China’s Leadership Transition and Its Implication for China-EU Relations

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China’s leadership change has attracted international attention. One central question raised by many people around the world is whether or how policy re-orientation and transformation will be undertaken by the new Chinese leaders. However, as China’s domestic and foreign policies have been institutionalized over the past three decades, it is reasonable to gauge that continuity will prevail.

Although the overall framework of China’s foreign policy is unlikely to be changed, minor adjustment might take place. Likewise, China’s policy towards the EU will not witness abrupt transformation either. But China’s economic changes in the coming years will have important and positive implications for the EU. Needless to say, in order to further promote the China-EU ties, both sides must tackle several issues that have been hindrance to this relationship: how to make the Comprehensive Strategic Partnership more meaningful; how to reduce trade frictions; and how to deepen mutual understanding.

I. China’s foreign policy under the new leadership

At the 18th party congress in November 2012, Xi Jinping was elected as the General Secretary of the Central Committee of the Communist Party of China (CPC). At the 12th National People’s Congress (NPC) in March 2013, Xi Jinping and Li Keqiang became China’s President and Premier, respectively. By then, the whole process of Chinese leadership change was completed.

In China, only at the end of the 1970s did the leadership change cause an abrupt policy re-orientation: after Deng Xiaoping came to power in 1977, China started to implement the strategy of reform and opening to the outside world in 1978. This significant turnaround was necessary following the ten-year disaster of the “cultural revolution” (1966-1976). The reforms and opening of China were continuously deepened in the 1980s and 1990s by the subsequent leaders of the party and the government.

Over the past three decades, particularly in the past decade with Hu Jintao and Wen Jiabao in power, the whole framework of China’s internal and external policies
has become increasingly institutionalized and only minor adjustment is necessary. As a result, it is unlikely that the new leadership under Xi Jinping and Li Keqiang will adopt a significant policy turnaround.

This continuity will also be applied to China’s foreign policy. At the 18th party congress, Hu Jintao, then General-Secretary of the CPC, outlined the following framework of China’s foreign policy. The major points might be summarized as the following:

- China is committed to growing friendship and cooperation with other countries in all fields on the basis of the Five Principles of Peaceful Coexistence.¹

- China will improve its relations with developed countries by expanding areas of cooperation and properly addressing differences with them and it will strive to establish a new type of relations of long-term stability and sound development with other major countries.

- China will actively participate in multilateral affairs, support the United Nations, G20, the Shanghai Cooperation Organisation, BRICS and other multilateral organisations in playing an active role in international affairs, and work to make the international order and system more just and equitable.

- China will continue to advocate peaceful settlement of international and regional disputes, reject all forms of hegemonism and power politics, and refrain from interfering in other countries’ internal affairs.

- China will take solid steps to promote public diplomacy as well as people-to-people and cultural exchanges, and protect China’s legitimate rights and interests overseas.

It is believed that this framework of China’s foreign policy is unlikely to change under the new leadership. The reasons for this prediction are straight-forward:

- China’s foreign policy has contributed to maintaining world peace and development as well as promoting a peaceful environment for China’s reforms and opening to the outside world. No less important is the fact that it is supported by the majority of the Chinese people.

- China’s foreign policy upholds world justice without drawing lines along ideologies in dealing with world affairs and it is consistent with the Charter of the United Nations.

- China’s foreign policy has won respect, goodwill and even cooperation by many countries in the world.

However, given the fact that global events happen every day and international situations change from time to time, any country in the world needs to adjust its

¹ The Five Principles of Peaceful Coexistence are: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence.
foreign policies, and China is no exception. For instance, as Japan continues to make trouble over the Diaoyu Islands dispute, China might make some minor adjustments to its policy towards the neighbour,\(^1\) which has yet to acknowledge its war crimes in the past. The purpose of the adjustment is to safeguard China’s territorial integrity and at the same time to uphold peace and tackle thorny regional and international issues through dialogues, consultation and negotiation responsibly. China’s hope is that Japan agrees to make concrete efforts to improve its relations with China, and play a positive and responsible role to maintain the peace, stability and development in the region.

As a matter of fact, China has completely settled down land boundary disputes with 12 of its 14 neighbours. For the remaining two, progress of negotiation has been made and overall stability in the border areas has been maintained.

### II. Implication of China’s economic changes for the EU

China’s policies towards the EU will witness continuity as the China-EU relationship has become increasingly mature. The EU is one of China’s most important trade partners as well as a major source of high-tech and capital. At the same time, the EU is a good destination for China’s outward direct investment. In the field of world politics, the EU is a vital force in establishing the “harmonious world” suggested by China.\(^2\) Therefore, the EU will continue to occupy an important position in China’s foreign policy agenda, and it is likely that China’s policy towards the EU will remain the same in the foreseeable future.

The new Chinese leaders are by no means strangers to Europeans because Xi and Li came to world attention five years ago and they have been to Europe several times, meeting European leaders, business community and the media. In addition, the new Chinese leaders also know Europe quite well. Consequently, this is very positive to the development of future’s China-EU relations.

At the news conference on the side lines of the first session of the 12th NPC on March 9, 2013, then Chinese Foreign Minister Yang Jiechi said that China hopes to step up collaboration with the EU in areas such as urbanisation, new energy sources, scientific and technological innovation and green development.\(^3\)

Speaking to the Chinese journalists before leaving for Germany to attend the Munich Security Conference in early February 2013, Chinese Vice Foreign Minister

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\(^1\) For instance, Chinese surveillance ship fleets will patrol at waters around Diaoyu islands more regularly.

\(^2\) The notion of “harmonious world” can be understood as promoting peace, strengthening cooperation among countries on a win-win base, encouraging diversities in choosing nation development paths, resolving disputes based on the Five Principles of Peaceful Coexistence, etc.

Song Tao, who is in charge of European affairs, said that the Europe can be of great help to China, which has been striving to build “a moderately prosperous society in all respects” at home and promote a multi-polar world abroad. He expressed satisfaction that China and Europe have cooperated well on a large number of major international issues, though disputes and disagreements remain between the two sides. But he hoped that these disagreements can be addressed appropriately on the principles of mutual respect, equality, and mutual benefit.

Although China’s policy towards the EU will not be changed, the outcome of the Asian nation’s economic changes in the coming years might have some implications for the China-EU relations.

1) Higher living standards

The new leadership in China will continue to push for economic development. As Deng Xiaoping said, “Development is of overriding importance for China.” China’s overarching development goal was clearly stated in the 18th party congress report: “To complete the building of a moderately prosperous society in all respects”. More specifically, by 2020, China will double its 2010 GDP and per capita income for both urban and rural residents.

Higher living standards of the Chinese people simply mean that their demand for European products will grow. More Chinese will arrive in Europe as tourists or students. Moreover, more Chinese will have the financial capability to purchase European products from baby milk powder to Bentley cars, from olive oil to Omega watch, and from Gucci to Giorgio Armani. This will certainly help EU create jobs and reduce the its trade deficit with China.

2) Higher position on the world economic stage

China’s rapid economic growth and larger size of the economy simply mean that China’s position on the world stage will increase significantly. As a result, it is likely that China will be more vocal on reforming the international financial/monetary systems and there will be more opportunities to cooperate with the EU on many global issues in the United Nations, the World Bank, the International Monetary Fund, the G20, etc.

China’s stronger economic strength also signifies the possibility that it will offer more development aid to other developing countries. Consequently, China and the EU would have more opportunities to cooperate in promoting economic and social development in Africa.

3) More investment in the EU

With the expansion of the economy, China will make more investment in the EU,

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1 In early 2013 the number of Chinese students in Europe has totaled 200,000. (http://www.fmprc.gov.cn/mfa_chn/wjbxw_602253/11010619.shtml)
especially since the new leadership will continue to pursue the “going global” strategy with vigor. It must be noted that Chinese investment in the EU is a win-win game. Benefits of Chinese investments for the EU include: creating or safeguarding jobs; making up for the short-fall in some European countries’ capital and investment needs; promoting the development of productivity in the host country; and helping the European firms to increase world market share. Overall, Chinese FDI to Europe should provide the same benefits as other direct investment flows, whether from inside or outside the EU.¹

4) A better level playing field

With a more mature market system with Chinese characteristics, China will move towards becoming a better level playing field for foreign enterprises. However, the other side of the coin is that European companies will witness more competition in China’s growing market, either from Chinese competitors or from other non-Chinese rivals, and there will probably continue to be concerns that China’s market is not opening widely and quickly enough.

5) Internationalisation of the Chinese currency

China’s new leaders will also go on pushing for the internationalisation of the Chinese currency, the Renminbi (RMB). Apart from more seigniorage, China will also benefit from RMB’s internationalisation by having more economic influence on the world stage, a bigger say in the process of reforming the international monetary system and better integration of the Chinese economy with the world. Moreover, it is likely that China and the EU will join hands to contain the dominance of the US dollar.

6) Urbanization

Urbanization is an inevitable stage towards modernization. The new leadership in China will continue to push for rapid urbanization. Indeed, the speed, scope and scale of urban development in China is a phenomenon unprecedented in human history. The EU can help China in this regard. Undoubtedly, more European technology will be needed in the areas of energy, construction, environmental protection, transportation, services, urban planning, etc.

This cooperation has witnessed a good beginning: in early 2012 the China-EU Partnership on Urbanization was established. Li Keqiang himself gave a very encouraging speech on this partnership at the first China-EU Urbanisation Partnership High Level Conference in Brussels on May 3, 2012. He even said that China-EU cooperation in this field would also provide Europe with an opportunity to address its

¹ China will also benefit greatly from its outbound FDI in the EU: acquiring advanced technology from the EU; opening the EU market; diversifying risk related to China’s huge foreign exchange reserves; and integrating the Chinese economy more closely with the world. For a more detailed analysis of the impact of the Chinese FDI in the EU, please see:
current sovereign debt crisis.1

7) Adjusting the growth model

The new leadership will not stop proceeding with the urgent job of adjusting China’s growth model. The major purpose of the adjustment is to reduce reliance on the world market, stimulate domestic demand and raise energy efficiency. This adjustment will have a number of implications for the EU. First, China’s exports to the EU market might not increase as quickly as in the past. But this does not mean that the EU market is not important to China. Second, China needs more advanced technology from the EU to raise energy efficiency. Therefore, the prospects of technological cooperation between China and the EU should be very bright.

8) “Lewis Turning Point”

Another factor relating to the adjustment of the Chinese growth model is that China is possibly arriving at the so-called “Lewis Turning Point”, meaning that the era of cheap surplus labor might come to an end. While economists have not agreed whether this turning point has arrived or not, China is expected to reduce labor-intensive exports in order to change the reality of “selling 800 million T-shirts for an Air Bus A380”. In other words, the future composition of Chinese exports to the EU and other markets might be different, lessening direct competition between China and the EU on labor-intensive goods. Moreover, when “Made in China” is combined with “Designed in Europe”, the whole game is definitely win-win.

In sum, although there will be no significant policy changes under China’s new leadership, the ongoing developments in the Chinese economy will continue to affect Europe. While trade frictions still need to be reduced, every other development in China indicates that the future China-EU relationship can be strengthened and that further bilateral cooperation will be very fruitful.

III. Towards a better future of China’s relations with the EU

In 2014 the European Union will also witness important elections. In their aftermath, new leaders from both sides need to have more exchanges of views to get to know each other better.

While the new Chinese leaders understand that the EU occupies an important place in China’s foreign policy agenda, the EU also recognizes the fact that China is a key strategic partner for the European Union and increasingly a significant player on the world stage. Speaking before the European Parliament on behalf of HRVP Ashton on March 13, 2013, Štefan Füle, the European Commissioner responsible for Enlargement and European Neighbourhood Policy, said, “The European Union-China

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1 http://english.cntv.cn/program/newsupdate/20120504/105945.shtml
relationship is one of the most intense on the economic front, one of the largest in terms of people-to-people exchanges - and our formal European Union-China dialogues cover almost all conceivable areas.  

However, in order to further promote their bilateral relationship in the future, both sides need to pay more attention to the following issues:

1) How to make the Comprehensive Strategic Partnership more meaningful?

In 2003 China and the EU established the Comprehensive Strategic Partnership, marking an important milestone in the bilateral relations. However, both sides have different understanding of the Comprehensive Strategic Partnership.

The EU introduced the expression of ‘strategic partnership’ into its official vocabulary in December 1998 by identifying Russia as a strategic partner. Apart from Russia and China, the EU has built strategic partnership with the US, Japan, Brazil, India, Canada, Mexico, South Korea and South Africa.

Herman Van Rompuy, President of the European Council, was reported to have said on 14 September 2010, that “Until now, we have strategic partners; now we also need a strategy.” Then, what is EU’s strategy towards its strategic partners?

It seems that the EU has different strategies towards its different partners, and the baseline for designing the different strategies is the so-called ‘normative convergence’. Therefore, the US, Canada and Japan are seen by the EU as “established partners” that share the same or very similar goals and values. Russia enjoys the status of strategic partnership because the EU believes they have ‘common interest’. Mexico is considered as a strategic partner as it has regional influence. China is seen by the EU to be able to build an “enduring and mutually beneficial relationship of equals”. China has more strategic partners than the EU. And, in China’s diplomatic vocabulary, there are more types of partnership such as “strategic and cooperative partnership for peace and prosperity”, “strategic cooperative partnership”, “mutually beneficial strategic partnership”, “Constructive Strategic Partnership”, among others, of which the Comprehensive Strategic Partnership certainly represents the highest level.

Apart from the EU, China has also set up strategic partnerships with some EU member states. And, China has partnerships not only with the large member states like Germany, France, the UK and Italy, but also with such small member states as

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Ireland.\(^1\)

Regrettably, after ten years of Comprehensive Strategic Partnership, the EU still fails to grant market economy status to China, and continues to maintain the arms embargo against China. At the 15\(^{th}\) China-EU summit in September 2012 in Brussels Chinese Premier Wen Jiabao said that he felt disappointed that he had been trying in vain for the past decade to ask the EU to recognise China’s market economy and to lift the arms embargo.

The EU’s refusal on the two issues might have also resulted in some European scholars’ disappointment. A European professor said, “The EU and China have never created a strategic partnership, but it has been established as a goal, or even more, as a process, a long-term process.”\(^2\) Another European scholar noted that “perhaps there is more strategic thinking behind such initiatives [as the Comprehensive Strategic Partnership] on the Chinese side.”\(^3\)

2) How to reduce trade frictions?

Trade between China and the EU has been growing rapidly. According to China’s Ministry of Commerce, two-way trade increased from US$125 billion in 2003 to US$546 billion in 2012, more than four times bigger in just ten years.\(^4\) That is to say, at present, daily trade has reached US$1.5 billion.

It is natural that such a huge amount of trade can create frictions between the two sides. As a matter of fact, the EU is one of the partners that have utilised most of the anti-dumping practice against Chinese products.

The EU Commission believes that its trade and defence instruments such as anti-dumping cover only around 1% of its total imports from China,\(^5\) implying that its protection is not a big issue. In 2012, China exported US$334 billion to the EU. Therefore, 1% was equal to US$3.3 billion. If this amount of exports was generated by one or a few sectors in one or a few areas, its negative impact would be enormous.

China needs to strengthen its competitiveness not through cutting prices. The EU, on the other hand, needs to follow the WTO rules more strictly. It is encouraging to see that, in November 2012, the European Court of Justice made the final ruling: The EU needs to pay all of China’s shoemaking giant Aokang's litigation expenses and refund the paid anti-dumping duties to its trading importers, which are estimated to total around 5 million yuan or US$802,000.\(^6\)

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1 In March 2012, China and Ireland agreed to forge a mutually beneficial strategic partnership.
2 China Daily, 12 October, 2012, p. 32.
4 http://news.xinhuanet.com/newscenter/2005-07/14/content_3219312.htm
http://ozs.mofcom.gov.cn/article/date/201302/20130200025487.shtml
5 The EU Commission, Facts and figures on EU-China trade, retrieved 20
6 http://www.chinadaily.com.cn/china/2012-11/19/content_15942778.htm
China has been enjoying a trade surplus with the EU, US$122 billion in 2012.¹ As a result, the EU has been complaining about it over the years.

According to economics textbooks, there are two ways of correcting the trade imbalance, i.e., China to export less to the EU and/or import more from it. A larger part of China’s exports are labour-intensive, which is beneficial to the EU consumers, particularly at a time when austerity measures have been taken in many parts of the EU. China has been trying to import more from the EU. However, it is not realistic to ask China to purchase more consumer goods from the EU as China itself has a comparative advantage to produce them. What China needs more is technology from the EU. In other words, if the EU can reduce its restrictions on technology transfer to China, it would be much easier to correct the trade imbalance.

Apart from trade imbalance, China and the EU are faced with another problem, i.e., market economy status. According to the EU, there are five criteria to determine whether a country can be considered a full market economy for the purpose of anti-dumping investigations: 1) A low degree of government influence over the allocation of resources and decisions of enterprises, whether directly or indirectly (e.g. public bodies), for example through the use of state-fixed prices, or discrimination in the tax, trade or currency regimes; 2) An absence of state-induced distortions in the operation of enterprises linked to privatisation and the use of non-market trading or compensation system; 3) The existence and implementation of a transparent and non-discriminatory company law which ensures adequate corporate governance (application of international accounting standards, protection of shareholders, public availability of accurate company information); 4) The existence and implementation of a coherent, effective and transparent set of laws which ensure the respect of property rights and the operation of a functioning bankruptcy regime; and 5) The existence of a genuine financial sector which operates independently from the state and which in law and practice is subject to sufficient guarantee provisions and adequate supervision.²

Judgment of these criteria can be subjective. The EU granted market economy status to Russia as early as before it entered the WTO, simply because the EU needs Russia’s energy. Regrettably, years of discussions, complaining and lobbying by the Chinese government has failed to convince the EU to recognise China as a market economy. But this status will be automatically granted to China in 2016 on the basis of the protocol it signed to become a member of the WTO in 2001.

It is interesting to note that a European scholar believes the granting of the market economy status to China is not automatic in 2016 or afterwards. “There is

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¹ http://ozs.mofcom.gov.cn/article/date/201302/20130200025487.shtml
² http://trade.ec.europa.eu/doclib/docs/2012/may/tradoc_149395.pdf
nothing in the WTO rules, or elsewhere, to provide that China automatically gets market-economy status in 2016. The idea that it will is a misunderstanding shared by many in China, the EU and the US,” the scholar writes.\(^1\) Some EU officials also believe that whether or not China will be given the status in 2016 should be determined by all the EU member states and also the European Parliament.

In that case, China will wait for more years before the EU can have the mercy to grant the status. Indeed, if you want to beat a dog, you can easily find a stick.

3) How to deepen mutual understanding?

For any bilateral relations, a better mutual understanding is utterly important. Indeed, over the years both China and the EU have undertaken all possible measures to improve mutual understanding.

China has made great efforts to let the Europeans know more about it. China Daily, China’s flagship English newspaper, is available in many European hotels and universities; China’s TV programs are accessible in many parts of Europe; by October of 2010 more than one hundred Confucius Institutes had been built in 31 European countries;\(^2\) and terracotta army exhibitions, cultural festivals and others are held in Europe many times a year.

China has made great efforts to inform Europeans of its politics, economy, foreign policy, society, etc. But China is told that “to inform is not to communicate”. Instead of learning real facts about China offered by the Chinese media, some Europeans tend to believe the wrong story published in the western media. Needless to say, it does not mean that the Chinese media can enjoy complacency. As a matter of fact, there is plenty of room for improvement.

Indeed, with the rapid rise of China on the world stage, more and more European think-tanks and scholars have conducted meaningful academic research on China. Many European China experts have contributed greatly to improving a better understanding of each other. It seems that, however, mutual understanding between China and the EU will never be more than enough. On many occasions many Europeans are surprised to learn that, in China, there are eight non-communist parties.\(^3\) Neither do they understand that the multi-party cooperation and political consultation under the leadership of the Communist Party of China is a political system in China.\(^4\)

\(^1\) http://www.voxeu.org/article/china-market-economy
\(^2\) http://www.hanban.edu.cn/confuciousinstitutes/node_10961.htm
\(^3\) The eight non-communist parties are: the Revolutionary Committee of the Chinese Kuomintang, the China Democratic League, the China National Democratic Construction Association, the China Association for Promoting Democracy, the Chinese Peasants and Workers Democratic Party, China Zhi Gong Dang, the Jiu San Society and the Taiwan Democratic Self-Government League.
\(^4\) The system means that the CPC is the only party in power in the People's Republic of China while under the preconditions of accepting the leadership of the CPC, the eight other political
The key issue is how to agree to disagree on certain issues. Guided by what is called the ‘normative power,’ the EU is interested in human rights, democracy, political system, universal values, etc., whereas China insists that sovereignty and non-interference are important. As a populous nation with 1.3 billion people, China would like to choose a different path of political and economic development that can suit its reality. As Wan Exiang, Chairman of the Central Committee of the Revolutionary Committee of the Chinese Kuomintang, said at the press conference for the First Session of the 12th National Committee of the Chinese People’s Political Consultative Conference on March 6, 2013, “Only the feet know whether the pair of shoes is comfortable or not.”¹ On March 23, Xi Jinping also said in his speech at the Moscow State Institute of International Relations, “Whether the shoe fits or not, only the wearer of the shoe knows.”²

In China there are 58 large cities with a population of more than 6 million whereas in Europe there are one two (London and Paris), and within the EU, there are 11 member states (Cyprus, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Luxemburg, Malta, Slovakia, Slovenia) whose national population is less than 6 million. Should the method of governing a nation with 1.3 billion habitants be the same as that of less than 6 million?

Chinese Vice Foreign Minister Fu Ying’s words are very enlightening: Europeans need to look at China with a historic view, respect its development path, and acknowledge its efforts. Chinese need to look at the criticism of the Europeans in an objective way by accepting the correct opinions and doing more explanations in order to address misunderstanding and prejudice. China needs to embrace the world with a more open mind.³ She expressed her wishes at the fifth Lanting Forum held by the Chinese Foreign Ministry on December 2, 2011.

IV. Concluding remarks

China’s leadership change will not result in significant changes in its foreign policy. China-EU relationship has reached a mature stage, and it is unlikely that China will make any abrupt modifications of its policy towards the EU.

¹ http://news.xinhuanet.com/2013lh/2013-03/06/c_114914855.htm
² http://culture.people.com.cn/n/2013/0324/c22219-20894217.html
Although China’s policy towards the EU will not be changed, the outcome of China’s economic changes in the coming years might have some implications for the China-EU relations: Rising living standards, higher position on the world economic stage, more investment in the EU, a better level playing field, steady process of the Renminbi’s internationalisation; rising urbanization rate, the necessity to adjust the growth model, and the way of tackling the so-called “Lewis Turning Point”, among others, will provide China and the EU with more opportunities of cooperation in a wide range of areas. However, in order to promote the bilateral ties further, both sides need to pay attention to the following issues: how to make the Comprehensive Strategic Partnership more meaningful; how to reduce trade frictions; and how to deepen mutual understanding.¹

¹ http://www.fmprc.gov.cn/mfa_chn/wjbxw_602253/t1010619.shtml