coercion by the EU through the continuing 1989 arms embargo against Beijing. The latter situation is quite paradoxical: this use of coercion remains a stain on the otherwise carefully woven fabric of multifaceted cooperation.

In Chapter 19, Hanne Cuyckens elaborates on the extent to which the EU and China, who are both emerging global actors, are capable of balancing US hegemony and shaping a new world order characterised by multipolarity. She provides a brief overview of the legal framework of EU–China relations. She then analyses both actors' views on multipolarity and the relationship between the EU, the US and China. She shows that, even though the US remains the most important global actor, the world order is evolving towards a more multipolar balance of powers and emerging actors such as the EU and China will definitely (even if to different extents) have a role to play in the redefinition of this new world order.

In Chapter 20, Jagannath P. Panda concludes this fifth part by analysing the practice and pledge of China's new advocacy of

multipolarism in the context of the BRIC (Brazil–Russia–India–China). She outlines the extent of Chinese support for a ‘developing world’ dialogue that remains the crux of the Chinese global strategy. While the focus is on analysing the scope of the BRIC in China’s multilateral dialogue, the chapter also delves into the rationale behind China’s formulation and support of ad hoc settings like the BRIC. Panda sees the Chinese course of multilateralism with multi-polarism as a well-constructed ‘dual-mode’ strategy to handle rising Western opposition and to encourage constructively its desired future structure of global politics.

CHINA–EU RELATIONS IN TURBULENT TIMES: WHICH WAY FORWARD?

Finally, building on the analysis outlined in these five parts, Jan Wouters and Matthieu Burnay provide general conclusions and propose some policy recommendations on how to enhance the relationship between China and the EU in a way that reconciles their strategic agenda and contributes to tackle the changing global governance system.

