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CIIS Report

Changes of EU’s International Status and Influence

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Introduction: How to Understand the EU’s Ongoing Changes?

Since the end of the Cold War and with the impact of various internal and external factors, Europe has undergone a quickening process of regional integration. According to the Treaty on European Union (the Maastricht Treaty) signed in 1992, the European Community was officially replaced by the European Union and Europe’s goal of establishing an economic and currency union and the integration of foreign and security policies were further identified. The idea of building a “supranational entity” suffered setbacks when the Treaty establishing a Constitution for Europe got stranded in 2005. However, the Treaty of Lisbon, as its substitute, still aimed at pushing the European integration forward. Today, the EU has become the world’s biggest economy composed of 28 member states and the biggest economic and political group of developed countries. The euro, as the unified currency of 17 member states, has become an international reserve currency and a unit of settlement comparable to the U.S. dollar. The EU’s development model and lifestyle have great influence and attractiveness in the international community. The Union has become an important force in the current international geopolitical structure.

However, the debt crisis that started in 2009 has forced the EU to rewrite its history of rapid integration and expansion. The European sovereign debt crisis that started in Greece has almost swept through all countries across the euro area and has not subsided to date. It is a fiscal, financial and economic crisis inside the Union, but with global repercussions. In a highly integrated economy as in the case of the EU, such a crisis first dealt a blow to the position of the euro, the European financial system and its real economy. The unstable position of the euro even triggered the market’s pessimistic expectation and the concern of a possible collapse of the euro. The reputation of the European countries on the international financial and credit
markets slumped, and as a result, all European banks fell into a precarious state. The lack of confidence in the market, sluggish investment and weak consumption struck a heavy blow to the real economy. From the end of 2011 to the beginning of 2013, the economy of all 17 countries in the euro area had been in recession for six consecutive quarters. The economic damage has triggered a range of political and social upheavals: the governments of nine EU member states were changed during the crisis; there was a widespread sense of despair and pessimism resulting from the economic recession and poor crisis management with rampant labor strikes, street protests and other forms of social unrest. In the meantime, the rationality of the EU structure was called into question and the relationship between EU institutions and EU member states had changed. Nevertheless, a series of breakthroughs have been made in the coordination of member states’ fiscal policies and the Union’s economic integration under the pressure of debt crisis. The questions that arise include: Is the current EU crisis a temporary twist in the integration process or the starting point of a long-term descending trend? How will the spillover effect of the European debt crisis change the world economic structure? And how should China, as the most important trade partner of the EU, get along and cope with the repercussions?

The European economic depression, political and social turmoil and the “re-nationalization” phenomenon also had a profound impact on the foreign policy and behavior pattern of the EU. The structural problem of the Union and the change of relationship between the EU and its member states exposed in the crisis will certainly be reflected in the changes of the EU’s foreign policy and behavior pattern. To be specific, when reforming the internal economic governance has become the EU’s most urgent and important policy goal, what position will foreign policy occupy on the EU’s agenda? Is there any new change taking place in the existing slow but continuous process of member states transferring diplomatic authority to the EU institutions? What kind of role will EU foreign policy play in easing the debt crisis and creating a favorable international environment for economic recovery? If the EU changes its foreign policy objectives and practices, are its capabilities still adequate for achieving or realizing them?

In addition to immense benefits involved in economic exchanges and trade, the EU is also an important actor geopolitically in handling major-power relationships.

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1 Latvia formally joined the euro area on January 1, 2014 as its 18th member state. Since this report was completed at the end of 2013, Latvia was not counted as a euro area country in this report.
Both the EU-U.S.-China trilateral relationship and the EU-Russia-U.S. trilateral relationship are important strategic relationships that the EU should handle carefully. These relationships should be reviewed and assessed in the current increasingly complex international situation. As a traditional force having a major impact on world affairs, the EU is obviously unwilling to give up its superior position due to economic setbacks or the so-called power shift, and it still hopes to maintain substantial influence within the framework of major-power relationships by using its soft and hard power. However, in today’s world when the historical logic of major-power relationships has changed, how will the EU identify its legitimate status in the framework of traditional major-power relationships and in the construction of a new type of major-power relationship? This will also be a major issue to be addressed in this report.

Another important pillar of the EU’s current international position is its leading and unique role in global governance. Given the intensity of internal crises and external competition, the existing EU mechanisms for global governance, with “good governance” as it core concept, “effective multilateralism” as its way of implementation, “transatlantic relationship” as its strategic underpinning, and various policy instruments in alternate use, are undergoing changes. How to redefine its own objectives, adjust the roadmap, strengthen the support and identify policy priorities from global governance perspective is a crucial test for the EU’s capability to maintain its leading position in global governance. The core issue is whether or not the EU, as a traditional leading force, can eventually accept the new reality that emerging powers participate and share the leading role with traditional powers in the global governance process.

This report presents the basic views of three scholars at Department for European Studies, China Institute of International Studies (CIIS) on the changes of the EU’s economic position and influence, the changes of EU foreign policy and behavior pattern, the change of the EU’s position in the framework of major-power relationships, and the changes of EU concepts, roadmap and strategy for global governance, based on their year-long survey and research. In the past year, to collect more materials for their research, the three scholars paid visits to several dozen Chinese and European research institutions and government agencies, and attended numerous conferences and symposiums. It is the authors’ wish that their
observations and conclusions on the unfolding changes of the EU and the world at large presented in this report can provide some added value to academics and policy-makers.
I. Changes of the EU’s Position in the World Economy and Its Implications

The international influence of the EU, as an international actor based on economic integration, largely depends on its strength and status in international financial, trade and economic systems as well as in the structure of global economic governance. Since October 2009, the European sovereign debt crisis, which first arose in Greece, has spread to Portugal, Ireland, Spain, Italy and other countries in the euro area, thereby evolving into a euro area debt crisis and triggering economic recession of the world’s biggest economy, the European Union. The strongest impact of the European debt crisis is precisely in the trade and economic area, which is the most integrated field of the EU. The EU’s share of the world economic aggregate and trade volume has decreased steadily and the position of the euro in the international financial system has declined. Accordingly, the EU is having a weaker say in the global economic governance.

A. The debt crisis has weakened the EU’s economic position

1. The EU’s economic strength was weakened

To begin with, the ongoing widespread European debt crisis dealt a telling blow to the euro area’s and the EU’s real economy, and the EU’s economy has slid into recession. The credit crises in the euro area had seriously affected the market and had a negative impact on the macro-economic performance of the countries in the area. As the debt crisis directly resulted in an increase of government bond yields in euro area countries, the cost of government financing has increased substantially. In consequence, the credit rating of domestic enterprises has been lowered sharply. The increased financing cost in the bond market forced up product prices and weakened their competitiveness on the world market. According to the statistics released by the International Monetary Fund (IMF), the average GDP growth rate
of the 16 euro area countries was -1.37 percent in the period 2009-2012, which was lower than the global average. These countries’ combined GDP had decreased from USD 13.6 trillion in 2008 (before the crisis) to USD 12.06 trillion in 2012. During the same period, the GDP growth rate of the 27 EU member states was only 0.23 percent, and their combined GDP had decreased from USD 18.35 trillion in 2008 to USD 16.41 trillion in 2012.²

Since the outbreak of the debt crisis, the EU has been facing a dilemma: should it promote economic growth or adopt austerity policies? And its share of the world economic aggregate was continuously dropping. The statistics of the IMF shows that the EU’s share of the world economic aggregate had decreased from 29.8 percent in 2008 to 23.5 percent in 2013.³ In addition, the EU’s share of the world trade volume also showed the same downward trend. Before the crisis, the EU’s share of the world total imports and exports stayed at 19.3 percent and 18 percent respectively, while the statistics for 2012 showed a decrease to 16.2 percent in imports and 16.6 percent in exports.⁴ Currently, the debt crisis still exerts negative influence on Europe’s economic recovery. If the current growth rates of the euro area and the EU, which fluctuate between -1 percent and 1 percent, persist and become a long-term trend, the EU’s share of global economic product might be as low as 15 percent by 2050.⁵

2. The EU’s economy stopped shrinking, yet uncertainty remains

Since the latter half of 2012, market expectation in the EU temporarily stabilized due to the establishment of a long-term mechanism for EU financial stability, financial integration and the role change of the European Central Bank (ECB). The European debt crisis has entered a “level-off” period in relative ease. However, the banking crisis in Cyprus in early 2013 dampened the market confidence again.

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² IMF, Report for Selected Country Groups and Subjects. [http://www.imf.org/external/pubs/ft/weo/2012/02/weorept/weodata/weorept.aspx?sy=2008&ey=2013&scsm=1&ssd=1&sort=country&ds=.&br=1&c=001%2C163%2C998&s=NGDP_RPCH%2CNGDP_RPCHMK%2CNGDPD&grp=1&a=1&pr.x=78&pr.y=9] The euro area countries, here referred to, do not include Estonia, which joined the euro area on January 1, 2011. Therefore, the data is of 16 countries.

³ The two figures are calculated by using the IMF World Economic Outlook Database, April 2014. [http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx]


Although the GDP aggregate of Cyprus was only EUR 18 billion and the aid requested by the Cyprus government from the Troika - the European Commission (EC), the ECB and the IMF - was only a total of EUR 10 billion, the possible spill-over effect of the Cyprus banking crisis still caused market fluctuations, which showed that under the impact of prevalent debt crises, the investors’ mentality could hardly stabilize. Meanwhile, the Troika directly shifting the loss to the depositors through debt concessions also elevated its moral hazard. After the Cyprus crisis, Slovenia, where the growth and trade slumped seriously and the government was forced to finance with usurious rate of interest, and France, where economic stagnation resulted in rising debt level, also suffered inadequate market confidence. In addition, due to a stagnant reform process and gradual exposure of debt problems of small- and medium-sized enterprises, Italy and Spain are still the focus of attention and major concerns of investors in the debt crisis.

The fundamental reason for lack of market confidence is the lackluster of the European economy. The euro area and the EU still performed poorly in the first quarter of 2013: the GDP of the two areas dropped by 0.2 percent and 0.1 percent respectively compared to the last quarter of 2012 and by 1.1 percent and 0.7 percent compared to the first quarter of 2012. Over half of the euro area and EU countries showed negative growth, with Cyprus performing worst, the growth rate of which was nearly -1.4 percent. The growth rate of Germany, the pillar of Europe in economic terms, was no more than 0.2 percent during the first quarter of 2013. And among major European economies, except the United Kingdom (UK), which performed slightly better (0.4 percent), France, Italy and Spain all showed negative growth. Against the backdrop of declining internal demand, the EU has gradually adopted a strategy of external market expansion, which has produced some effect. Since the third quarter of 2012, the current account of the EU’s foreign trade had realized surplus for eight consecutive quarters. During 2013, the euro area’s trade in goods recorded a surplus of EUR 153.8 billion, compared with EUR 79.7 billion in 2012. The EU28 recorded a surplus of EUR 49.9 billion in 2013, compared with a deficit of EUR 115.0 billion in 2012. In addition, the EU’s trade surplus in services increased to EUR 173 billion in 2013. “Expanding foreign trade, promoting

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exports and increasing surplus” have become the established strategy for Europe to avoid being mired in deep recession. And the growth of international trade and its surplus is already an important pillar of economic recovery in Europe.

According to EU statistics, the euro area’s economy showed signs of recovery in the second quarter of 2013, with a growth rate of 0.3 percent compared to the first quarter, which was the first positive figure during the past seven consecutive quarters. Among the euro area countries, Portugal had the fastest growth rate, which was 1.1 percent, while Germany, Lithuania, Malta and the UK registered a growth rate of 0.7 percent. Among the factors stimulating growth, the export of goods and services is the major one, contributing to the euro area’s GDP growth on a quarterly basis by 0.95, which was 1.4 percent higher than the previous quarter. During the same period, the contribution of household consumption to GDP growth had turned from negative to positive, and the consumer confidence index (CCI) had also further recovered.

The consumer price index (CPI) of the euro area initially released in September 2013 was 1.1 percent, which was not only the lowest level for the past three and a half years, but lower than the target set by the ECB, thereby providing sufficient room for the ECB to take action to promote economic growth. That also showed the internal demand of Europe remained sluggish. Considering that the year 2013 remains the peak period of debt repayment and the proportion of debt to GDP is still growing, more time is needed for Europe’s economy to have good performance. According to Eurostat, the statistical office of the EU, the GDP growth rates of the euro area and the EU in 2013 were -0.4 percent and 0.1 percent only, though better than the figures in 2012, -0.7 percent and -0.4 percent. However, if the debt problem remains controllable on the whole as it is, the European economic environment is likely to improve in 2014 and the EU’s economic recovery can have a solid foundation. Presently, the European Commission is quite optimistic about Europe’s economic growth in 2014, predicting the real GDP growth to reach 1.6 percent in the EU and 1.2 percent in the euro area, and to improve further in 2015 to 2.0 percent and 1.7 percent respectively.

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3. Various contradictions are prominent in the EU, which has reduced the attractiveness of the European model

Sluggish economy and fiscal austerity bring forth political crisis, and political crisis exacerbates social contradictions, which in turn delays reforms. That has almost become the common phenomenon resulting from the interactions among political, economic and social forces in Europe against the backdrop of the debt crisis, which has been repeatedly occurring during the change of government and elections in many European countries. For example, during the Italian parliamentary election in April and May 2013, since the austerity policy could not win majority support and due to defects in the electoral system and other technical reasons, no political party or party alliance won over half seats, thus a coalition government has to be organized. However, because of the disputes between the left wing and the right wing, and the obstruction of the populist Movimento Cinque Stelle, a coalition government could not be formed. Although finally the alliance of the left and the right wings established a coalition government, the political situation in Italy was still precarious, with prevailing “veteran politics” and strong conservative orientation. And doubts still linger over the prospect of Italy’s debt problem.

The economic declining tendency was accompanied by continuous worsening of the employment situation, which directly relates to the cost of European economic recovery and its social stability. Since 2013, the unemployment rates of the euro area and the EU have surpassed 12 percent and 11 percent respectively and the total numbers of the unemployed have reached 26.5 million in the EU and 19.4 million in the euro area, among whom half are the long-term unemployed. The unemployment rates of Greece, Spain and other countries with heavy debts were as high as 27 percent. Youth unemployment is even more serious - the unemployment rate of those under the age of 25 in the EU is 24 percent, twice as much as the unemployment rate of the adults. In 2013, there were 5.62 million and 3.62 million unemployed youth in the EU and the euro area respectively, an increase of 100,000 and nearly 190,000 compared to 2012. The youth unemployment rates of Greece and Spain were even as high as 62 percent and 56 percent.

Therefore, the youth unemployment problem has become a serious challenge and a major factor causing social unrest, which is intertwined with the age-old immigration problem and the issue of poverty of the bottom class. The unemployed
youth often play a major role in the street riots. For instance, the riots that broke out in Sweden in May 2013 and spread continually afterwards was mainly caused by high unemployment rate of the youth, which stood at 25 percent then.

The European leaders have “declared war” on the problem of youth unemployment so as to avoid the emergence of a “lost generation”. However, if the economic situation in Europe cannot improve, there won’t be adequate job opportunities, and the lack of education and experience makes young people uncompetitive in labor markets. Moreover, it is difficult for EU member states to coordinate their employment policies because their national conditions are so different.

**B. The EU’s debt problem and economic stagnation have become destabilizing factors in the world economy**

1. The euro’s reputation has been damaged and the international financial market is turbulent

First of all, under the interactions of market reactions, the political and economic situations in EU member states as well as countermeasures taken by the euro area and EU countries, the European debt crisis has been in a state of intermittent outbreaks since its inception, which has directly affected the financial stability in the euro area. Such events as sovereign credit downgrade have directly dampened the market confidence of the banking sector in the euro area, which holds a large number of sovereign debts of European countries, and the risk of European interbank market has increased. Meanwhile, since European governments provide direct or indirect guarantee to banks in the euro area, the fiscal difficulties such as burgeoning public debt have elevated the financing cost of various European countries. Moreover, there are increasingly more banks in need of bailout, and the predicament of European banking sector and the worries on the market about the sovereign credit of the euro area countries are intertwined, thereby resulting in a vicious circle hard to break and persistently high systematic risk to the European financial sector.

Secondly, worse still, due to the huge liquidity of the financial capital, banks
and financial institutions of other countries that hold the national debts of euro area countries are also exposed to the risk. The European banking crisis will spread to other regions in the world through the national debts of euro area countries. In the United States, a country with extremely high dependence on the EU’s economy, financial information disclosed by early 2012 showed that the total risk exposure of the five biggest banks in the United States, including JPMorgan Chase & Co. and Goldman Sachs, to the five heavily indebted countries (Italy, Spain, Portugal, Ireland and Greece) was over USD 80 billion and the exposure of U.S. major currency market funds to the euro area banks rose to USD 73.8 billion.\(^\text{10}\) The high-degree structural integration of the European and U.S. banking sectors makes the domino effect difficult to avoid - once the European banking sector collapses, the global financial crisis will recur.

Finally, the euro’s uncertain prospect has exacerbated the turmoil of the international financial market. Since the outbreak of the international financial crisis, the U.S. “quantitative easing” monetary policy has led to depreciation of the U.S. dollar. However, due to ongoing concerns over the euro’s prospect, risk-aversion has gained hold on the market, and investors view the U.S. dollar as the “last safe haven”. Large amounts of speculative capital on the international financial market flew from Europe to the U.S. for risk aversion, which brought forth the phenomenon of the euro and the U.S. dollar depreciating by turns, and that had exacerbated the fluctuation of the international exchange rates and resulted in persistent turbulence of the international financial market.

2. The world economy has been impacted, and the international trade environment is worsened

Since the EU is the biggest economy in the world accounting for over a quarter of global economic product, its economic stagnation will surely result in weak recovery of the world economy. After the world economy being heavily hit by the recession caused by the U.S. sub-prime crisis, the European debt crisis becomes the major risk factor that might trigger the “second recession” of the world economy. The global economy gained a strong momentum of recovery with a GDP growth rate of 5.14 percent in 2010 following the -0.574 percent recession in 2009.

\(^{10}\) 张环[Zhang Huan], 《伯南克关注美金融机构对欧风险敞口》[“Bernanke Pays Attention to U.S. Financial Institutions’ Risk Exposure to the EU”], 载于《金融时报》[Financial News], March 22, 2012. [http://stock.hexun.com/2012-03-22/139598383.html]
However, due to the European debt crisis, the growth rate of world economy fell to 3.8 percent and 3.27 percent in 2011 and 2012 respectively (the GDP growth rates of the euro area in 2011 and 2012 were 1.41 percent and -0.41 percent respectively, and those of the EU were 1.59 percent and -0.21 percent respectively).\(^{11}\) And the trend of world economic growth has changed from the relatively optimistic “V” shape of recovery at the initial stage to the “L” shape of long-term slow recovery at present.

In addition, the EU’s protectionism is on the rise, which has exerted a negative impact on the global trade environment. In line with the trajectory of world economic growth, the global trade is also conspicuously encumbered by the EU debt crisis as the EU’s external trade volume (excluding intra-EU trade) accounts for 20.4 percent of the world total. The global trade volume decreased by 10.38 percent in 2009, but increased by 12.5 percent in 2010. However, in 2011 and 2012, the growth rates of global trade volume fell to 5.8 percent and 3.2 percent respectively. During the same period, the trade volume of goods and services of the euro area decreased by 12 percent in 2009, and increased by 10.1 percent in 2010, while in 2011 and 2012, the growth rates of the euro area’s trade volume dropped to 5.15 percent and 0.87 percent respectively.\(^ {12}\)

Meanwhile, given that the debt crisis has resulted in weak internal demand, the EU has made greater efforts to “promote exports and maintain its market share globally”. To achieve that goal, the European Commission proposed in November 2011 a new strategy aimed at helping small- and medium-sized enterprises to expand their business outside the EU. Although the growth of the EU’s external trade has slowed down in recent years, its export has an obviously higher growth rate than its import, and in 2012, there was even a negative import growth of -0.49 percent. The EU has also strengthened protection of its internal market and upgraded its trade defense system. For instance, in 2012, the EU launched 19 trade remedy investigations on commodities ranging from primary products to new energy products, which involves an extremely wide scope. Moreover, the EU’s trade protectionist measures tend to be increasingly complex.


\(^{12}\) Ibid.
3. The balance of economic strength is changing at an accelerating speed and the power of emerging economies is on the rise

The debt crisis has resulted in Europe’s economic recession. Meanwhile, other major economies in the world, especially the emerging economies, have maintained economic growth. Therefore, the debt crisis has not only weakened Europe’s economic strength, but accelerated changes in the balance of international economic power. While the total GDP of the EU27 had dropped from USD 18.36 trillion in 2008 before the crisis to the USD 16.48 trillion in 2013, the world’s total GDP had increased from the USD 61.22 trillion in 2008 to USD 74.15 trillion in 2013. The EU’s share of the world’s total GDP had declined from 30 percent to 22 percent during the five years’ time.

The change of discourse power within international institutions is a concentrated and direct reflection of the accelerated change of economic power balance. Previously, European countries, four of which are members of the Group of Seven (G7), a club of developed nations, and the EU as the largest group of developed countries, enjoyed important decision-making and discourse power in the global economic governance system. However, after successive outbreaks of the U.S. subprime crisis and the European debt crisis, the developed countries in Europe and North America are unable to meet the challenges in current world economy on their own. Actually, they themselves have become part of the “trouble” in the world economy, and for the above reasons, they have to make concessions in sharing the power of global economic governance with emerging economies. Under such circumstances, the G20, which has broader representativeness, replaced the G7 to be the core platform of global economic governance, and the representation of Europe has decreased from 4/7 in G7 to 5/20 in G20.

Just because of the push by the G20, the IMF, which was previously controlled by the U.S. and the EU, agreed in November 2010 “the most fundamental governance overhaul in the Fund’s 65-year history and the biggest ever shift of influence in favor of emerging market and developing countries to recognize their growing role in the global economy”. The reforms have broken the pattern

14 Calculated from the figures in Note 13.
in which developed countries monopolize the top group in the IMF’s 24-member Executive Board as they are always represented: the U.S., Japan, Britain, France and Germany. Now this group is expanded to 10 with the addition of China, India, Brazil, Italy and Russia.\(^\footnote{The Associated Press, “IMF elevates China to No.3 on board”, November 5, 2010. [http://www.nbcnews.com/id/40036117/ns/business-world_business/t/imf-elevates-china-no-board/#.U8YlALKBTrs]}\) Moreover, the European countries will transfer two seats in the Executive Board to emerging market and developing countries. Besides that, the Chinese banker Min Zhu became Deputy Managing Director of the IMF, the monopoly of the Managing Director position by Europeans was for the first time challenged by a candidate from the developing world when former IMF Managing Director Dominique Strauss-Kahn resigned in May 2011.

### 4. The launching of Transatlantic Trade and Investment Partnership (TTIP) talks has intensified international economic competition

On February 2013, the U.S. President Barack Obama, President of the European Council Herman van Rompuy, and President of the European Commission José Manuel Barroso issued a joint statement, announcing that the EU and the U.S. would formally launch the negotiations on a Transatlantic Trade and Investment Partnership (hereafter called TTIP) before the end of June 2013. The negotiations include mainly three aspects: elimination of tariffs, removal of non-tariff barriers, and the establishment of a new set of rules on global trade and investment. President Barroso said that the TTIP would not only set up transatlantic investment and trade standards, but establish standards to promote global trade development.\(^\footnote{“Accord de libre-échange, opportunité ou danger pour l’Europe?”, Le Monde, June 5, 2013. [http://www.lemonde.fr/idees/visuel/2013/06/05/l'accord-de-libre-echange-europe-etats-unis-en-debat_3424675_3232.html]}\)

The main purposes of the EU and the U.S. to establish a transatlantic free trade area include the following ones. The first purpose is to set up the biggest free trade area around the world that is dominated by the U.S. and the EU. The TTIP will move “progressively toward a more integrated transatlantic marketplace”, and it is proposed to establish “an on-going mechanism for improved dialogue and cooperation” on regulatory issues and non-tariff barriers, as well as a “framework for identifying opportunities for … future regulatory cooperation”.\(^\footnote{Robin Niblett, “Transatlantic Trade-Offs”, New Europe, February 25, 2013. [http://www.neurope.eu/kn/article/transatlantic-trade-offs]}\)
purpose is to push forward multilateral trade negotiations with TTIP talks. Blaming the standstill of Doha-round WTO negotiations on China, Brazil, India and other emerging economies, the U.S. and the EU intend to force the advance of multilateral free trade negotiations by the TTIP talks, which aims at reaching a high-standard free trade and investment agreement. The ultimate goal of the U.S. and the EU is to realize their renewed control over the global economic system. The third purpose is to join hands to formulate new rules on international trade and investment. The EU and the U.S. account for almost half the world economy and more than a third of global trade. By taking advantage of their heavy weight in the world economy, the two largest economies will establish a set of technical and service standards during the TTIP talks, thereby further promoting the formulation of new global trade rules. By that doing, the EU and the U.S. will play a leading role and have the greatest say in the next round of global trade and investment liberalization. The fourth purpose is to stimulate domestic economic development through trade and investment liberalization. Reduction and elimination of tariffs will boost the bilateral trade and enhance the competitiveness of European and American products, which will bring a GDP growth of around 0.5 percent to the EU and approximately 1 percent to the United States.

Strengthened economic and trade coordination with the U.S. and the imminent prospect of establishing a transatlantic free trade area have given the EU confidence to adopt an unprecedentedly tough stance in its trade talks with China. In recent years, the EU has greatly intensified its trade investigation against Chinese companies. At present, the EU has 30 ongoing anti-dumping and anti-subsidy probes, among which 19 involve China. The investigation into imports of photovoltaic products from China is a trade probe involving the highest trade volume in the Union’s history - USD 20.4 billion. The photovoltaic products case and the anti-dumping and anti-subsidy investigation into telecommunication products imported from China, which is likely to be launched by the EU, involve a trade volume as high as 10 percent of the total trade value between China and the EU. In the future, the European Union will use its trade protection means, including anti-dumping and anti-subsidy probes, more frequently, which will involve higher trade volume. In addition, the targets of EU investigation are changing from specific products to the whole industries, more often the strategic and emerging
industries. Hosuk Lee-Makiyama, Director of the European Centre for International Political Economy, holds the view that “Brussels is turning into a confrontational posture because it lacks other effective means to counteract what it perceives as aggressive industrial policy practiced by China”.

The European Union is not hesitant to compromise short-term economic benefits for achieving long-term goals. It regards China as a potential competitor and its industrial policy is to contain China and to gain an advantage in developing emerging industries of strategic importance. In terms of trade policy, the EU intends to work out plans before China gets market-economy status automatically by 2016. At present, the ongoing negotiations of the TTIP, the EU-Japan Free Trade Agreement and the Trans-Pacific Partnership (TTP) Agreement have all excluded China. The three free trade areas will account for two thirds of the world economy and almost half of China’s export market. The western established powers headed by the U.S., the EU and Japan again join hands to occupy new commanding heights and achieve their victory in the competition with emerging economies for rule-making power in the field of international economy and trade, which will have a great impact on China’s foreign trade and external environment.

C. Influence of the European debt crisis and economic prospect on China and China’s coping strategy

As an important component of the world economy and the second largest trade partner of the EU, China is increasingly affected by the European debt crisis and relevant measures taken by European countries. As a result, China faces greater difficulty in reaching its policy goal of maintaining fast economic growth and stronger external pressure for domestic reforms.

1. The European debt crisis has entered its relaxed “plateau” stage

Since the second half of 2012, the European debt crisis has showed signs of easing, and has started entering its “plateau” stage. The main reason was that the EU had decided on its general strategy for coping with the crisis, and reform measures had

18 孙韶华、王璐、张正富 [Sun Shaohua, Wang Lu and Zhang Zhengfu], 《欧盟多领域密集发难中国 来势汹汹》 [“The EU Brings China to Account Intensively and in Multiple Fields With a Threatening Look”], 载于《经济参考报》 [Economic Information Daily], May 21, 2013. [http://news.xinhuanet.com/world/2013-05/21/c_124738977_2.htm]
been launched. The EU member states have reached agreement on a Roadmap for the completion of Economic and Monetary Union, which shows that within the Union, to cope with the crisis with deepened integration has become a consensus.

Moreover, the European Council agreed the Compact for Growth and Jobs in June 2012, and a whole set of economic reform plans were announced, with some of them already implemented. In addition, the ECB released the Outright Monetary Transaction (OMT) program in September 2012, and inaugurated the European Stability Mechanism (ESM) in October 2012. All these moves show that EU member states have reached a compromise between two different sorts of strategies – “austerity” and “growth”, and that the EU’s decision-making and action capability has been further strengthened in tackling the crisis. They also show that the ECB’s function has expanded from the monetary authority of the euro area to include fiscal policy coordination as well.

Although implementation of the aforementioned plans and mechanisms need more time, all major financial tools of the EU except issuing euro bonds have been proposed and exploited to cope with the crisis. The “Troika” formed by the European Commission, the ECB and the IMF reached a bailout agreement with Greece in July 2013, which proved that a compromise could be reached between the EU and heavily indebted countries.

Additionally, the euro area has reached agreement on the establishment of a Single Supervisory Mechanism for banks, which is conducive to breaking the vicious cycle of the banking sector crisis and the sovereign debt crisis, integrating the euro area financial sector and creating a Banking Union. Therefore, the risks of the European debt crisis are generally controllable in the near future and the European economy is likely to recover slowly.

After the peaking of debt service in 2012, the debt service coming due in the euro area in 2013 is basically even with that of 2012, and from 2014 it will start dropping. For that reason, the market’s reaction to the debt scale of 2013 was calmer than before. Meanwhile, the government deficit to GDP ratio in the euro area further decreased to a reasonable level in 2013. If the “fiscal compact” and the Single Supervisory Mechanism for banks can be launched as expected and

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19 In the euro area, the government deficit to GDP ratio decreased from 3.7% in 2012 to 3.0% in 2013. See Eurostat, “Euro area and EU28 government deficit at 3.0% and 3.3% of GDP respectively”, April 23, 2014. [http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23042014-AP/EN/2-23042014-AP-EN.PDF]
operate normally, and the “plateau” stage of the European debt crisis extends to 2014 when the debt service pressure is relatively small, the economy of the euro area and the EU is likely to achieve relatively stable and slow recovery in 2014.

2. The European debt crisis and sluggish economy have impacted China-EU trade

Since the outbreak of the European debt crisis, the trade between China and the European Union has experienced a decrease of 14.5 percent in 2009, a rapid growth of 31.8 percent in 2010, a less rapid growth of 19.2 percent in 2011 and a modest drop of 3.7 percent in 2012. The share of the bilateral trade in China’s total foreign trade volume has decreased to around 14 percent. To be country-specific, China’s trade with its largest partner in Europe – Germany – has declined, which produces a severely negative impact on China-EU trade. Except Britain and France, China’s other major trade partners in Europe, including the Netherlands and Italy, also trade less with China than before. From the EU’s perspective, the changes of China-EU trade are consistent with the general trend of the EU’s foreign trade development, which includes a rapid increase of exports, a decrease of imports and an expansion of trade surplus. What’s more, the phenomenon of increased exports and decreased imports also exist between the EU and other major Asian markets, such as South Korea, Japan and India.

The stabilization of the European debt situation and the improvement of the European economic situation in 2013 have led to consumption growth and brought positive effect on China-EU trade. Particularly in the latter half of 2013, the bilateral trade had a fairly fast growth. For instance, in November 2013, China’s export to the EU increased by 18.4 percent compared to November 2012. According to the statistics of China Customs, the import and export of commodities

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22 In November 2013, China’s total export value increased by 12.7 percent on year-on-year basis, which is much better than market expectation. In addition to technical reasons such as the low base number (In November 2012, the year-on-year growth rate of China’s exports was less than 3 percent, which would naturally push upward the export growth rate for the same period in 2013), the main force driving the recovery of China’s export growth in November 2013 is the recovered growth of China’s export to the U.S. and the EU. The intensive delivery of Christmas orders from the EU and the U.S. pushed further the recovery of China’s export growth. In November 2013, the export growth rate of Chinese labor intensive products was as high as 18.7 percent, 11 percent higher than October 2013.
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from China to the EU in the whole year of 2013 totaled USD 559.06 billion, a year-on-year growth of 2.1 percent, rein in the downward trend in 2012. Among that, China’s imports from the EU and exports to the EU increased by 3.7 percent and 1.1 percent respectively. The proportion of China-EU trade to China’s total foreign trade also dropped continuously, from 16 percent before the crisis to 13.4 percent in 2013. And the EU’s long-term position as the largest trade partner of China has been challenged by other major economies. In 2013, China’s trade volume with the United States, the second largest trade partner of China, was only USD 38.06 billion less than the trade volume between China and the EU, and the gap between the two bilateral trade volumes was narrowed by USD 23.3 billion compared with 2012. And the U.S. has consolidated its position as China’s biggest export market in 2013, which it obtained from the EU in 2012. Although the EU remains the largest source of China’s imports, the import value in 2013 was only USD 20.52 billion more than that from ASEAN, the second largest source of China’s imports.

3. The structure of China-EU mutual investment is changing constantly

Influenced by the continuation of the European debt crisis, the slowing of China’s economic growth and China’s intensified efforts in promoting its overseas investment, the structure of China-EU mutual investment has undergone some changes in recent years.

On the one hand, as European investors felt the effects of the credit crunch, and the impending euro area crisis, the deal flow from Europe to China has declined from a peak of 163 deals in 2006, to a low of 85 in 2009. According to the statistics released by the Chinese Ministry of Commerce (MOFCOM), China attracted USD 111.72 billion of FDI in 2012, a year-on-year drop of 3.7 percent.


25  The figures are calculated by the authors based on the statistics on the official website of China Customs. [http://www.customs.gov.cn]

which was the first decline of FDI flows to China since 2009. In the same year, the FDI flow from EU countries to China dropped 3.8 percent on the yearly basis, which was only USD 6.11 billion.\(^{27}\) Actually the decrease of the EU’s investment was the main part of the decline of FDI flows to China. However, as China’s economy maintained stable growth and the EU’s economy got improved, the FDI flows from the EU to China have changed its declining tendency of 2012 and achieved a rapid recovery in 2013, with utilized FDI from 28 EU member states reaching USD 7.214 billion, up by 18.07 percent year on year.\(^{28}\)

On the other hand, China’s investment in the EU has grown rapidly. According to the statistics of the Standard & Poor’s, the targets of acquisition of Chinese enterprises in the past were mostly in the Asia-Pacific region and the United States, but now the attention of Chinese companies is shifting from the U.S. to Europe. From 2006 to 2011, the transaction volume of Chinese companies’ overseas acquisition involving European targets had grown by 26 percent. According to a report of the PwC released in October 2012, there has been a steady increase in the number of Europe-bound deals by mainland Chinese investors over the past years, from just 11 in 2006 to 61 in 2011. In 2011, Chinese investors invested over EUR 11 billion in European companies, while European investors poured over EUR 7 billion into mainland China. The figures of the first quarter 2012 showed 32 Chinese investments in Europe and just 26 deals made by European companies in China. This marked the first time that deal flow volume had been greater to Europe than to China.\(^{29}\) The MOFCOM data also shows that in 2011, China’s direct outward investment in Europe registered USD 4.61 billion, up by 57.3 percent year on year. Among that, the investment in the EU reached USD 4.278 billion, up by 94.1 percent year on year.\(^{30}\) The momentum of the investment growth from China to Europe was sustained to the first half of 2012, and the size of M&A deal flow from China to Europe increased by 58 percent compared to the first half of


\(^{29}\) PwC, China Deals – A fresh perspective, October 2012, p.12.

2011, reaching USD 7 billion, which accounted for 31 percent of China’s total direct outward investment.\(^{31}\) However, with the European debt crisis lingering on, the risk of investment flow to Europe has risen. Consequently, the Europe-bound investment of China’s companies slowed down during the second half of 2012. According to the statistics of MOFCOM, China’s direct investment in the EU dropped by 20 percent in the period from January to November 2012 compared to the same period in 2011, and in 2013, China’s direct investment in the EU continued to fall, with a rate of 13.6 percent compared to 2012. However, due to the improvement of European economy and the increasingly close Sino-European relations, China’s investment in the EU surged by 221.7 percent in the first half of 2014 compared to the same period in 2013.\(^{32}\)

4. The protectionist measures taken by the EU have affected China-EU trade and economic cooperation

To mitigate the impact of the debt crisis on its real economy, the EU has intensified its efforts in expanding export market and introduced tightening trade policy on its own markets and various measures to increase trade barriers. China, as the EU’s second largest trade partner and the biggest export destination, is the first to be affected. As a result, the frictions on trade and economic cooperation between the two sides have increased. In 2012, the EU launched 19 trade remedy investigations, among which 4 anti-dumping investigations and 3 anti-subsidy probes were on the imports from China, accounting for one third and half of the total numbers of the EU-initiated anti-dumping and anti-subsidy investigations respectively. The EU statistics shows that, by August 31, 2012, there were 50 anti-dumping and anti-subsidy measures in force covering the imports from China, and 7 cases of original measures, 16 cases of review and anti-circumvention on the imports from China.


were still in the process of investigation.\textsuperscript{33}

Among the trade remedy measures launched by the EU on the imports from China in 2012, the most noteworthy one is the anti-dumping and anti-subsidy investigations initiated on September 6 and November 8 into imports of solar panels from China, including inter alia crystalline silicon modules, batteries and silicon chips. The case is the most significant anti-dumping and anti-subsidy investigations the EU had initiated so far in terms of import value, which exceeds USD 20 billion (nearly RMB 130 billion yuan). The investigations covered products at the upper and lower reaches of the photovoltaic (PV) industry, and involved hundreds of Chinese and European enterprises. Since the EU has almost incorporated all products in China’s photovoltaic industry into the investigation, the result will directly affect the development prospect of PV industry, an emerging industry in China.

Recent years have witnessed the rapid development of China’s PV industry. Currently, the Chinese PV manufacturers hold 65 percent of the global market share and 80 percent of their products are exported to Europe. The Chinese PV products have occupied around half of the European market. Therefore, the result of EU anti-dumping and anti-subsidy investigations is not only crucial for future development of China’s PV industry, but also of great importance for the prospect of global new energy market. Faced with the European trade protective measures, China has taken countermeasures within the limit of WTO rules in addition to strengthening communication and consultation with relevant European enterprises and institutions. On November 5, 2012, China officially requested consultations with the EU and its member states under the WTO’s dispute settlement proceedings regarding EU trade practices in the solar sector. Moreover, China launched anti-dumping and countervailing duty domestically over EU exports of solar polysilicon components.\textsuperscript{34}

Besides trade fictions, China’s growing investment in Europe has also aroused concerns of the European side. There have been unremitting appeals for introducing


\textsuperscript{34} 商务部新闻办公室[Information Office of the Ministry of Commerce, People’s Republic of China], 《商务部新闻发言人沈丹阳就中方在世贸组织起诉欧盟光伏补贴措施发表谈话》[“Statement of Shen Danyang, a spokesperson of the Chinese Ministry of Commerce, on China Suing the EU in the WTO for EU PV Industry Subsidies”], November 5, 2012. [http://www.mofcom.gov.cn/aarticle/ae/ag/201211/20121108419302.html]
protectionist measures against China in the field of investment and project contracting. At the end of 2012, according to the European Union Chamber of Commerce in China, in the name of “opening China’s public procurement market”, the EU has submitted a “retaliatory” draft legislation against China to its member states for deliberation, which has gained support from the European Parliament. Once the draft legislation is adopted, Chinese companies will lose the opportunity to contract large-scale infrastructure construction projects in EU member states, including among other things railway and water facilities. It is the EU’s wish that this will pressurize China to open government procurement market to its member states.\(^{35}\)

China and the EU finally reached a deal over the imports of Chinese solar panels by agreeing a minimum price for the panels in July 2013.\(^{36}\) The agreement ended one of the biggest-ever trade disputes between China and Europe – a row that threatened to escalate into a full-blown trade war. As the structure of China-EU trade and investment changes, frictions and disputes between the two sides in trade and investment will become a long-term existence.

5. China and the EU need appropriately manage and control their disputes and plan for long-term development of the bilateral relations

Firstly, China and the EU should continue to advance their relationship despite difficulties and stick to the direction of strategic cooperation. Though in the crisis, the EU remains an important economic force and an example in modernization of economy, science and technology, industry and management, from which China must learn and draw on the experience. The Sino-European relations have developed against the backdrop of the European debt crisis. The two sides have not only consolidated their existing cooperation, but expanded the scope of their cooperation to urbanization, energy and other new fields. In addition, the coordination between China and the EU in macro-economic policies has reached a


\(^{36}\)  The deal fixed a minimum price of 56 euro cents a watt for annual imports from China of as much as 7 gigawatts and exempted Chinese companies willing to join the deal from preliminary punitive EU import duties. Those imports that exceed 7 gigawatts within one year will subject to an anti-dumping duty averaging out at 47.6 percent of the commodities’ value. The deal will be valid until the end of 2015.
new height. Therefore, the two sides should continue to maintain the political will of active cooperation through high-level exchanges and consultations, with the purpose of obtaining political wisdom to cope with difficulties. Based on the ten-year experience of China-EU Comprehensive Strategic Partnership, the **China-EU 2020 Strategic Agenda for Cooperation** released after the 16th China-EU Summit, which was held in November 2013, identified the common objective of strengthening cooperation between the two sides in peace and security, prosperity, sustainable development and people-to-people exchanges. The new document will guide and promote the all-round development of China-EU relations in the years to come.

Secondly, China and the EU should properly cope with and control the situation of intensified trade frictions and industrial competition. Since both China and the EU stress industrial restructuring and innovation in their respective development strategies, the competition between the two sides in trade and industrial development will increase, though coordination between them is strengthening. Due to high-degree interdependence between China and the EU in trade, economic development and industrial chain, the trade remedy measures taken by the EU on China’s exports may deal a heavy blow to a whole industry. For instance, the anti-dumping investigation of China’s solar panels may impose huge pressure on future development of this new energy industry in China. While accelerating industrial restructuring and reduction of excess production capacity, China should enhance industrial chain integration with the EU and make efforts to mitigate the negative effect of bilateral trade frictions and industrial competition on their economic and trade cooperation by giving justified and forceful responses to EU protectionist actions. To seek proper solutions to China-EU trade disputes and to respond to the EU’s concerns, China and the EU restarted their High-level Economic and Trade Dialogue in October 2013, which aimed at healing the rift in bilateral economic relations caused by a series of trade frictions. Apart from that, the establishment of an early-warning system to prevent future trade battles has also been put on the agenda by both sides. These moves prove that China and the EU have the will and ability to properly solve their economic and trade disputes and improve relevant mechanisms.

Finally, two-way and balanced development is the long-term direction of China-
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Encumbered by the European debt crisis, the growth of China’s investment in Europe slowed down in 2012 and the bilateral investment structure has been changing at a slower pace. However, from the medium- and long-term perspective, Europe remains a major destination for Chinese capital and enterprises to “go abroad” and it is an irresistible trend that China-EU investment structure will change in the direction of two-way and balanced development. The fairly mature European market is conducive to enhancing China’s foreign investment quality and investors’ capability in risk management and control. The relatively favorable technology and market environment in Europe is also helpful for Chinese enterprises to meet their strategic demands, such as improving technology, nurturing brand and increasing added value. Therefore, Europe is the first choice of China’s outbound investment in the fields other than natural resources.

From the European perspective, the European debt crisis requires long-term governance, and Europe’s demand for foreign capital will exist for a long time. For that reason, compared with other developed economies, the European market is more open for Chinese investment and the valuation of European enterprises is also more reasonable. Therefore, once the European debt crisis is over, China’s investment in Europe will continue growing. Meanwhile, China’s investment in Europe in recent years has encountered some problems. For instance, in 2011, the Icelandic government denied the permission for a Chinese private company to purchase a piece of land in Iceland, and in June 2011, a subsidiary of China Railway Engineering Corporation (CREC) suffered a setback in a highway construction project in Poland. These cases have shown that China and the EU should make joint efforts to overcome various obstacles in the way of cooperation, further enhance political trust and gradually improve the environment of public opinions.

The 2013 China-EU Summit announced the launch of the negotiations for a bilateral investment agreement and the two sides planned to conclude the negotiations within two and a half years by signing the agreement. Due to different understandings of the content and objectives of the negotiations, it would be difficult to push forward the talks and conclude them. Despite that, further cooperation between China and the EU in the field of investment is conducive to
upgrading the structure and enhancing the quality of the bilateral economic and trade relations.
II. Impact of the European Debt Crisis on the EU’s Foreign Policy and Behavior Pattern

A. The debt crisis has reshaped the relationship among various EU foreign policy actors

Based on different power and function distribution mechanisms, the EU’s foreign policy actors are highly diversified, including mainly member states, the European Commission, the European Council, the European External Action Service (EEAS) and the European Parliament. According to EU treaties, the aforementioned actors exercise power within their respective mandates, coordinate and cooperate with each other under the guidance of the foreign policy principles and objectives prescribed by the treaties, and implement the foreign policy so as to achieve continuity and consistency. The debt crisis has profoundly changed the balance of power within the EU, exacerbated division of interests among member states and transformed the pattern of interactions between EU institutions and member states. And there have been obvious changes in the EU’s internal decision-making environment.

1. Differentiated interests and decreasing trust among EU member states

Member states are the main actors in EU foreign policy system, and the attainment of such goals as cooperation, coordination and consistency by the Union in foreign policy is largely dependent on member states’ political will to cooperate and their consensus on interests. The European debt crisis has changed the relationship and cooperation pattern among EU member states at different levels, leading to

37 Section 24, Article 1 of the Treaty of Lisbon reads, “...The Union shall ensure consistency between the different areas of its external action and between these and its other policies. The Council and the Commission, assisted by the High Representative of the Union for Foreign Affairs and Security Policy, shall ensure that consistency and shall cooperate to that effect.”
the decline of “solidarity awareness” and the European identity. What’s more, the member states’ political will and capacity to cooperate have both decreased, which adds to the difficulty of coordination among them.

Common interests are the basis for coordination and cooperation among EU member states, and the debt crisis and its policy consequences have aggravated the differentiation of interests among them, thereby increasing the difficulty for foreign policy coordination and resulting in the “re-nationalization” of member states’ foreign policy.\(^3^8\) Impacted by the debt crisis, the existing new-versus-old differentiation of EU member states have become more complex due to different interests and foreign policy goals. They are divided into donor countries and recipient countries, southern countries and northern countries, core countries and peripheral countries, and euro-area countries and non-euro-area countries. These groups of countries are intertwined with each other with both common and different interests. For instance, among the UK, France and Germany, the UK is a non-euro-area country, which has become increasingly alienated from the EU and close to the United States;\(^3^9\) France, severely troubled by the crisis, has readjusted its foreign policy in the direction of unilateralism and conservativism so as to safeguard its great-power image and to meet the demand of its domestic politics;\(^4^0\) and Germany, with an ascending status amid the crisis, its foreign policy has manifested a characteristic of “transcending” Europe and being increasingly “tough” in foreign policy.\(^4^1\) In the absence of strong coordination efforts from Brussels, “the ‘big ones’ revert to their natural instincts of going it alone and this seems to happen more than before the entry into force of the Lisbon Treaty.”\(^4^2\)

The divergent views, arguments and mutual fault-finding among EU member

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38 See the EU foreign policy scorecard 2013 made by the European Council on Foreign Relations (ECFR) and relevant articles by Richard Youngs, director of FRIDE. Since foreign policies are still made by member states to a large extent, “re-nationalization” mainly refers to the phenomenon that member states act in their own way without much coordination with each other.

39 In every G20 conference, the UK disagreed with France and Germany, and took similar stance with the U.S. on key agenda items, such as stimulating economic development and taxing the financial sector.

40 France’s policy stances in the Libya War, the Syria War, the Mali Action and economic diplomacy have shown a tendency towards unilateralism and protectionism.

41 The abstention during the Libya War and the release of the official document “Partnership with Emerging Countries” in 2012 are the proof of the said characteristic of Germany’s foreign policy.

states on the debt crisis have called back nationalism and even populism, and the political will for cooperation has declined. On the one hand, northern countries, such as Germany, France and the Netherlands, are reluctant to pay the bill for Greece, Italy and other southern countries. In Germany, two thirds of its population opposed bailing out Greece and other heavily indebted countries. On the other hand, southern countries believe that northern states, though profiting from the euro system, are unwilling to shoulder responsibilities and lacking in a spirit of solidarity.

2. Intensified competition and further alienation between member states and EU institutions

There have long been two forces in the EU foreign policy circle, i.e. intergovernmental force claimed by member states and super-national force promoted by EU institutions. The two forces cooperate and compete with each other in their respective sphere of power and functions, thereby jointly exerting influence on EU foreign policy. The Treaty of Lisbon aims to strengthen coordination of the two forces through setting up the EEAS and the High Representative for Foreign Affairs & Security Policy. Yet the coming into force of the Treaty coincided with the European debt crisis, and the latter has become a major factor shaping the relationship between the above-mentioned two forces under the new mechanism, and aggravated the competition and alienation of the two forces.

The European integration has been an “elite project” for long, and there is a “permissive consensus” among the general public. However, as the European Commission extends its power and functions to economic and social affairs, the general public’s position towards the EU has shifted from “permissive consensus” to “constraining dissensus”. They are more inclined to support safeguarding and realizing interests through sovereign states, and the EU’s behavior pattern has gradually become the focus of domestic political debate in member states, which has further strengthened the intergovernmental force. On the other hand, the European Commission obtained its power and functions in addressing the

43 李潇逸[Li Xiaoyi], 《默克尔再遭政府内部反对 八成民众反对援助希腊》["Merkel Is Faced With Opposition From Its Own Government Again and 80 Percent of Germans Stand Against Assisting Greece"], 中国经济网[China Economic Net], September 18, 2011. [http://intl.ce.cn/specials/zxgjzh/201109/18/t20110918_22702674.shtml]

debt crisis through an intergovernmental approach, thus its role was marginalized. However, as an independent political actor, the European Commission has its own interests, i.e. strengthening its presence, power and functions in EU foreign policy making.

The rising nationalist sentiment and the prioritization of economic diplomacy by member states resulting from the crisis has increased the tension between the aforementioned two forces. And the legitimacy crisis of the EU has got worse with lower level of public support for the Union. In 2007, 32 percent of Europeans tended not to trust the Union, while in 2013, the level of distrust rose to 60 percent. The rise of European skepticism has constrained the coordination between the aforementioned two forces. Be it France and Germany opposing the increase of the EEAS budget or the UK obstructing the issuance of statements in the name of the EU for over 70 times, they have all shown the tendency of member states adopting unilateral policies and the reality that they try to limit the role of supranational institutions in foreign policy areas. Moreover, the prioritization of economic diplomacy by EU member states has also contributed to the rising conflicts between the aforementioned two forces on interests and values. Herman van Rompuy, President of the European Council, was concerned about this. He said, “We should not end up with a good cop – bad cop division of labour, with national representatives doing the rounds as salesmen, leaving it to the EU institutions to be firm on the rules of the economic game and on the respect of human rights.”

3. The trend of multi-polarization has appeared in EU foreign policy making

The Treaty of Lisbon reads, “The European Council shall identify the strategic interests and objectives of the Union”; “The High Representative of the Union for Foreign Affairs and Security Policy, for the area of common foreign and security policy, and the Commission, for other areas of external action, may submit joint proposals to the Council”. Hence, we can see that the European Council, High Representative of the Union for Foreign Affairs and Security Policy and the

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47 See Section 22, Article 1 of the Treaty of Lisbon.
European Commission should play the leading role together in EU foreign policy making. During the past several decades, the leading role in different fields of the EU foreign policy was mainly played by the UK, France, Germany and the European Commission. However, the debt crisis is changing this old pattern and the new pattern has not been established yet. Due to such factors as reorganization of internal forces, differentiation of interests, declining mutual trust and rising competition, there is a lack of strong leadership in EU foreign policy making, which gives rise to the trend of multi-polarization.

The debt crisis has lessened the willingness and capacity of the UK, France and Germany to play the leading role in the EU’s foreign affairs. The UK and France, which used to be the axis of the EU’s common security and defense policy, prefer to take bilateral or unilateral actions outside the EU framework. The France-Germany Axis has been weakened due to the change of power balance. Germany hopes to have more multi-dimensional foreign policies outside the EU framework, while France wishes to offset its declining economic power through unilateral actions. The most significant change in EU foreign policy making is the descending leadership of the UK, France and Germany. The crisis has delayed the emergence of the new mechanism and the leadership of EU foreign policy making. Although the appointment of the High Representative for Foreign Affairs and Security Policy and the creation of the EEAS have made it possible institutionally for the Union to have a “core actor” in the foreign policy area, the intensified contradictions among EU member states in foreign policy have prevented the new institution from playing a core role. The most difficult part for coordination among EU member states is the leadership of its foreign policy formulation. For member states, on the one hand, they expect the new mechanism and leadership to play a role so as to multiply the impact of their own foreign policy, while on the other hand, they hopes to highlight the presence of their national governments in the foreign policy field. Therefore, many EU member states reckon that “lack of leadership” stands out as a major problem of EU foreign policy, and that member states and “other EU institutions – the Commission as well as the European Council – have competed with the EEAS to the detriment of the common European interest”.48 Due to their differences, the EU member states have failed to reach consensus on threat perception, prioritized actions and policy instruments of a new common security strategy. For instance,

Germany is wary of starting a new EU strategic process and wants to keep the European Security Strategy (ESS) of 2003 as long as possible.\(^\text{49}\)

Since 2010, many important motions relating to EU foreign policy have come from different member states or coalitions of the willing. Given the lack of core leadership, there have been several power centers in terms of foreign policy making. In December 2010, France, Poland and Germany put forward the “Weimar Initiative”, trying to revitalize the EU Common Security and Defense Policy (CSDP). And in July 2012, Italy, Spain, Sweden and Poland, with the absence of the UK, France and Germany, launched the European Global Strategy (EGS) initiative, which aimed at promoting the debate on a future EGS. In addition, the “Berlin Club” proposed by German Foreign Minister to revive the ideal of a united Europe, does not include the UK.

\textbf{B. The debt crisis has pushed the EU to readjust and ensure its policy priorities}

The crisis has triggered the EU’s reassessment of the outside world and its own status. As said in \textit{Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth}, “the crisis is a wake-up call, the moment where we (the Europeans) recognize that ‘business as usual’ would consign us to a gradual decline, to the second rank of the new global order.”\(^\text{50}\) And in September 2010, the European Council made the conclusions that “the recent economic and financial crisis has dramatically shown the extent to which the well-being, security and quality of life of Europeans depend on external developments”, and that “the emergence of new players with their own world views and interests is also an important new feature in the international environment.”\(^\text{51}\) In view of the above situations, the EU has readjusted its foreign policy and increased its input in key regions and those fields it has advantages.


1. Strengthening its presence in hot spots and prioritizing the neighborhood and Africa in its foreign relations

During the crisis, the EU had not only behaved actively on Iran and Syria issues, but shown its “presence” in the territorial disputes in East Asia. For Syria, the EU had used up all sorts of sanctions within one year, which demonstrated an unprecedentedly tough stance. For the territorial disputes in East Asia, though aware of its limited capacity, the EU still tried to enhance its engagement with relevant parties so as to secure and advance its interests in the region. In 2012, the EU updated its East Asia Guidelines, which said that the Union should create a positive environment for its participation in the East Asia Summit. In the following month, the EU issued a joint statement with the United States on the Asia-Pacific region. That being said, the EU is currently in a period of strategic contraction, and the key area to invest strategic resources is its neighborhood.

The debt crisis and the turmoil in Middle East and North Africa have made it a priority and an urgent matter for the EU to handle affairs in its wider neighborhood. The neighborhood is perceived to be where EU core interests lie. Herman van Rompuy, President of the European Council said,

“On a crowded global stage, it makes even more sense to work together as a club. It also forces us to pick our priorities carefully. In my view this means a focus on security in a broad sense, first and foremost in our wider neighbourhood, and on prosperity, in cooperation with our partners.”

Catherine Ashton, High Representative of the Union for Foreign Affairs and Security Policy, elevated the issues in the neighborhood to the height of the core of EU foreign policy, saying that “[the EEAS] should focus on ‘core issues’ - the Middle East Peace Process, Iran, relations with Arab Spring and post-Soviet neighbors, Sahel, Somalia and the Western Balkans”. In the years to come, there will be even greater competition from other powers for influence and resources in the strategic neighborhood. This is a further reason for the EU to develop a closer

52 This is a view shared by diplomats of many EU countries.
55 “Strategic neighborhood” refers to a geopolitical space that includes not only the EU’s traditional neighborhood, comprising states whose geographical proximity connects them to the EU, but also broader areas that are functionally linked
and more political dialogue with neighbors, including on security issues. The EU’s credibility will largely depend on its ability to cope successfully with its strategic neighborhood.\(^{56}\)

In policy practice, the EU has not only released several documents on its neighborhood policy in succession, but also intensified its actions and intervention in the neighborhood, which include setting up different types of fund to support democratic transformation and increasing trade flow and mobility of citizens.\(^{57}\) In 2011, the EU mustered over EUR 80 million to support the transitions of Middle Eastern and North African countries. In 2012, the EU reoriented assistance programs and made an additional EUR 1 billion available for the southern neighborhood for the period up to 2013. It also increased the lending ceiling of the European Investment Bank (EIB) by EUR 1.5 billion and extended the mandate of the European Bank for Reconstruction and Development (EBRD) to its southern neighbors. In addition, Germany, France, the UK and Italy are committed to jointly support the Arab transitions under the umbrella of the G8’s Deauville Partnership.\(^{58}\) The EU has also conducted institutional innovations to enhance its influence in its neighborhood and a major measure in that regard is to set up task forces to integrate various institutional resources of the Union.\(^{59}\)

In line with the trend under the framework of European Neighborhood Policy (ENP), the actions under the Common Security and Defense Policy (CSDP) have also reflected the EU’s readjustments of its strategy. The operations under the CSDP had long been at a standstill. From 2009 to 2010, the EU had launched only one joint operation under the CSDP. However, from 2012 to 2013, the number of newly launched joint operations under the CSDP surged to five and all of them were located in the Middle East and Africa, the regions that are directly related to the EU’s neighborhood security. These operations mainly include Regional Maritime

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\(^{56}\) Ibid, pp.10-11.


Capacity Building for the Horn of Africa, Aviation Security Mission in South Sudan, and the missions in Libya and Mali. Be it the “more stringent conditions” attached to the ENP or the performances of the UK and France in the Libyan War, they have all shown that the ENP is consistent with the EU’s strategic priorities and a trend of expansion has been displayed.

2. The declining importance of climate change in EU foreign policy agenda

Before the UN Climate Summit in Copenhagen held in 2009, the EU had been playing a leading role in the field of climate change. By exploiting its great say and first-mover advantage actively, the EU had acted as a pusher of international climate change negotiations. Although there were some morality and value considerations in its efforts to push the issue of climate change higher in the international community’s agenda, the EU wished to obtain new competitive edge by doing that. As a first mover in addressing global climate change, the EU has acquired a comparative advantage in the development of alternative energy, and it hopes to become a winner in the new round of world economic transition by promoting binding emission reduction targets worldwide. Climate change, energy security, economic growth and the enhancement of competitiveness have been integrated into the EU’s development strategy for the next decade. However, the crisis has changed the EU’s perception of the relationship between climate policy and competitive advantage, and induced rethinking of its climate policy.

The crisis has severely undermined the basis of the EU’s climate policy. The centerpiece of the EU’s climate policy has been the EU Emission Trading System (ETS), a cap-and-trade program launched in 2005. The ETS has been seen as a tool to ensure least-cost abatement, drive EU decarbonization and develop a global carbon market. However, “the crisis has shattered this confidence”.  

It has resulted in lasting recession of the European economy and sluggish manufacturing industry, accumulation of a large number of emission allowances in the EU ETS and subsequently continued lowering of the allowance price. Currently, the EU ETS faces a predicament. Without internal consensus, the EU can hardly continue to implement its climate policy on the international stage.

The concerns of European enterprises over their international competitiveness have also hindered the development of EU climate policy. Prior to the Copenhagen UN Climate Summit and the outbreak of the debt crisis, the interest groups within the EU have a high expectation for global carbon emission limitation mechanisms, believing they could generate a competitive advantage for the EU. However, the limited progress achieved at the Copenhagen Summit and the debt crisis have aggravated the concerns of European companies about their competitiveness vis-à-vis their counterparts in emerging economies. The powerful employers’ group BusinessEurope called on European Commission President José Manuel Barroso to radically shift the EU’s energy policy away from climate change mitigation towards cost-competitiveness and security of supply.61

3. The prioritization of trade and investment in EU foreign policy

Given the sluggish demand of internal market, the EU has pinned its hopes on expanding external market to meet its growth targets. According to a European Commission staff working document, potential benefits of pursuing an ambitious external trade agenda include GDP gains of about 2 percent and the creation of more than 2 million jobs across the EU. Therefore, trade and investment policy has become a core component of the EU’s strategy to get out of the crisis and achieve economic recovery. Moreover, the leveraging of trade policy is perceived by the Union as a condition for the success and sustainability of any recovery strategy.62

The EU has reinforced its efforts in promoting the signing of bilateral trade agreements. A policy paper submitted by the European Commission to the European Council in 2013 reads, “Trade has never been more important for the European Union’s economy. … The EU requires an ambitious trade negotiation and enforcement agenda.”63 During the crisis, the Union has not only restarted its free trade agreement (FTA) negotiations with India and successfully concluded FTA negotiations with the South Korea and Singapore, but launched such talks with the

U.S. and Japan. The EU’s bilateral FTA agenda has almost covered all developed countries and major emerging economies, thus becoming the broadest FTA agenda in the contemporary world. It is estimated that completing the current bilateral FTA agenda would bring the coverage of the EU’s external trade to two-thirds of its total volume, while before 2006 less than a quarter of EU trade was covered by FTAs.\(^{64}\)

By introducing the principle of “reciprocity”, the EU has made greater efforts to open third-country markets. According to the new trade policy paper released by the European Commission in 2010, “The EU will remain an open economy but we (Europeans) will not be naïve. In particular, the Commission will remain vigilant in defence of European interests and European jobs”.\(^{65}\) The Union has successively adopted some new measures to implement the principle of “reciprocity” in its foreign trade and investment practices. Since 2011, the EU has been publishing its annual Trade and Investment Barriers Report during its Spring Summit, the purpose of which is to pressurize EU trade and economic partners to further open their markets. For example, in March 2012, the European Commission proposed that “the Commission would be allowed to respond by limiting temporarily market access for those countries which demonstrably exclude or discriminate against Union suppliers, goods and services in their national procurement practices”.\(^{66}\)

**C. The crisis has weakened the EU’s capability to handle its foreign relations**

The EU’s capability to handle its foreign relations can be broken down into resources, instruments and cohesiveness.\(^{67}\) Besides the decrease of cohesiveness, which has been discussed earlier in this report, the crisis has also affected the EU’s diplomatic resources, thereby limiting the space for the use of EU foreign policy instruments.

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64 Ibid.


1. The EU’s diplomatic resources were reduced

First of all, the crisis has reduced the EU’s security resources. The austerity policies adopted by most EU member states have resulted in unprecedented cuts in military and defense expenditure. Except for Sweden, Poland, France, Finland and Denmark, all EU member states have significantly reduced their military spending: the majority of middle-sized member states have cut 10 to 15 percent, while some smaller member states have introduced the largest defense budget cuts, with rates as high as 20 percent. Large EU countries like Germany and the UK have limited their cuts to about 8 percent to be introduced between 2011 and 2015. The reductions in defense budgets that had occurred from 2008 to 2010 were expected to remain in place over the next decade. That means EU member states will no longer be able to maintain the military capabilities needed to perform expeditionary missions such as those carried out in the last two decades. In July 2011, Italy withdrew its aircraft carrier from the ongoing NATO’s Libyan mission, which was the first time that a European country pulled back its aircraft carrier from an ongoing mission due to financial pressure.

Secondly, the EU’s soft power is also hurt. The EU’s soft power mainly includes the power arising from integration, its social market economy as a development model and its strength as a normative power in the international community. Though difficult to quantify, the hurt to the EU’s soft power by the debt crisis is conspicuous. The crisis and the EU institutional defects exposed by it, the differences among member states and their mutual recriminations, and the “stratification” phenomenon that has emerged among member states have all lessened the attractiveness of the Union as a “model” of regional cooperation. When Iceland was bogged down in the crisis, it raised its request for EU membership again. However, as the crisis continued, Iceland decided to suspend the negotiation for its accession to the Union. The opinion poll conducted before Croatia’s formal accession to the EU showed that the public support for EU membership had hit an all-time low. Moreover, the Turkish favorable opinions of the EU have also decreased. A former Turkish ambassador to the EU said, “Around the world the

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European Dream has come to an end. The paradigm has changed and the European Union can no longer provide comfort, prosperity and fortune for its citizens.\textsuperscript{70}

In addition, the debt crisis has triggered political turmoil and social unrest, rising unemployment rate and increased social divisions. Moreover, it has also broken the correlation between “liberal democracy” and prosperity, and lessened the influence of the European model of social market economy. During the crisis, the EU’s international identity has shifted from a “governing subject” to a “governing object” in the economic sphere, and its tendency toward protectionism and pragmatism has lowered its influence as a “normative power”. According to a survey done by the Pew Research Center, while the EU’s ratings were still generally positive, its overall image had declined somewhat from 2010 to 2011.\textsuperscript{71} The non-tariff barriers and other protectionist measures taken by the EU during the crisis have contributed to the reinforcement of the perception of the EU as a neo-colonial power.\textsuperscript{72}

2. The crisis has constrained the use of EU foreign policy instruments

Trade and aid policies have long been the main foreign policy instruments of the EU. The EU has been pushing its “partner countries” to accept its own economic rules and political standards by attaching strings to its aid and trade preferential arrangements. However, the leverage of EU trade policy has decreased significantly during the crisis. To address the competition pressure and achieve its “growth” and “employment” objectives, the EU has reduced the number of countries covered by its generalized system of preferences (GSP) from 176 to 86, and changed its trade policy by highlighting the principle of reciprocity. As a result, the political and strategic value of EU trade policy has been lowered by this mercantilist feature.

Foreign aid policy is the policy instrument that has been affected by the debt crisis most heavily. Sluggish economy, rising unemployment rate and austerity

\textsuperscript{70} Address of the former Turkish ambassador to the EU on the eighth Bled Strategic Forum (BSF) held in Bled, Slovenia from September 1 to September 3, 2013.


policies adopted by the EU and its member states have all directly lessened the domestic support for EU foreign aid policy. During the crisis, all major EU member states have cut their foreign aid volumes. According to the statistics of the Organization for Economic Cooperation and Development (OECD), the official development assistance (ODA) provided by the 15 EU countries that are members of the Development Assistance Committee (DAC) of the OECD decreased by 7.4 percent from 2011 to 2012, and the ratio of these countries’ ODA to their combined gross national income (GNI) fell from 0.44 percent to 0.42 percent during the same period. The ODA from Spain and Italy, the two countries most heavily hit by the crisis, dropped by 49.7 percent and 34.7 percent respectively in 2012 compared to the previous year.73

The decline of strength and attractiveness and the urgency of handling internal affairs have hindered the EU’s expansion as well. Although the Union still commits itself to continuing its enlargement and improving its neighborhood policy, the debt crisis has lowered public support for EU enlargement because faced with the crisis the public is unwilling to shoulder the cost, thus increasing the risk of “enlargement fatigue”. At the same time, the crisis has reduced the EU’s attractiveness for its candidate countries, thereby reducing the leverage of attached strings, a core policy instrument in EU neighborhood policy and enlargement policy.

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III. Changes of the EU’s Position and Influence in Major-Power Relationship

A. The EU remains an important pole in geopolitics

The European Union, the United States and China are the three largest economies in the world, with their combined GDP accounting for 54 percent of the world total. The three economies are also the largest trade entities around the globe. The United Kingdom and France, as members of the EU, are also permanent members of the UN Security Council together with China, Russia and the United States. The five countries are all nuclear powers, accounting for over 70 percent of the world’s military expenditure and more than 30 percent of the world’s population. Therefore, when reviewing the EU’s changing position and influence in major-power relationship, one should first examine its geostrategic and political relations with China, Russia, the U.S. and other major powers.

In the European Security Strategy (ESS) adopted by the European Council in 2003, the EU declared that it would establish “strategic partnerships” with China, the United States, Russia, India, Brazil and other major powers. As the ESS was released against the backdrop of U.S. invasion of Iraq, by establishing strategic partnerships with China, Russia and other powers the EU hoped to curb U.S. unilateralism. At that time, the U.S. was relatively isolated in the EU-China-U.S. and EU-Russia-U.S. trilateral relations. However, the world economic and financial crisis and the European debt crisis that occurred afterwards have resulted in major changes in the international structure and the global balance of power. The EU’s international status and foreign policy have also been significantly impacted. Influenced by such factors as persistence of the European debt crisis, the adjustments of U.S. policy toward the EU and the rise of China and Russia, the EU’s international influence has somewhat declined. Moreover, the EU’s
interactions with the U.S., China, Russia and other major powers in regional and global affairs have also changed. For long the EU has been pursuing the strategic goal of acting as an “independent pole” in the international system and playing a “unique role” in international affairs. However, the attainment of this strategic goal has become more difficult under the circumstances of the global economic and financial crisis and the European debt crisis, which can be seen with different degrees of clarity from the EU-China-U.S. and EU-Russia-U.S. trilateral relationships. As a result, the EU and the U.S. are more willing and increasingly motivated to strengthen policy coordination so as to better meet the challenge posed by China, Russia and other emerging economies.

**B. Influence of the EU's internal and external changes on EU-China-U.S. trilateral relations**

After the outbreak of the global financial and economic crisis, there has been a complex trend in the international landscape featuring cooperation amid competition and compromise amid struggles. And big powers have quickened their steps in adjusting their relations. Interactions among China, the U.S. and the EU have become more frequent, with more variables and uncertainties. China-U.S., China-EU and EU-U.S. relations all face a new turning point. Although the year 2013 marked the 10th anniversary of the establishment of China-EU comprehensive strategic partnership, the bilateral relations were facing the risk of worsening and the EU’s intention to contain China by strengthening the “transatlantic partnership” with the U.S. became more conspicuous.

**1. The greater impact of “U.S. factor” on the China-EU relations**

After the outbreak of the financial and debt crises in the U.S. and the EU, the U.S. financial system and development model have been criticized and blamed by the international community, and as a result, the U.S. has lost its moral ground and prestige. At the same time, the negative effects of globalization have deepened the social, economic and racial contradictions inherent to the EU. While the EU is suffering from the debt crisis internally and declining international influence and alienation by the U.S. externally, China has acquired at a fast speed an increasingly important role and heavier weight in the EU-China-U.S. trilateral relationship, with
greater influence on international and regional affairs. Currently, China has become one of the important factors that affect the development of international situation. The EU-China-U.S. trilateral relationship is tipping to the advantage of China and to the disadvantage of the U.S. and the EU. China’s rise, which has significantly impacted the current international structure and the vested interests of the EU and the U.S., coupled with the differences between China and the West in political and economic systems and values, has made China one of the “major topics” in EU-U.S. strategic and economic consultations.

As for the EU-U.S. relations, as early as in 2005, the U.S. opposed the EU’s plan of lifting arms embargo on China and EU-China satellite cooperation plan on the Galileo navigation satellite system. As a result, the EU was “forced” to accept U.S. advice. Since the beginning of his second term of office, President Obama has readjusted U.S. foreign policy, which featured “ignoring Europe” in his first term of office, and started improving “transatlantic partnership” by strengthening strategic consultations and dialogues with the EU on global issues so as to reinforce containment on China and jointly address the challenges coming from the “Pacific” region. The EU and the U.S. have strengthened their coordination and consultation over security and economic affairs relating to China. In June 2012, the EU issued the *Guidelines on the EU’s Foreign and Security Policy in East Asia*; in July 2012, Catherine Ashton, the EU High Representative for Foreign Affairs and Security Policy, attended the ASEAN Regional Forum (ARF) for the first time and issued a joint declaration with the U.S. regarding security issues in the Asia-Pacific region; in June 2013, Ashton attended the Shangri-La Dialogue held in Singapore for the first time and said that “The EU is a true Asian partner – our interest is not in projecting power but in empowering”.

The EU-U.S. alliance established after the Second World War is based not only on their common culture, values and systems, but on their broad common interests in regional and global affairs. The U.S. believes that “to cope with the challenges in the contemporary world, the U.S. and the EU are indispensable”, that “the U.S. and the EU share common values, interests, capabilities and objectives”, and that “only by taking joint actions could they meet the global challenges”. The trade and economic relations between the U.S. and the EU are extremely close. The

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annual trade and investment volume between the two economies has reached USD 1 trillion and the total value of mutual direct investment amounts to nearly USD 2 trillion. The U.S. investment in Europe triples its investment in Asia. In 2011, the EU’s exports to the U.S. registered EUR 260 billion, while the U.S. exports to the EU reached EUR 184 billion.75 To address the challenges posed by emerging economies, the EU and the U.S. have launched the TTIP negotiations.76

2. The EU, China and the United States all need a mature and stable trilateral relationship

Although the competition among the EU, China and the United States in such aspects as geopolitics, economy, trade and hot international issues has intensified and their structural contradictions are almost unavoidable, their common interests and the factors leading to positive interactions are also on the rise. The U.S. and the EU have fallen in a long-term economic predicament successively and they need to maintain and strengthen cooperation with China for the sake of their own interests. Due to the differences between China and the EU-U.S. in economic development level and industrial structure, the cooperation among the three economies is somewhat inevitable, and it enjoys complementarities and the potential for mutual benefits.

Viewed from the strategic level, the EU, China and the U.S. are major and indispensable players in tackling such important issues as the reform of the United Nations and the international financial system, nuclear disarmament and nonproliferation of weapons of mass destruction (WMD), immigration, trade and economy, global governance, climate change, energy and food security. The policy stances of the three players are interrelated and interacting with each other. The concept of “G3” consisting of China, the U.S. and the EU, and the so-called “three pillars” of the international monetary system including RMB, the U.S. dollar and the euro were proposed by Western scholars.77 These concepts reflected the anxiety

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77 On May 27, 2013, while attending the “Europadialog Hessen” held in Hessen, Germany, Günther Oettinger, Member of the European Commission responsible for energy and former Minister-President of Baden-Württemberg, Germany, said that among all countries, regions and organizations in the world, the EU is the only one that can equal the United States and
of the EU and the U.S. in seeking cooperation with China.

The EU, China and the U.S. are the most prominent actors and most important stakeholders in major strategic issues in the world. Their relations are certainly characterized by both cooperation and competition. The three have strong motivation for cooperation and could all benefit from jointly coping with various challenges. According to a research report authored by European scholars, it is important for the EU to send a reassuring message to China and other Asian countries about EU-U.S. intentions, and to this end, the EU and the U.S. could explore the prospect of a Trilateral Dialogue – U.S.-EU-China – on the “global commons” with the aim of building trust among the world’s three largest economies.78

World security and stability, global governance and other global issues are the common challenges to all countries in the world, including the EU, China and the United States. And to address these challenges effectively through joint efforts serves the interests of every country. However, there is competition among the EU, China and the U.S., the three key governing subjects, in addressing these challenges, and the core issue relating to the competition is how to distribute responsibilities and obligations at the international level fairly and equitably. In fact, the essence of the competition is the struggle for development space and the right to develop, which relates to optimization and changes of responsibilities, rights and interests in the international system.

Currently, the China-EU relations have gotten into difficulty partially due to declining mutual trust and trade frictions. However, the possibility of improving the bilateral strategic partnership still exists for the following reasons: Firstly, the EU has gotten frustrated in implementing its foreign policies due to the debt crisis, and its marginalized status in U.S. global strategy will not be fundamentally changed for the time being. Moreover, except for trade and economic relations, the EU is unwilling to be involved in the U.S. “rebalancing toward the Asia-Pacific” strategy, especially in the sense of military and security. Secondly, there is no strategic confrontation between China and the EU, and China has always been

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advocating the European integration and the stability of the euro and the euro area. Thirdly, to help the EU cope with the debt crisis, China has offered its support and assistance as its capacity allows, including continued investment in the euro area’s bond markets, increased funding to the IMF, and strengthened bilateral cooperation in the financial sector. The EU highly appreciated China’s support in the time of its difficulty. In their co-authored article, Herman van Rompuy, President of the European Council, and José Manuel Barroso, President of the European Commission, said, “China’s development plan and speed, which have attracted worldwide attention, have produced a huge impact on Europe and the world at large”, and “The EU and China stand ready to promote their strategic cooperative partnership to a new height”. Finally, the fact that China and the U.S. are seeking positive interactions within the framework of building “a new type of major-power relationship” has a stimulating and inspiring effect on the EU. If the EU focused its attention on its trade disputes with China for too long, it would certainly lose the great opportunity to establish a new type of major-power relationship with China, which could be called “penny-wise and pound-foolish”.

C. The EU’s role in EU-Russia-U.S. trilateral relations

Compared with EU-China-U.S. trilateral relationship, the EU-Russia-U.S. trilateral relations took shape much earlier. In reality, the EU-Russia-U.S. triangle is not a balanced one. The main consideration of the EU’s Russia policy is to gradually eliminate the security threat posed by Russia through political influence and economic ties and to try to integrate Russia into Europe, whereas the United States, due to geopolitical reasons, has long been on guard against Russia and has adopted a strategy of containment toward it. The U.S. and the EU have a division of labor on their policies toward Russia, which is based on their common interests. However, due to its geographical proximity to Russia and its heavy reliance on Russia’s energy resources, the EU perceives Russia differently and keeps a distance from the U.S. in policy and tactics toward Russia. Therefore, in EU-Russia-U.S. trilateral relations, the EU’s Russia policy is somewhat flexible: On the one hand, it takes the U.S. strategy toward Russia as its starting point; on the other hand, it

79 《欧洲理事会主席与欧洲委员会主席共同撰文畅谈中欧合作》["President of the European Council and President of the European Commission Co-Authored an Article on China-EU Cooperation"], 人民网[people.cn], February 14, 2012. [http://news.xinmin.cn/rollnews/2012/02/14/13645974.html]
aims at influencing Russia with political and economic means. There are not only struggles of different cultures, ideologies and political choices in EU-Russia-U.S. trilateral relations, but also cooperation and confrontation driven by mutual reliance for support, need of each other and respective interests.

1. Security factors in EU-Russia-U.S. trilateral relations

Security factors hold an important position in the trilateral relationship. The EU, as a weaker military power compared with Russia and the United States, has been constantly adjusting its position according to the changing international situation and its own strength. When the Iraq War broke out in 2003, France, Germany and other EU countries strongly disagreed with the unilateral policy of the Bush administration, and as a result, the EU shifted its foreign policy “eastward” and strengthened stance coordination with Russia, which developed a rift between the U.S. and its European allies. During the “color revolutions” that occurred in several member states of the Commonwealth of Independent States (CIS) and Central Asia from 2003 to 2005 and the Russia-Georgia War in 2008, the EU sided with the U.S. in supporting the “revolutions” and opposing Russia’s military operation in Georgia. Despite that, the EU distanced itself from the U.S. by actively playing the role of a mediator in the Russia-Georgia War. Since the outbreak of the global financial crisis, France, Germany and other EU countries have been critical of the U.S.-dominated international financial system, which is exactly what Russia has been doing. However, on issues relating to the European security and the turmoil in West Asia and North Africa, the EU has strengthened its coordination with the U.S. and made joint efforts with the latter in pressurizing Russia.

To address the security threat posed by NATO and to acquire a greater say in European security affairs, Russia proposed in November 2009 a new European Security Treaty (EST), which shall be open for signature by all States of the Euro-Atlantic and Eurasian space from Vancouver to Vladivostok as well as by the European Union, Organization for Security and Cooperation in Europe (OSCE), Collective Security Treaty Organization, NATO and the CIS. The proposed treaty requires contracting parties to cooperate with each other on the basis of the principle of indivisible, equal and undiminished security.\(^8^0\) However, the United States and NATO responded indifferently to the proposal, saying that such a

treaty was unnecessary. Although the EU did not want to see European security affairs completely dominated by the U.S. and NATO, it has to rely on the U.S. and NATO to protect its core security interests because it lacks independent defense capabilities. For the same reason, the EU has done its utmost to oppose Russia’s any attempt to dominate European security affairs and Russia’s NATO membership. The EU is also against granting a potential veto power to Russia in such issues as the deployment of missile defense systems. The NATO Lisbon Summit held in November 2010 decided to develop a missile defense capability to protect all NATO European populations, territory and forces, and adopted the United States European Phased Adaptive Approach. Regarding the missile defense system established by the U.S. and Europe as a threat to its strategic security, Russia demanded a legal guarantee from NATO that such a system would not “target Russia”. But the U.S. and NATO refused to offer such a guarantee and unilaterally accelerated deployment of the system.

The regime-change in Tunisia, Egypt, Libya and Yemen in West Asia and North Africa has intensified the contest among the EU, Russia and the U.S. for dominance in the Middle East. The EU and the U.S. overthrew the Gaddafi administration under the “banner” of the UN Security Council and with the excuse of “the responsibility to protect” and “humanitarian intervention”, causing strong discontent from Russia. Drawing lessons from these events, Russia confronted the EU and the U.S. steadfastly over the issue of Syria. It vetoed together with China the motion of using military forces in Syria proposed by the EU and the U.S. in the UN Security Council, and then expressed its discontent over the EU’s consent to the lift of arms embargo on Syria, which gave the green light to providing weapons to the opposition factions. It also warned that if the U.S. and France intervened militarily, Russia would offer assistance to the Syrian government. Although Russia’s proposal to put Syria’s chemical weapons under international supervision has been positively responded by the EU and the U.S., thus temporarily easing the war crisis, yet the EU and the U.S. are still eying Syria covetously and maintain a high military pressure. The confrontation and conflicts between the EU-U.S. and Russia on European security, NATO, missile defense systems and the Syrian crisis have shown that it is not realistic to “reset” Russia-U.S. relations, and that it is difficult to reconcile the deep-rooted conflicts between the EU-U.S. and Russia.

2. The multiple factors that determine the EU’s role in EU-Russia-U.S. trilateral relations

Economic and energy factors are the important foundation of EU-Russia relations. As close neighbors, the EU and Russia have frequent bilateral exchanges and their interdependence in economic, trade and energy fields is high. Therefore, both sides hope to promote development of their relations in other areas by strengthening economic and trade cooperation. The EU is Russia’s largest trade partner, which accounts for approximately 50 percent of Russia’s total trade volume. The EU is also the largest importer of Russia’s energy resources. The bilateral trade is highly complementary. Energy resources (mainly oil and natural gas) account for about 80 percent of the EU’s imports from Russia and the dependence rates of EU member states on Russia’s energy resources range from 30 percent to 90 percent. Russia’s imports from the EU are mainly machinery, transport equipment, processed products and chemical products. By developing its economic and trade relations with the EU, Russia has obtained capital, technology and advanced managerial experience that are badly needed in its domestic economic development. As early as in 2005, the EU and Russia adopted a comprehensive package of Road Maps for the development of four Common Spaces, namely Common Economic Space, Common Space of Freedom, Security and Justice, Common Space of External Security, and Common Space on Research and Education. In 2010, the EU and Russia launched a Partnership for Modernization to the mutual benefit of their citizens.

However, the United States is a major factor that influences the EU-Russia relations. When the disagreements between the EU and the U.S. become prominent, the EU may approach Russia and the EU-Russia relations may improve. On the contrary, when the EU-U.S. relations develop smoothly, the EU-Russia relations are more likely to encounter obstacles. And when the U.S.-Russia relations are “reset” or “cooled down”, the EU-Russia relations will be affected correspondingly. The aforementioned package of Road Maps adopted by the EU and Russia has not been well implemented till now, and there are multiple reasons for that. Apart from lack of mutual trust between the EU and Russia and different positions within the EU on developing relations with Russia, the U.S. has played the role of a great hindrance. The improvement of EU-Russia relations in 2005 and 2010 occurred against the
backdrop of the Iraq War and the outbreak of global financial crisis. At that time, both the EU and Russia strongly disapproved of U.S. invasion of Iraq and its creation of the financial crisis. Moreover, the EU was also discontented with the U.S. for receiving less attention from it after the shift of U.S. strategic focus eastward. With more shared views, the EU and Russia decided to strengthen their cooperation and establish a partnership for modernization.

However, with time going by, the EU-U.S. disagreements on the Iraq War and the financial crisis have become less important, and especially after Barack Obama started his second term of office as U.S. President in early 2013, the EU-U.S. relations have shown signs of rapid recovery. The United States reaffirmed that “Europe is the cornerstone of its engagement with the rest of the world and is the catalyst for U.S. global cooperation”.  

Meanwhile, the EU and the U.S. declared that they would launch the TTIP negotiation and try to conclude it within two years. From the economic perspective, both the EU and the U.S. need to jointly address the crisis and cement their economic recovery. As the world’s biggest economies and each other’s largest trade partners, the EU and the U.S. could obtain huge interests if a free trade zone could be established between them. From the strategic perspective, both the EU and the United States regard it as an urgent task to meet the challenges posed by the rise of emerging economies. It is their wish to raise the thresholds of their internal markets for Russia, China and other emerging economies and lessen the economic competitiveness of these countries by formulating unified trade rules and standards and linking their markets to achieve economies of scale.

With transatlantic relations getting warm again, it is more difficult for the EU and Russia to build trust, and their contradictions and disagreements have increased on such issues as Syria, the Cyprus banking crisis, human rights and the Russian mode of social development. During the 31st EU-Russia Summit held in June 2013, although President Putin and EU leaders repeatedly expressed their willingness to cooperate, their contradictions and disagreements are still outstanding on the negotiation of a new framework agreement for bilateral relations, mutual exemption of visas, the EU’s Third Energy Package, Syria, the Iranian nuclear issue and others. In Russia’s view, the EU-Russia relations will not improve substantially in the short
term because the EU attaches more importance to transatlantic cooperation than its cooperation with Asia and Russia.

Against the background of mistrust between the EU and Russia, arrested development of EU-Russia relations and continuous strengthening of EU-U.S. ties, Russia has attached greater importance to developing relations with its eastern neighbors and shifted its strategic focus to the Asia-Pacific region. For instance, Russia is trying to reduce oil and natural gas exports to the EU and increase exports to the Asia-Pacific. According to the estimate by the International Atomic Energy Agency (IAEA), by 2020, Russia’s energy exports to the EU will account for only 30 percent of its total energy exports, while its energy exports to the Asia-Pacific will account for 25 percent. Given the difficulty in improving EU-Russia relations, some European countries, including Germany, France, the Netherlands and Italy, hope to safeguard their own interests and promote the overall EU-Russia relations by strengthening their bilateral ties with Russia. However, due to the differences in strategic orientation, the EU-Russia relations will further deteriorate and the EU-Russia-U.S. trilateral relations will become more imbalanced.
IV. Adjustments of the EU's Global Governance Strategy and Its Changing Influence

For a long time, the European Union has sought to promote the establishment of global mechanisms at various levels to spread its rules, norms and ideas. It has done so by using soft-power means such as trade, foreign aid and institutional cooperation. However, as the power balance is undergoing remarkable changes and the EU’s international status has experienced a relative decline since the outbreak of the debt crisis, the Union has adjusted its objective and paths in promoting global governance and focused more on its own interests in path choice and agenda setting, which reflects a shift from idealism to realism.

A. Formation and characteristics of the EU’s global governance strategy

The EU’s global governance strategy was developed against two backdrops: one is the EU’s enlargement; the other is increasingly deepened globalization. The former necessitates the strengthening of EU internal governance and brings forth the “responsibility” of the EU to spread its internal governance principles worldwide, while the latter reinforced the need for the EU to promote global governance. The EU’s global governance strategy is featured in the efforts to make policies better suited to the characteristics of its own strength and conducive to promoting its governance model. The core of the strategy lies in “good governance”, and it is to be achieved with “effective multilateralism” and “transatlantic partnership”.
1. “Good governance” as the core of the EU’s global governance strategy

Originally popular in the field of foreign aid, the concept of “good governance” was soon endowed with a broad political connotation.83 The EU advocates the concept and has included it in its official documents, such as *European Governance - A White Paper* (2001), and *A Secure Europe in a Better World - European Security Strategy* (2003). Despite the varying connotations of the concept “good governance” in EU policy papers, its core has shifted toward the dimension of values, namely democracy, human rights and the rule of law.

According to the *Treaty on European Union* and the *Treaty on the Functioning of the European Union*, the primary strategic goals of the Union’s external actions are safeguarding its values, consolidating and supporting democracy, the rule of law, human rights, and the principles of international law.84 The EU has practiced these principles in efforts to promote global governance and realize its goals. In 2000, “good governance”, based on human rights, democracy and the rule of law, was included in the *Cotonou Agreement*, and became a fundamental element of the relationship between the EU and 79 countries from Africa, the Caribbean and the Pacific (ACP). The implementation of “good governance” is subject to regular monitoring, the result of which will determine the amount and means of foreign aid administered to ACP countries. The *Cotonou Agreement* showed that the EU used trade and foreign aid to export its values by associating trade and development with political issues. In 2004, the European Commission drafted a strategy paper on the European Neighborhood Policy to cope with new neighbors on expanded boundaries. As an integral part of the EU’s global strategy, the strategy paper declares from the outset, “The privileged relationship with neighbors will build on mutual commitment to common values” and “effective implementation of such commitments is an essential element in the EU’s relations with partners.” To this end, the EU shall take actions recognizing and rewarding countries that honor the commitment to shared values, as a primary policy for the Action Plans.85


2. “Effective multilateralism” as the main pathway to global governance

It is the EU’s belief that its external policies should be built upon strong multilateral cooperation and global good governance. Effective multilateralism was first defined in the *European Security Strategy* released in 2003 and to build an international order based on effective multilateralism was raised as one of the three strategic goals of the EU. According to this document, “In a world of global threats, global markets and global media, our security and prosperity increasingly depend on an effective multilateral system.” It further expounds the EU’s understanding of effective multilateralism, which includes dimensions of international institutions, international rules, international laws and even regional organizations. These principles are then reiterated in the *Treaty of Lisbon*. The EU’s multilateralism, based on its internal governance experience, is close to the “rules and institutions” dimension of Robert Keohane’s multilateralism.

Promoting effective multilateralism suits the characteristics of the EU’s strength. As a special international actor, the EU takes multilateralism as an instrument for achieving global governance. It tries to reduce unilateral actions by promoting the international law and common rules and principles. To realize its own interests, the EU makes use of its institutional advantage in multilateral mechanisms to spread its development model and concepts. As some European scholars put it,

“Success in multilateralism must not be judged only from a normative perspective – multilateralism as an objective per se – but also for its effectiveness, or lack thereof, in the production of public goods and the advancement of EU goals.”

By adopting incentive policies, such as granting membership or quasi-membership, the EU has been encouraging its neighbors to strengthen institutional cooperation with itself so as to achieve convergence in systems, standards, rules and concepts. In North-South dialogues, the EU hopes to use its institutional and economic advantages to promote political and economic reforms of developing

countries through the “partnership” mechanism, the ultimate goal of which is to realize convergence in systems, rules, standards and concepts. The Asia-Europe Meeting and other informal cooperation mechanisms have also reflected such policy characteristics.

3. The transatlantic partnership as an important strategic underpinning

Due to different features of strength, the EU and the U.S. have shown a great discrepancy in their cognition and practice of global governance. In contrast with the EU’s emphasis on multilateralism, negotiations and the employment of “soft power”, the U.S. tends to adopt unilateral policies and stresses deterrence and the use of “hard power”. The U.S. pursues global governance for its own material gains and therefore global governance is subordinate to its global policy priorities.

Nevertheless, shared values and interests have shaped a special EU-U.S. partnership in the framework of global governance. In 2009, Javier Solana, then EU High Representative for Foreign Affairs and Security Policy, said, “The world is increasingly divided between those who are in the system and the rest”, alluding to the EU and the U.S. as countries “in the system” and highlighting their shared destiny as a community.\(^88\) Democracy, human rights and the rule of law are the core values constituting the basis of the transatlantic community. Both the EU and the U.S. insist that these values should be promoted worldwide as the key elements of “good governance”. In security policy, the EU and the U.S. jointly push forward “humanitarian intervention” under the principle of “Responsibility to Protect”; in the field of development cooperation, the two actors insist on attaching political strings to their foreign aid; and in trade policy, as designers and beneficiaries of the post-war international trading system, the EU and the U.S. continue promoting liberalization in trade, investment and the service sector. In addition, the U.S. has played an important role in the EU’s internal governance, being considered “the most important outsider”. Their relationship has been described as “complex transatlantic governance”. Some even believe that the transatlantic relationship shows how deep global governance can possibly go.\(^89\)


The EU’s emphasis on effective multilateralism in the 2003 *European Security Strategy* (ESS) to some extent is a strong response to the Bush administration’s unilateralism. However, the 2003 ESS still highlighted the crucial role of EU-U.S. relationship in promoting a multilateral world order and advancing global governance. The strategy stressed the importance of the transatlantic relationship twice. It says,

“One of the core elements of the international system is the transatlantic relationship. This is not only in our bilateral interest but strengthens the international community as a whole. NATO is an important expression of this relationship.”\(^90\)

The *Report on the Implementation of the European Security Strategy* released in 2008 still hold the view that the key partner for Europe in contributing to a more effective multilateral order around the world is the United States, and that full engagement with the U.S. will be key to addressing conflicts in many parts of the world.\(^91\)

**B. Relative decline in international status forces the EU to adjust its global governance strategy**

Compared with the time when the EU formulated its global governance strategy, the current international situation is very much different and the catalysts for change include mainly the rise of emerging powers and the European debt crisis. The changing balance of power across the world has an increasingly great impact on the EU’s concept of global governance and it has become the main driving force for the EU to adjust its governance approach and path.

1. **The collective rise of emerging powers has changed the EU’s cognition of the international pattern**

The EU formulated its global governance strategy in a time when it was implementing an ambitious plan of enlargement and actively promoting its

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development model in its neighborhood. Internally, at that time, the EU was promoting the formulation of common security and defense policy, hoping to achieve the goal of catching up with the U.S. by implementing the Lisbon Strategy. The 2003 ESS pointed out,

“Europe has never been so prosperous, so secure nor so free ... The European Union is inevitably a global player... The increasing convergence of European interests and the strengthening of mutual solidarity of the EU makes us a more credible and effective actor. Europe should be ready to share in the responsibility for global security and in building a better world.”\(^{92}\)

However, the sense of accomplishment has been replaced by a sense of crisis. Herman van Rompuy, President of the European Council, believes that the biggest challenge for Europe today is how to deal with “the world outside Europe”. He said,

“We witness the end of one phase of globalization and the beginning of a new one. ... One could call the new phase: political globalization.... Politics is about ‘rapports de force’. And power is relative. Whereas prosperity is spreading, power is shifting. People in Europe are starting to feel it. They are anxious, not of losing ‘power’, but of losing their jobs, of declining welfare, as a consequence of a global competition.”\(^{93}\)

Based on its changed understanding of the outside world, the EU believes that the contemporary world is obviously characterized by multi-polarization. As there are different opinions on sovereignty, multilateralism and the legitimacy of international institutions, “liberal interventionism is hotly contested in the rest of the world, state-led industrial policies openly challenge market-led growth models, and ways of kick-starting domestic growth are regarded by emerging powers as a better option to promote development than traditional Western development aid.”\(^{94}\)

The rise of emerging powers has made the international system more complex and unstable, as emerging powers no longer accept a West-dominated political system but rather follow their own interests and wills in participating in world affairs and


\(^{93}\) Herman Van Rompuy, “The Challenges for Europe in a Changing World”, EU Diplomacy Papers, Department of EU International Relations and Diplomacy Studies, College of Europe, Bruges, March 2010. [http://aei.pitt.edu/13210/]

\(^{94}\) Giovanni Grevi, “A progressive European global strategy”, Policy Brief, No.140, November 2012, FRIDE.
shaping the international system. The competition between traditional powers and emerging ones on rules, order and interests will again lead to power politics, a trend that runs contrary to the EU-led concept of rule-based effective multilateralism. “From the perspective of the liberal order – it is worrying that the G-World seems to be one where global governance takes place within informal institutions governed by balance of power rather than treaty-based institutions that pool sovereignty… It is right to engage and involve rising powers in global institutions, but it is now clear that rather than being transformed by their membership of the institutions, the rising are dramatically changing the nature of the institutions themselves.”

2. The sovereign debt crisis and the turbulence in its neighborhood have attenuated the EU’s capacity to shape global governance

The debt crisis and the turbulence in its neighborhood are important internal and external factors that constrain the EU’s capacity to shape global governance. The debt crisis, by putting the brakes on the EU’s economic growth, has not only affected its use of economic power, but resulted in political and social crises within the Union, which have a negative impact on its ability to “attract” and “persuade” other countries, an important element of EU soft power. The turbulence in neighboring countries has profoundly changed the EU’s security environment and constrained the spread of its influence at the global level.

The crisis has exposed the EU’s institutional defects, adding difficulties to the EU’s economic, political and social transformations. Economically and financially speaking, the EU needs to continue increasing revenue and stabilize the market to avoid further deterioration and the spread of the crisis. It also needs to take measures to stimulate growth and alleviate economic and social pressures in order to achieve a balance between austerity and growth. Politically, the EU needs to take bold initiatives to deepen the integration process. However, constrained by domestic politics, divergent interests and surging Euroscepticism in member states, the EU must strike a balance among the various competing forces in institutional buildup and policy implementation. In the social field, the crisis has worsened the social conditions and widened the perception gap between political elites and the general public, resulting in a crisis of the EU’s legitimacy. Since 2009,
economic and social challenges caused by the crisis has significantly reduced the importance of global governance on the EU’s political agenda as the crisis and relevant responses have dominated the agenda and the Union has entered a phase of overhauling its internal structure and adapting to transitions. In addition, the debt crisis has triggered divergence of interests among EU member states, which has weakened the coordination within the Union and affected the EU’s capability to speak with one voice.

The EU’s neighborhood security strategy has been focusing on building an “arc of stability and prosperity” to ensure the Union’s security. However, the Arab Spring brought unprecedented challenges to the EU’s security. Refugees and illegal immigrants generated by the unrest in Egypt and the war in Libya have become a serious trouble for the EU. Meanwhile, the EU faced soaring risks of terrorism, organized crime and the proliferation of WMD. In the face of new challenges, the EU has re-evaluated its neighborhood policy and put forward new approaches. It pledged to provide more support to the establishment of democracy in neighboring countries, which would further reduce its resources and affect its capabilities in global actions.

3. Suffering setbacks in building multilateral mechanisms, the EU’s will to promote multilateralism has weakened

Based on its own strength, the EU had been giving priority to the advancement of WTO Doha round negotiations and the establishment of a legally binding global framework agreement on climate change for years. However, when the Doha round negotiations were stalled and small and medium-sized developing countries tended to form blocs, the EU felt increasingly difficult to control the talks and its will to advance the negotiations was dampened. As a result, the EU has turned to follow the path of promoting multilateralism through bilateral means.

The EU’s position at the Copenhagen Climate Summit was also embarrassing. Though perceived as a leader in climate change governance, the EU failed to achieve its plan of merging the two negotiation tracks into one as it was strongly opposed by developing countries. By the end of the conference the EU even became a “bystander”, and the agreement reached at Copenhagen was far from
the EU’s expectation. The Copenhagen Climate Summit was a heavy blow to the EU’s attempt at promoting multilateralism. “Against this background, the EU has become more aware of the limits of multilateralism, and in order to make it work, it has also engaged with the key powers outside the multilateral frameworks to engage them in joint problem-solving and multilateralism.” For the EU, the importance of multilateralism lies in its functional value to serve EU strategic interests. However, in an increasingly multi-polarized international power structure, the gap between the EU’s expectations and its capabilities in developing multilateral mechanisms is widening, and at present the EU can hardly achieve its strategic objectives through multilateralism. Therefore, the emphasis of EU’s insistence on “effective multilateralism” is gradually shifting from “multilateralism” to “effectiveness”.

C. The EU’s global governance approach is becoming increasingly pragmatic

With the new international environment, the EU’s approach to global governance is becoming more and more pragmatic. Although “good governance” is still its core conception, the EU now pays more attention to the balance between values and interests. While sticking to the principle of multilateralism, the EU puts more emphasis on the “effectiveness,” “functionality” and “reciprocity” of multilateralism. Besides that, the EU has made greater efforts to build bilateral partnerships, coalition of the willing and informal international mechanisms. In choosing partners and setting priorities, the EU has paid more attention to its neighborhood and those areas it has advantages.

1. Attaching greater importance to the balance between values and interests

While sticking to the core concept of “good governance” in promoting global governance, the EU now attaches greater importance to the balance between values and interests. Different from its long-standing practice, i.e. to use trade and development aid to spread its values, the EU currently places more emphasis on

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96 Bo Yan and Chen Zhimin, “EU’s Weakening Leadership in Climate Change Governance”, China International Studies, January/February 2011.

exploiting its soft-power advantages in such areas as trade, development aid and climate change to enhance the international competitiveness of its economy so that its growth and employment goals could be achieved. Therefore, the EU’s actions have increasingly shown signs of mercantilism.

For a long time, the EU had been stressing such non-trade objectives as social justice, multilateralism and development in its trade policy. However, the new trade policy released in 2006, *Global Europe: Competing in the World*, has to a large extent given up such objectives. Market access has become the focus of the new EU trade policy, and instant economic effects are highlighted. To achieve that, the EU has attached greater importance to bilateral agreements, considering that bilateral agreements are important instruments for implementing the strategy of opening markets abroad. In the choice of future Free Trade Agreements (FTAs), non-trade objectives are no longer the EU’s main consideration. Instead, economic factors, such as market potential (economic size and growth) and the level of protection against EU export interests, will play a primary role in choosing new FTA partners. In addition, the focuses of future FTA negotiations between the EU and its trade partners will be largely beyond the Doha Development Agenda. Since the suspension of the Doha negotiation in July 2006, the EU has signed a number of bilateral FTAs.

When reviewing its trade policy in December 2010, the European Council stressed the need for the EU to promote its interests and values more assertively and in a spirit of reciprocity and mutual benefit. It believed that the EU’s strategic partnerships with key players in the world should be two-way streets based on mutual interests and benefits and on the recognition that all actors have rights as well as duties. Since the outbreak of the debt crisis, facing a stagnant economy, the EU has been more aggressive in seeking export markets and negotiating investment agreements with key players in the world. Economic security is now the EU’s primary concern. Although the EU says it remains committed to multilateral trade liberalization, the new rules adopted by it during recent years obviously discriminate against non-EU countries and their enterprises, and invisible

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Changes of EU's International Status and Influence

Protectionism in the forms of financial principles, rules and standards is apparently on the rise. According to a recent Global Trade Alert report on protectionism, “in terms of discriminatory measures imposed, the EU27 is the worst offender”.\(^{100}\)

2. Promoting multilateralism through the development of bilateral relations and strengthening the construction of strategic partnerships and “coalitions of the willing”

The EU has made increasing efforts to reinforce contacts with its major partners outside multilateral frameworks and to construct strategic partnerships and “coalitions of the willing”, as a supplement to its traditional multilateralism and transatlantic partnership, so as to realize its vision of global governance.

In contrast with developing relations with its regional strategic partners in the 1990s, the EU is more inclined to enhance bilateral strategic partnerships with major powers at present. From traditional allies to emerging economies, the Union has established strategic partnerships with ten countries at different levels. As for the position of strategic partnerships in EU global governance strategy, a 2010 official document on the Union’s external policy says, “strategic partnerships with key players in the world provide a useful instrument for pursuing European objectives and interests”\(^{101}\), which means that the EU perceives the development of bilateral relationships as a key step toward effective multilateralism. In this context, bilateral strategic partnerships are presented as an innovative means of striving toward the EU’s ultimate goal on an international scale: global governance under the tutelage of multilateral organizations and binding international rules.\(^{102}\)

Therefore, both the bilateral trade agreements and the frameworks of bilateral partnerships in other policy areas reflect the EU’s new approach toward global governance, i.e. to promote multilateralism through the development of bilateral relationships.

The Copenhagen Climate Summit, the ascending role of G20 as an informal mechanism for global economic governance, and the strengthened cooperation

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among BRICS countries, have pushed the EU to reinforce its cooperation with BRICS nations in flexible ways, which serves as a supplement to the traditional transatlantic partnership. A report adopted by the European Parliament in October 2010 pointed out that the EU could no longer achieve its policy goals by the traditional transatlantic partnership, and therefore it needed to establish a network relationship with BRICS countries. When drawing lessons from the Copenhagen Climate Summit, the EU stressed the need to be wiser and to coordinate with both Atlantic and Pacific countries. It could be inferred that the EU will implement a more flexible global governance strategy, seeking different allies on different issues or under different circumstances. As Herman von Rompuy said, “we need to review and strengthen our relationship with key partners. … The first step is to carefully choose our allies, to reflect about what we can do together with them.”

3. Adopting a more focused and assertive approach to global governance

When the EU’s global governance strategy was formulated, the Union gave priority to peace and security issues and devoted itself to crisis management and state building in its own region and around the world. However, the characteristics of EU strength determine that it can achieve little in peace and security fields. Therefore, the EU, based on the features of its strength and its strategic objectives, readjusted its global governance agenda by attaching greater importance to its advantage and leverage in such fields as trade, development aid and climate change. It aims at opening markets abroad through negotiating FTAs and providing development aid, and facilitating its economic transition by pushing forward the global climate change negotiations. Currently, the EU has enhanced its efforts to advance the aforementioned agenda throughout the world by using various means. The EU’s attempt to unilaterally impose charges on carbon emissions from flights to and from Europe in early 2012 showed that it would push the governance process determinedly in those areas it has advantages.

The turbulence in the EU’s neighborhood and the shift of U.S. strategic focus eastward are occurring simultaneously. Under such circumstances, the EU has to pay more attention to its neighborhood. Since the start of the turmoil in West Asia

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and North Africa, the EU has greatly increased its input to its neighborhood, which includes setting up various kinds of funds to support democratic transition in the region, and enhancing trade, development aid and people-to-people exchanges. In line with its increased input, the EU tends to adopt a more expansionist neighborhood policy, the hints of which include “stricter conditions attached” in the policy and the actions taken by the UK and France in the Libya War.

D. Cooperation and competition between China and the EU in global governance

The China-EU relationship has long transcended the bilateral level and has great impact on the global governance process. The EU’s objectives in cooperating with China has changed from trying to incorporate China as a passive “object” into the West-dominated international system to taking China as a major partner in global governance and requesting China to shoulder greater responsibility. Therefore, the EU’s new approach to global governance will not only affect its relations with China, but also change the priorities and ways of the bilateral cooperation in global governance. While the competition between China and the EU in ideas and interests is intensifying, the two sides also face increased opportunities for pragmatic cooperation on an equal footing.

The EU’s policy adjustments characterized by advancing multilateral process through the development of bilateral relationships has brought to China-EU relations both challenges and opportunities. The growing importance of China-EU strategic partnership provides a basis for more equitable cooperation, and the deepening pragmatic collaboration between the two sides in specific areas helps build consensus and promote global governance. In fact, the joint statements of China-EU summits in recent years have already reflected the feature of pragmatic cooperation in the bilateral relations. However, as the EU becomes increasingly pragmatic and expects more from China, competition will increase simultaneously. How to manage their differences and narrow the gap in understanding “reciprocity” is the key to easing tensions and increasing cooperation between China and the EU.

—— European Commission, A New Response to a Changing Neighbourhood, Brussels, May 25, 2011, COM (2011) 303. For detailed information about the increased aid from the EU and its member states to West Asia and North Africa, please see part II of this report.
The EU’s emphasis on “coalitions of the willing” and the flexibility in building multilateral mechanisms also has dual effects on global governance and China-EU relationship. On the one hand, the EU attaches importance to strengthening its cooperation with China and jointly addressing various challenges. On the other hand, it has the concern that China’s interests, ideas and proposals might pose a challenge to its endeavor to achieve global governance. Therefore, while developing bilateral relations with China, the EU tends to form coalitions of the willing at multilateral occasions to put pressure on China. Based on the closeness to its stance, the EU has divided BRICS countries into two groups: India, Brazil and South Africa as one group, the stances of which are closer to that of the EU; China and Russia as the other, the stances of which are more distant to that of the EU. The competition between China and the EU in multilateral occasions will reinforce to varying degrees, depending on what issue is discussed.
Conclusion: Coming Changes of the EU’s International Role

After discussing the above four aspects, we can draw the following conclusions on the causes, ways and trends of the EU’s changing international status and influence.

Firstly, in the economic aspect, as globalization evolves in an unexpected way, the EU is gradually losing its position at the highest end of global value chains and international division of labor. The debt crisis can be seen as an evidence of the inadaptability of the current EU economic structure to the fierce competition in the era of globalization. In this sense, the European debt crisis is not a crisis of the euro, but a crisis of the economic structure of euro area countries. Judging from the current responses of the EU, whether the Union can weather the crisis and achieve steady economic recovery will have a determining effect on the EU’s future role in the world economy. And the uncertainty lies in the fact that, due to global division of labor, the EU’s economy cannot be insulated from the outside world, which means that any effort made by the Union could be in vain as a result of the “butterfly effect” or the “domino effect”. Although the EU still firmly believes that the current crisis is a temporary setback in its way forward, its aging population and internal economic imbalances, and the increasing external pressure of competition are the long-standing negative factors that cannot be dismissed. Apart from a long-term effect on the structural changes of the world economy, the debt crisis has stimulated the EU to adjust its economic structure and enhance the competitiveness of its economy. As a result, the EU has adopted more aggressive trade policies, thereby intensifying the competition among major economies in the world. Currently, a “protectionist EU” has become a concern of major economies around the world, including China.

Secondly, in terms of foreign policy and behavior pattern, the crisis is influencing the EU in two different ways. On the one hand, as the crisis has greatly contributed to the power shift from the EU to emerging economies, the EU has felt increasingly heavy pressure of competition in both interests and concepts. As a consequence, the EU is driven by an internal force to behave more assertively in foreign affairs, to adopt a more aggressive trade policy and to play a more active role in security affairs. And the EU’s foreign strategy is more expansionist than before. On the other hand, the crisis has weakened the Union’s capabilities, and the EU has to contract strategically. Consequently, it pays more attention to its
neighborhood and those policy areas it has advantages. A “two-direction” Europe in foreign policy and behavior pattern is emerging. For China, from dual-effect to two directions, the EU has never been an easy partner to deal with, and China should be aware of that.

Thirdly, in major-power relationship, what the EU fears most is being “marginalized” in the power game regulated by new rules. Currently, the adjustment of relations between EU institutions and its member states has just begun and the outcome is still difficult to predict. Lacking in the capability to safeguard its own security, the EU can hardly play the role it wants to play in various strategic games confidently. For that reason, it may be the best choice for the EU to give play to its inherent soft power and facilitate the soft landing of “power shift” with international rules. However, how to maneuver between the logic of traditional major-power relationship and the development of a new type of major-power relationship is the biggest challenge facing the EU. At present, the Union is trying to incorporate the changed major-power relationship into its empirical understanding and the range of its control, and the proposal for the EU to become a “super-partner” rather than a “superpower”, raised by European think-tanks in 2013, can be seen as a fruit of such endeavor.\(^{105}\) Despite that, the EU’s inherent dilemma lies in the very policy design of its own, i.e. how to strike a balance between values and interests, or in other words how to maintain its identity of a “preacher” of political and moral values while not covering up its intention of pursuing and safeguarding its own interests.

Finally, in the area of global governance, the EU is encountering the same “values versus interests” dilemma as in its foreign policy. Presently, the EU is actively broadening its horizon with the hope to rapidly adapt to the current changes, and to make the existing governance system suit the changed context and emphases in an orderly way. To this end, the EU should act more humbly, share its discourse power and even interests with others. Though painful for the ambitious EU, it is a necessary step.

(This report is co-translated by Hebris Culture & Communication Co., Ltd. and Zhang Bei, and proofread by Wang Qiang and Zhu Hongtao.)

Annex: Glossary

**Government Bond Yield:** It refers to the ratio of yield from investing in the government bond, a security, to the annual total investment. The ratio calculated on a yearly basis is called the annual yield. The bond yield is usually expressed in the annual yield with “%”. When the value or price of the government bond is known, one can calculate the government bond yield according to remaining maturity and interest payments of the bond, thus providing guidance to investment decision-making.

**Financing Cost:** Financing cost, in essence, is the reward paid by the fund user to the fund owner, and it is the result of separation of fund ownership and the right to use the fund. Since corporate finance is a market transaction, the fund user must pay relevant charges in order to obtain the right of use. The relevant charges include registration fees and agency fees for commissioning financial institutions to issue stocks and bonds, and interest payments and service charges for borrowing money from banks. The cost of corporate finance mainly include two parts: financing fees and interest payments.

**Credit Rating:** Credit rating is the information provided by social intermediaries for the general public to provide input for decision-making by investors or institutions. In 1902, Moody’s, a company in the United States, began to rate the bonds of American railroads, thus becoming the world’s earliest credit rating institution. Later on, the business of rating institutions was extended to various financial products and other targets of evaluation. Currently, the world’s biggest rating agencies with the highest public reputation are Moody’s, Standard & Poor’s and Fitch Ratings. The three institutions have played an important role in the outbreak and evolution of the European debt crisis.

**External Current Account:** The current account is one of the two components of a country’s balance of payments. It includes mainly the balance of trade in goods (imports and exports of physical goods) and the balance of trade in services, such as tourism, banking and insurance. The other component is the capital account, which does not include the capital flow of long-term lending and investment. External current account refers to the item that occurs frequently in the economic transactions between one country and foreign countries, and it is the most important
item in the international balance of payments, including the balance of foreign trade, non-trade transactions and voluntary conveyance.

**Risk Exposure:** Risk exposure refers to the unprotected risk, i.e. the balance of credit that will undergo risks if debtors default on the loan, or the actual risk, which is usually connected with specific risks. In this report, risk exposure mainly refers to the balance of credit that will undergo risks if the governments of European countries default on their bonds.

**Fiscal Compact:** To cope with the debt crisis, during the European Union Winter Summit in December 2011, all EU member states, except the United Kingdom, agreed to conclude a “Fiscal Compact” to strengthen fiscal discipline and to promote economic stability, coordination and governance by signing an intergovernmental treaty. In January 2012, 25 EU countries, excluding the United Kingdom and the Czech Republic, adopted the draft of the Fiscal Compact to strengthen fiscal discipline. The Compact stipulates that signatories must guarantee their national budget is in balance or surplus, and once there is a deficit or the debt level exceeds the limit, an automatic sanction mechanism will be activated. The Compact was signed in February 2012. In June 2012, the leaders of 27 EU member states officially adopted the Compact for Growth and Jobs, as a supplement to the Fiscal Compact.

**Banking Supervisory Mechanism:** It is the general term for the supervision and management of the organization and business of financial institutions in the banking sector by national financial supervisory bodies. In this report, it specifically refers to the Single Supervisory Mechanism (SSM) adopted by the EU during its Autumn Summit held in October 2012. Its main contents include: the European Central Bank (ECB) exercises supervision over 6,000 banks in euro area countries and these banks can ask for emergency relief loans directly from the European Stability Mechanism (ESM) when a debt crisis occurs, thus changing the previous situation in which governments were dragged into the debt crisis due to financing banks with fiscal measures. This mechanism has been phased in since January 1, 2013. The ECB will officially play a supervisory role to monitor the financial stability of banks in the euro area, though the details for the implementation remain in discussion.
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ABSTRACT

At the time when the euro area suffers from the debt crisis and the European economy has been sluggish for years, a question has attracted people’s attention – will the European Union (EU) weather the crisis and get even stronger afterwards or decline to be a secondary power in the world? Due to the EU’s importance in the world economy, politics and security, any significant change of the EU’s international status, influence or behavior pattern will not only affect the direction of future European integration and reflect the trend of the changing international landscape, but have a great impact on the external and even internal environment of China’s development in the future.

This report observes the EU’s changing international status and influence from the following aspects: first, the EU’s changing status in the world economy; second, the adjustments of EU foreign policy and behavior pattern; third, the EU’s changing status in major-power relationships; fourth, the adjustments of the EU’s global governance strategy. To acquire a rational judgment on the EU’s development trend and the orientation of its internal and external policies, the authors have conducted an in-depth analysis on the causes, ways and implications of the observed changes.