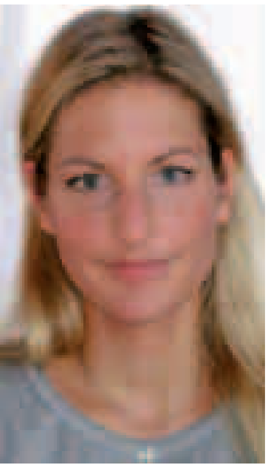

Embracing the Dragon: Can the EU and China be Friends?

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Relations between the EU and China will become a much more prominent feature of the international landscape in coming years. Two trends underpin this prediction. First, China is manifestly becoming more central to European interests, and vice versa. Already, the EU is China's most important trading partner, and growing amounts of European investment are pouring into the booming Chinese economy. European companies want more open markets and predictable rules for doing business in China. But that is not the only reason why the EU is keen to lend a helping hand to China as it reforms its economy. Europeans hope that a China with open markets and a firm rule of law will be more likely to respect human rights and allow democratic freedoms. They also believe that a more open, democratic and law-abiding China will be a better partner in building the kind of multilateral global order that most Europeans want. Conversely, China is keen to learn from the European experience, for example with unifying disparate markets and developing backward regions. So the EU and China are looking at various ways of working together on issues that matter to both of them.

The EU and China are economic giants, but political dwarfs in world affairs

Second, both China and the EU are reaching out beyond their respective regions and taking on greater roles in world affairs. Both the EU and China can still be safely described as economic giants with only a limited role in world affairs. Both struggle with various problems at home and focus their foreign policies on their immediate neighbourhoods. They only intermittently dabble in world politics. This is changing, however.

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The EU will increasingly act as a vehicle to defend European interests and values, not only in its own vicinity but also in the wider world. Of course, individual EU governments – in particular the 'big three', Germany, France and the UK – will continue to have their own foreign policies, including their own special ties with Beijing. And on many occasions, their short-term interests and national rivalries will frustrate EU attempts to forge a common position or act strategically. But the EU continues to beef up its common foreign and security policy (CSFP), to accumulate new powers, for example in counter-terrorism and defence, and to sharpen its international presence through Javier Solana, its foreign policy chief. In short, the momentum is towards 'more Europe' in foreign policy.

China, meanwhile, is groping its way from being a regional power towards becoming a global player. The pace of internal change leaves China little choice. For example, China's Communist leaders know that they need to deliver economic growth to enhance their legitimacy. For this, they need open markets and foreign investment. So China has become a big fan of globalisation. But the country's growing economic clout also brings new responsibilities for managing the global economy, for example through pushing the Doha trade talks forward or addressing skewed exchange rates in the G7. Another thing that a growing China needs is natural resources. Already China imports more oil than any country bar America. In its quest for energy security, China has forged close links with some rather unsavoury regimes in oil producing regions, including Africa and Central Asia.

Wherever the EU will focus its attention in coming years, China will be there. And whatever the EU will try to achieve on key global issues – such as reforming the United Nations, preventing Iran from building nuclear bombs, or intervening in failed states – it will need China's consent or co-operation. So the EU will want to make sure that it works closely with China as both increase their global roles. In theory, this should not be too difficult since the two have a lot in common. Both support multilateral organisations, such as the UN, and want all countries – including the big powers – to abide by international law. Both are wary of the dominance of the United States in global politics. Both care about sustainable development, the threat of terrorism and the spread of weapons of mass destruction.

These various common interests have provided fertile soil for a prospering EU-China relationship, which today consists of a plethora of co-operation programmes, dialogues and projects. What it often lacks, however, is consistency, strategic vision and an ability to plan beyond the next bilateral summit. Moreover, there are several issues that could hold back EU-China relations in coming years.

First, the EU and China do not always share the same values. Most Chinese now live vastly better than a couple of decades ago, and they also enjoy some political freedoms. But the EU will still struggle to build a strategic partnership with what is essentially an autocratic one-party state while at the same time upholding its own values and principles. Second, in many areas of international politics, the seeming agreement between the EU and China is little more than skin-deep. For example, China supports the UN, but opposes the concept of humanitarian intervention, something that the EU is prepared to practice. Third, the EU's thickening ties with China could damage its relations with its key global ally, the United States. Many Americans see a rising China as a potential threat that needs to be contained. The arms embargo shows the potential for open disagreement between the Americans and the Europeans over China.

The evolution of a prtnership

The EU's China policy

For the first 20-odd years of its existence, the People's Republic of China had few links with non-Communist countries. But after Beijing fell out with Moscow in the 1960s, it was forced to look for friends in what Deng Xiaoping called the "grey zone" between US imperialism and the Soviet bloc, namely Europe. China established diplomatic relations with France in 1964, with Italy in 1970 and with the UK and Germany in 1972. Diplomatic relations with the EU (then called the European Communities) followed in 1975, and the EU signed its first trade agreement with China in 1978.

It was only after the end of the Cold War that EU-China relations really began to take shape. Relations initially remained frosty after the 1989 Tiananmen Square massacre which was followed by a country-wide clampdown on all forms of political opposition. Europe froze its political dealings with Beijing, cut off military contacts and banned arms sales. But economic ties between European countries and China continued to thicken. With the Asian economies booming, European businesses, in particular from export-oriented Germany, feared they would lose out on commercial opportunities unless political relations improved. The German government drew up its first China strategy in 1993. The European Commission followed suit with its first Asia strategy in 1994 and its first China policy paper in 1995.

Many sectoral dialogues, but no long-term strategy

Subsequently, the Commission issued policy papers on China with increasing frequency (1998, 2001, 2003) as the EU sought to keep up with the breakneck speed of change in China and its rapidly developing ties with the country.[1] While objectives have become more ambitious and the scope of co-operation ever broader, none of the later policy blueprints deviates substantially from the original 1995 paper.

The EU's basic idea is to build its relationship with China from the ground up. Numerous concrete co-operation projects, many with rather modest short-term goals, form the basis. At the same time, the EU pursues a number of ambitious long-term objectives, The first is to "socialise China into the kind of international order that the EU supports", which includes support for the UN, adherence to international agreements on the environment, and the fight against the proliferation of nuclear and other weapons. This, the EU is convinced, will be easier if China continues down the path of economic and political reform. The EU's second objective therefore is to help China's internal transition. It vows to work with China "in many practical ways: progress towards full integration in the world market economy, strengthening of civil society, poverty alleviation, environment protection, human resource development, scientific and technological development, the information society, trade and investment cooperation". The EU is convinced that it has much to offer the Chinese in terms of experience and expertise, be it on how to open markets, support poor regions or protect the environment. It therefore offers China

[1] All documents are available on http://europa.eu.int/comm/external_relations/china/intro/index.htm.

aid, training, dialogue and co-operation across a large number of areas.

In the mid-1990s, the EU started building a more ambitious political framework for its broadening relationship with China, including annual summits at government or head of state level and regular ministerial contacts. In 1998, the Chinese prime minister met with a "troika"[2] of EU leaders for the first EU-China summit. These annual summits have since helped to sustain momentum for EU-China relations. But what they have not done is provide sufficient focus and strategic vision. Each summit adds more programmes and agreements to an already cluttered list. Today, the EU and China are engaged in more than 20 "sectoral dialogues" covering everything from intellectual property rights to regional security, education, maritime transport and environmental protection. However, there is little linkage between the various dialogues, their short-term objectives sometimes clash and they do not always serve the EU's overall objectives, as defined in its strategy papers.

A new institutional framework is needed for EU-China relations

Some diplomats blame this lack of priorities and leadership on the fact that the legal and institutional framework for EU-China relations is out of date. The main legal basis for EU-China relations is still the 1985 Trade and Economic Cooperation Agreement, drawn up at a time when the EU had few economic links with China and even fewer political ones. The agreement is a mere four pages long and focuses heavily on trade. The negotiations for the new agreement – which may start in the course of 2005 – are likely to be long and arduous. As bilateral ties have intensified, so has the room for friction, tensions and disappointments. The new framework agreement will bring all the contentious issues onto the negotiating table.

The role of the "big three"

A new EU-China framework agreement may create a better institutional framework for the relationship. But it will not fix the other key problem in the EU's China policy, namely the inconsistent policies of the EU's member countries, in particular those of the "big three" (Germany, France and the UK), but also Italy, Spain and others. On the one hand, the larger EU countries have been and continue to be instrumental in shaping the EU-China relationship. They provide vision, ideas and expertise; they brighten the EU's image in China through cultural work and student exchange programmes; they fork out millions of euros to help China's transition; and they foster trust through political dialogues, joint military exercises or human rights projects. But their efforts would be more potent if they were better co-ordinated with each other, and with the EU's overall strategy. The Member States' policies should reinforce each other and the common EU position, not undermine it.

In principle, all EU countries have endorsed the objectives of the EU-China strategic partnership. In practice, divisions and rivalries between individual countries often undermine EU objectives. This problem is not unique to the EU-China relationship. It characterises the Union's dealings with all large and important countries. However, in the case of the United States, and to a lesser extent Russia, political disagreements are the main reason for intra-EU divisions. In the case of China, short-term commercial rivalry among the member-states tends to predominate.

From a business perspective, the competition is perhaps inevitable. As Peter Nightingale, head of the China-Britain Business Council, explains: "Foreign companies in China face brutal competition. These companies then look to their own governments for help. The result is competition at the political level." Although China has made much headway with economic reform and opening, the government in Beijing, alongside provincial authorities, still controls large chunks of the economy. Political lobbying is therefore part and parcel of doing business in China. This applies particularly to the multi-billion dollar contracts that flow from China's massive infrastructure needs. In coming years, China is planning to construct over 30 nuclear reactors, 20,000 kilometres of rail capacity and subway systems in some 20 cities, in addition to numerous dams, airports and pipelines.

The Chinese authorities have become rather good at exploiting commercial rivalries for political purposes. Like Russia and the United States, they hope to "divide and rule" in their relations with the EU. Policy-makers recount instances where Chinese officials have warned individual EU governments that a lack of political support (for example for lifting the arms embargo) or too harsh a mention of human rights could damage the business interests of their companies.

[2] The troika now consists of the leaders of the country that currently holds the EU rotating presidency and the one that will take over next; the EU's high representative for foreign policy, currently Xavier Solana, and the president of the Commission.

Politicians from London, Paris or Berlin (but also Rome, Madrid and elsewhere) often think twice before they speak out on Chinese human rights violations or back "tough" EU policies. Their focus on short-term commercial advantage has elicited criticism from NGOs and many voters, caused divisions within the EU (the Commission, the European Parliament and the Nordic EU countries want a stronger emphasis on human rights) and angered many Americans. Worse, this kind of "competitive bilateralism" has led to some rather rash decisions in EU-China relations. The EU's promise to lift its arms embargo on China is a good example.

China comes to terms with the EU

Nevertheless, the EU's leverage in Chinese policy-making circles should not be under-estimated. Traditionally, Beijing had seen the EU almost exclusively through the prism of its relationships with other powers, first the Soviet Union and then the United States. The EU mattered mainly as a potential counter-weight to American hegemony. It is only in the last 15 years or so that China has started developing its ties with Europe for their own sake. Yet China initially continued to focus its attention on the capitals of the big European countries. Since the Chinese have very traditional ideas about national sovereignty, they have struggled to take the EU's supranational model seriously.

Several developments have changed Beijing's view of the evolving European Union and its potential as a serious partner. Successive rounds of enlargement proved the attraction of the European model. The completion of the internal market and the introduction of the euro indicated that European integration was becoming irreversible. But it was only during the WTO negotiations that the Chinese authorities realised the importance of the EU as an international actor in its own right: trade policy is a genuine Community competence, with decision-making power resting mainly in Brussels, not Berlin, London or Paris. China was somewhat taken aback when demands from Brussels threatened to delay its WTO entry. The Commission also manages day-to-day trade relations as well as the many "sectoral" dialogues that together form the backbone of EU-China relations. So China started taking EU institutions seriously.

The Chinese have also realised, perhaps more so than Russians and many Americans, that the EU is not "just" a trading bloc. With its emerging common foreign and defence policies, the Union is also becoming an important political actor on the world stage. Some Chinese are worried that a stronger EU may pursue policies that run counter to China's own interests, such as intervening in foreign countries or becoming more assertive in the Asian region. But most appear to welcome further progress in European integration and a stronger EU foreign policy, mainly because they still hope that a strong and unified EU could counter US hegemony in a multipolar world.

China acknowledged the EU's growing importance in 2003 by choosing the EU as the subject of its first-ever policy paper on a foreign partner (FMPRC 2003). It then declared 2004 "the year of Europe" in China. Growing enthusiasm for the EU has also been reflected in the frequency of high-level contacts: between 2002 and 2004, members of the Standing Committee of the Politburo of the Communist Party (the top policy making body), made seven trips to EU member countries, and only one to the United States.

China has acknowledged the EU's growing importance

Occasionally, the Chinese have found the EU's policies a little condescending, in the sense that "*you* have a problem, and *we* are willing to help" (Lanxin Xiang 2004). On the whole, however, Chinese leaders tend to stress their commonalities with Europe, rather than their differences. China's dealings are fuelled by a kind of open-mindedness and goodwill that Europeans look for in vain in Russia and sometimes the United States. Chinese officials, academics and commentators are usually well informed about EU developments and knowledgeable about the Union's internal workings. Foreign ministry officials in Beijing know the ins and outs of EU policies and many can recount exactly how many votes each EU country has in the Council of Ministers.

EU–China economic relations

EU–China trade and investment relations

It is interesting to compare the Chinese economy with that of the EU, United States and Japan (Table 1). In terms of purchasing power parity (PPP), China is already the third biggest economy, although GDP per capita underlines how far behind its standard of living still is.

Table 1
China's economy compared with the EU, U.S. and Japan

	China	EU-25	U.S.	Japan
Population, m	1,300	456	293	127
GDP, $ bn	1,450	12,500	11,700	4,700
GDP per head, $	1,200	27,500	34,000	37,000
GDP at PPP, $ bn	7,500	11,600	11,700	3,700
GDP per head, at PPP, $	5,800	25,400	40,000	29,000
Share of world GDP, at PPP, in %	14	31	21	12
Share of world exports, in %	7	21	9	7
Stock of FDI, $ bn	540	3,660	2,540	94

Source: Economist Intelligence Unit. All figures are 2004 estimates.

Table 2 shows how China's trade with the EU has evolved during the past five years. Exports to the EU have grown by an astonishing 4,300 percent since the beginning of the 1980s, when China got serious about opening its economy. EU sales to China have risen by around 2,000 percent over the same period, which leaves the EU with a sizeable trade deficit vis-à-vis China. In 2004, the value of EU-China trade reached €175 billion, making the enlarged EU China's most important export market. Conversely, China is now the second most important market for the Europeans, after the United States.

The enlarged EU is China's biggest export market

In the 1980s, the EU included China in its "general system of preferences" (GSP) that offers lower tariffs on many goods from developing countries. By the mid-1990s, half of China's exports were covered by preferential tariffs, making the country the biggest beneficiary of GSP. But the system semi-automatically "graduates" countries out of preferential treatment if their exports grow too fast or take up a certain market share in the EU. So by 2000, the share of Chinese exports benefiting from GSP was down to 30 percent, and by 2005 only a small handful of products was still covered. At the same time, however, China's WTO membership guarantees it much broader market access around the world. Under WTO rules, the EU must grant China the same access to its €10 trillion internal market as all other WTO members (although there are still some transitional arrangements that allow for extra protection).

Table 2
EU–China trade, 2000 to 2004, € billion

	EU exports to China	EU imports from China	Trade balance
2000	25.8	74.4	– 48.6
2001	30.6	81.6	– 51.0
2002	34.9	89.6	– 54.7
2003	41.2	105.4	– 64.2
2004	48.0	126.7	– 78.7
Average growth rate, %	16.9	14.3	14.9

Source: European Commission, DG Trade.

The composition of EU-China trade is changing rapidly. In the past, China mainly sold basic manufacturing goods – toys, shoes, bicycles and the like – to the West. But in recent years, it has rapidly upgraded its exports to electronic products such as TVs, computers and other sorts of equipment. Usually, countries that move up the value chain stop producing the basic goods with which they started out. But since China has a huge pool of workers, it has managed to move into new high-tech sectors without considerably reducing its production of basic manufactures.

The EU is selling China the inputs it needs for its economic boom: machinery, tools, cars, chemicals and fibres, as well as sophisticated consumer goods. In many areas, such as electronics and chemicals, trade is still fairly balanced. This could change however, as China continues to become more competitive, with the help of western investment.

While trade has boomed, EU companies have also become major foreign investors in China. By the end of 2002, they had ploughed more than $30 billion into the Chinese market, about the same as US investors.[3] European and American investment is dwarfed, however, by that coming from Hong Kong, Taiwan, Korea and Japan. But so far, these countries have mainly used China as a cheap manufacturing hub. Their companies in China import components to assemble DVD players or microwaves and re-export them to the West, adding little value in the process. European and US investment projects and joint ventures tend to be more high-tech and therefore have a catalytic impact on Chinese economic development.

The Americans were quicker to invest in China's booming economy, establishing a strong foothold in

[3] Chinese trade and investment statistics have to be interpreted with caution since a lot of exports and investment are channelled through Hong Kong, which distorts the figures.

IT, electronics and consumer markets – Coca Cola is everywhere and a tiny Starbucks nestles inside the Forbidden City, Beijing's magnificent imperial palace. But the Europeans are catching up fast. Like US companies, European ones are now mainly investing in the production of goods and services for the fast-growing local market. European brands are popular: China's emerging middle classes love French designer handbags (usually fake), German cars (real ones) and Italian pizzas (more often than not cooked by US fast food outlets).

For some European companies, China has become a major source of profits. Cars are a prime example: About 40 percent of the 4 million cars sold in China each year are European brands, while only 10 percent come from US producers. Germany's Volkswagen alone controlled half of China's passenger car market at one point, although its share has recently fallen closer to 10 percent, as the company has struggled with increased competition, sluggish demand and plummeting prices. Italy's Fiat designed a small passenger car especially for the Chinese market. And France's Peugeot is also making a comeback in China, having pulled out in 1997.

Success stories can also be found in other sectors. France's Carrefour is the pioneer of Chinese retail, having opened its 59th Chinese hypermarket in March 2005. Finland's Nokia and Sweden's Ericsson have been pushing into China's booming mobile telephony market, now the world's largest, with more than 330 million subscribers. Britain's BP has been the leading foreign investor in China's petrochemical, gas and fuel sectors. But for every company that has made money, there are many more that have failed to turn a profit. Some have given up in frustration. But the majority struggle on under the motto "you cannot afford not to be in China".

All companies agree that their lives would be much easier if China fully lived up to the promises it made when it joined the WTO to reform and liberalise its economy. In many cases, China has followed the letter of its WTO commitments but used implementation legislation and so-called non-tariff barriers to keep its markets closed in practice. The resulting uncertainty has made life very difficult for foreign businesses in China since 2001. The main problems encountered by EU (and US) companies in China are:

- The widespread infringement of trademarks, copyrights and other intellectual property rights.
- The use of administrative barriers to keep foreign banks, insurance and telecom companies out of the Chinese services sector.
- Red tape that makes life difficult for foreign investors.
- Restrictions on imports, both on intermediate goods that go into local production and on finished products for the Chinese consumer market.

The economic and trade dialogues that the EU has with China alone might not persuade the Chinese to speed up the implementation of WTO commitments. The EU holds a big carrot in the shape of "market economy status" (MES) that could entice the Chinese to work harder. When China joined the WTO, the existing members, including the United States and the EU, insisted that it remained classified as a non-market economy for a period of 15 years. Such a classification makes it easier for other countries to impose anti-dumping duties on China. So it is perhaps no coincidence that China is the number-one target for EU anti-dumping action.

EU direct investment in China, though often profitable, faces many obstacles

China argues that it has already made tremendous progress with market reforms, and that more than 20 countries have already upgraded China to MES, most recently Australia in April 2005. But the EU (as well as the United States and Japan) has so far refused to follow suit – a fact that has rankled the Chinese, particularly since both the EU and the U.S. upgraded Russia to MES in 2002. But in mid-2004, the Commission judged that China did not yet meet four of the five criteria required for an upgrade. For China, market economy status has become a question of political prestige. Although MES is a technical term, the Chinese believe that an upgrade would signify a different "status": that of an equal economic partner of the EU.

China's rise, Europe's reaction

The MES upgrade is part of Europe's wider debate on how to react to China's economic rise. As Chinese exports continue to soar and the EU-China trade deficit widens, European sentiment might turn against China. So far, the EU-China trade deficit has not turned into a hot political topic, as is the case in the United States. Many Americans blame cheap Chinese imports for the 2.7 million job losses in their industrial sector since 2000. They accuse China of shielding its own economy while taking advantage of open markets in the West. The US administration has launched more anti-dumping actions and safeguards against China than the EU, and the US Congress is frequently calling for more protection. Moreover, until recently, the United States has accused the Chinese of keeping their currency pegged to the dollar at an artificially low rate, thus giving their producers an 'unfair' advantage. And it is unlikely that China's small revaluation in July will end US calls for protection of its own market.

There are several reasons why the EU-China trade deficit is not (yet) so politicised. First, Europeans have been less aware of the impact of China's currency peg on their trade, although the peg has, in fact, put a disproportionate share of global currency adjustment onto the euro. Second, although the EU's deficit has been growing at rates of 50 to 100 percent a year recently, it is still significantly smaller than the US-China trade deficit. Third, the deficit with China is more than compensated by the big surpluses the EU runs with other countries around the world. In the case of the United States, Chinese trade exacerbates an overall trade deficit that reached a whopping $620 billion in 2004. Fourth, Europeans still mainly care about their national trade balances, not that of the EU or the eurozone as a whole.

EU eastward enlargement has obscured the impact of China's rise

And perhaps most importantly, EU enlargement has to some degree obscured the impact of the economic rise of China. Eastward enlargement has provided Western Europe with a large pool of relatively low-cost labour directly at its doorstep. West European companies have invested at least three times as much in the Central and East European countries as in China – and they continue to outsource more to this region than to China. The new Member States are now selling growing amounts of electronics, furniture, cars and other manufacturing goods to Western Europe. So when Germans, Austrians or French people worry about cheap imports or the outsourcing of their jobs, it is Eastern Europe they point their fingers at, not China.

For the time being, therefore, China's economic ascendancy is not as central to public debate in Europe as it is in the United States. Also, the EU is divided on how to react to the "China challenge" as Chinese competition affects different EU countries in very different ways. In other words, there are winners and losers.

Germany, and to a lesser extent the UK, Italy and France, have gained massively from China's insatiable appetite for machinery and equipment. The machine-building industry is less vulnerable to Chinese competition since it is characterised by small, highly specialised companies, not the gigantic, mass-producing plants that give China its competitive edge.

Among the losers are those countries that directly compete with Chinese exports in labour-intensive manufacturing, such as textiles, shoes, basic consumer goods and, increasingly, electronics. Most of the EU-15 (perhaps with the exception of Portugal and Greece) has long since moved to sophisticated manufacturing and services that do not directly compete with China. But the new Member States rely on the kind of low value-added goods and consumer electronics that China is specialising in. Hungary and the Czech Republic mainly export electronics and IT equipment, an area where Chinese exports are growing fast. Only Poland can feel a little safer since it relies more on exports of car parts and furniture (European Commission 2004).[4]

Another sector that is coming under heavy pressure from China is textiles and clothing. Until recently, a global trade agreement allowed developed countries to use strict quotas to keep out cheap garments from Asia and elsewhere. But these quotas have gradually been phased out, and at the start of 2005 the agreement expired altogether. When Chinese sales of trousers and T-shirts soared in early 2005, the EU struck an agreement with China that restricted the growth of textile imports until 2008, under a special safeguard clause that is contained in China's WTO accession agreement. After 2008, however, China's market share in the European textiles market could quickly grow from its current 30 percent to more than 50 percent. In the EU-15, the textile industry now employs only 1 to 2 percent of all workers, since much of the production has already moved to lower-cost locations in Central and Eastern Europe. Most vulnerable to a Chinese import surge are those countries that are still queuing for EU membership: Bulgaria, Romania and Turkey are all big exporters of textiles and clothing to the EU.

Economists predict that China's exports to the EU will continue to grow at double-digit rates. The bilateral trade deficit will continue to widen, especially if the euro keeps on rising against the renminbi. China will continue gaining market share in both textiles and electronics – sectors that are suitable for mass

[4] European Commission, "The challenge to the EU of a rising China", in: European competitiveness report 2004.

production. China's almost unlimited labour supply allows it to produce with massive economies of scale, while the influx of western investment helps to drive double-digit productivity growth. Some observers believe that 70 percent of global production of electronic goods and components could be located in China by 2007, and that China will soon be producing more than half of the world's clothing.

If China succeeds with rapid economic upgrading, it may soon also be able to compete with some of the industries in the EU-15 Member States. Economists say that it is only a question of time before China stops importing cars and instead floods world markets with its own, much cheaper models. Already, foreign investment is pouring into telecoms, office equipment, automobiles and electronics, leading to a massive expansion of capacity. The number of Chinese science and engineering doctorates has soared, and China now has more researchers than Japan. R&D spending is rising five times faster than in the United States, albeit from a very low level. Europeans are not – yet – as panicky as Americans about China's ability to combine cheap labour with modern production techniques to create "the most competitive manufacturing platform ever" (Engardio 2004). But it is by no means assured that the EU-China economic relationship will always remain cordial.

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