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Araştırma Makalesi

THE LIMITS OF ECONOMIC INTERDEPENDENCE: THE CASE OF THE EUROPEAN UNION AND CHINA¹

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Abstract

China's rapid economic growth and integration into the global economies have largely significant economic impacts and political implications for the EU. Since China's accession to the World Trade Organization (WTO), the flows of trade have expanded substantially. Building on long-existing relations, the EU has established links with China since the 1970s. Over the past decades, the relationship between China and the EU has thus evolved into comprehensive strategic partnership. Both parties have employed several strategies such as summit diplomacy, bilateral approaches, multilateral cooperation, policy papers to improve ties and overcome growing concerns. Economic interests have remained primary.

After an overview of the historical evolution of political relations, this paper considers the three main motives which may drive China to provide economic relations with the EU, such as granting the market economy status, the needs of the foreign direct investments (FDI), growth in the volume of trade. The last part of the paper examines the interests and dilemmas of the China- EU economic relationship using the neoliberal theory of international politics as a framework for analysis. With this last point in mind, this paper attempts to analyse the relationship between interdependence and conflict with case studies.

Keywords: *China, European Union, Comprehensive Strategic Partnership, Foreign Direct Investment, Market Economy Status.*

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EKONOMİK KARŞILIKLI BAĞIMLILIĞIN SINIRLARI: AVRUPA BİRLİĞİ VE ÇİN ÖRNEĞİ²

Öz

Çin'in hızlı ekonomik büyümesi ve küresel ekonomilere entegrasyonu AB için büyük ölçüde ekonomik etkilere ve siyasi uygulamalara sahiptir. Çin'in Dünya Ticaret Örgütü'ne (DTÖ) katılmasından bu yana ticaret akışı önemli ölçüde genişlemiştir. Uzun süredir var olan ilişkilere dayanan AB, 1970'lerden beri Çin ile bağlar kurmuştur. Geçtiğimiz on yıllar boyunca, Çin ile AB arasındaki ilişki bu nedenle kapsamlı bir stratejik ortaklığa dönüşmüştür. Her iki taraf da bağları iyileştirmek ve artan endişeleri çözmek için zirve diplomasisi, ikili yaklaşımlar, çok taraflı işbirliği, politik belgeler gibi bir dizi strateji kullanmıştır. Ekonomik çıkarlar birincil kalmıştır.

Siyasi ilişkilerin tarihsel gelişimine genel bir bakıştan sonra, bu makale Çin'i AB ile ekonomik ilişkiler sağlamaya iten piyasa ekonomisi statü kazanma, doğrudan yabancı yatırımların (DYY) gerekliliği, ticaret hacminde artış gibi üç temel güce değinmektedir. Makalenin son kısmı, neoliberal uluslararası politika teorisini analiz çerçevesi kullanarak Çin-AB ekonomik ilişkisinin çıkarlarını ve ikilemlerini incelemektedir. Bu son noktayı dikkate alarak, bu makale karşılıklı bağımlılık ve çatışma arasındaki ilişkiyi vaka çalışmalarını ile analiz etmeye çalışmaktadır.

Anahtar Kelimeler: Çin, Avrupa Birliği, Kapsamlı Stratejik Ortaklık, Doğrudan Yabancı Yatırım, Piyasa Ekonomisi Statüsü.

INTRODUCTION

In 1970s the world order has entered an essentially new, global phase of development and change. A thoroughly realist explanation of the end of the Cold War universally failed to predict and determine. Thus, the end of the Cold War also heralded a 'springtime' for liberalism. The removal of trade barriers to the free movement of goods, services, capital and persons ensured the development of international trade. Security concerns and war among the great powers has left its place to social and economic problem based by realism. As a result of the understanding that free trade is the most important factor in achieving international peace and prosperity, liberals have begun to define this period with new conceptual approaches such as interdependence.

The article begins with a discussion of the concept of interdependence. In this paper while mentioning the historical perspective of the EU- China relations, the analysis of neoliberal schools of thought will address existing fragilities and secure medium-term sustainability. The burgeoning economic interdependence between China and the EU would contribute to decrease continued political conflict and geopolitical rivalry.

² Bu makale Özlem Zerrin KEYVAN'ın "Soğuk Savaş Sonrası Avrupa Birliği-Çin İlişkileri- Tehditler, Fırsatlar, Öneriler" başlıklı doktora tezinden (Gazi Üniversitesi, Sosyal Bilimler Enstitüsü, 2015) türetilmiştir.

AN OVERVIEW OF INTERDEPENDENCE THEORY

Robert O. Keohane and Joseph S. Nye defined the interdependence theory classified between two dimensions; sensitivity and vulnerability in their first book, "Power and Interdependence: World Politics in Transition" released in 1977. Keohane and Nye thus highlighted asymmetrical relationship between the two partners. As Keohane and Nye demonstrate, in the case of asymmetrical interdependence, a less dependent actor may exploit interdependence and codependency in relationships as a latent source of bargaining power over a variety of issue (Keohane & Nye, 1977, pp.10-11). One of the parties would be more affected for being less powerful than the other; thus, making it more dependent. The less dependent one would be far more willing than its adversary to initiate a conflict.

The theory of interdependence has transformed with the reflection of globalization and modernization to international relations through the end of the Cold War. Interdependence, unlike relations directed by asymmetrical power relations, describes the relations between parties which are mutually dependent on the others (Barkin, 2013, p. 19). The fact that one country has fewer resources of its own and is more dependent on another country on every field unilaterally is a serious weakness that affects its foreign policy. Interdependence can be divided into four dimensions, which are its sources, benefits, costs, and symmetry.

Liberals state that the theory of interdependence supports the continuity of stability and peace as a rational option with the aim of harmonious work, transparency, and increasing trust (Maoz, 2011, p. 282). According to the global interdependence approach, it is possible to eliminate the conflicts between the parties which may prevent stability and peace. Therefore, interdependence has encouraged the use of non-war methods of resolving disputes. As a result of interdependence, it is assumed that the competition will come to an end and the differences between the countries will be minimized. The European Union is set up with the aim of ending historical hostility between European countries.

Neofunctionalism led by Ernst Haas has stated that international trade will not only support stability and peace continuity, but will also complement political integration (Haas, 1958, p.16). Economic interdependence is inherent in trade relations. Economic development and international trade, the increase in raw material and market share have led countries and multinational corporations to become dependent on investments and economic activities. Economic links between countries and multinational corporations have grown rapidly. Foreign trade activities as a more profitable strategy have ended the period of being a self-sufficient and countries have become more dependent on each other. Significant developments in the bilateral trade ties serves the improvement of relations in politics, military, security as well as social and cultural aspects. Diplomacy has emerged as one of the most important tools of to seek cooperation. As a natural consequence of this situation, countries become increasingly interdependent.

CHINA'S RELATIONS WITH THE EU IN HISTORICAL PERSPECTIVE

Going into more detail and looking at the short history of the EU-China, the controversial framework of interaction is defined by some enduring parameters-geographic realities, historical experiences, normative values, cultural orientations.

In the 20th century, Europe felt less vulnerable and threatened by China's rapidly growing by the reason of geographically distance from China to Europe and the lack of unresolved historical strategic issues. In early 1975, EC Commission Vice-President Christopher Soames arrived in Beijing for his first official visit when the parties made a statement on establishing diplomatic relations between the European Economic Community (EEC) and China. In this new strategic environment, China and the EEC signed a trade agreement in 1978 and by this means in 1985 EEC-China Trade and Cooperation Agreement was ultimately concluded. During this period, economic cooperation between the two actors returned to the forefront of attention. In the meantime, the EEC grew into the EC and later the EU. In 1994, the European Commission published "*Towards a New Asia Strategy*" as its first policy paper that set China at its core (Commission, 1994). From then on, the EU strengthened its links and presence in the Asia-Pacific. The Chinese policy of the EU has emerged as part of the EU's new Asian policy. The EU adopted its long-term and coherent strategy about China as the first official policy document under the title of "*A Long-Term Policy for China-Europe Relations*" in 1995 (Commission, 1995). Based on the changing situation of the world, a top priority for the EU was to promote reform in support of transforming China's growth and adapt China to international order. The EU prepared and published a policy paper on "*Building a Comprehensive Partnership with China*" to integrate China as a more active and responsible actor into the international community (Commission, 1998). For the first time, the EU and China jointly announced the relations as strategic partnership. It was intended that the term strategic partnership would mean a closer relationship than traditional cooperation.

In fact, already in 2003, the EU and China pushed the relations to a comprehensive strategic partnership and a new high level with the adoption of Commission policy document entitled "*A Maturing Partnership-Shared Interests and Challenges in EU-China Relations*" (Commission, 2003). The EU would have strong motivation in strengthening dialogue and cooperation with China to give new impetus to its strategic partnership. In the meantime, the EU would have a bigger role in China's entry into the WTO. In 2003, China's Ministry of Foreign Affairs also issued the first official policy paper on the EU. In 2004 Premier Wen Jiabao announced their comprehensive strategic partnership underlining the importance of building equality, coordination, win-win cooperation and mutual benefit (Zongze, 2008, p. 289). Following this speech, President of the European Commission Romano Prodi said that but even here, this kind of relationship was not a marriage but serious enough for an engagement (Prodi, 2004). In 2004, European Commissioners paid a total of 206 official visits to achieve strategic

partnership (Jain, 2009, p.145). The European Commission described the relationship as "closer partners, growing responsibilities" and stressed strategic issues such as East Asia, Taiwan, disarmament, Africa, One China policy with a view to deepening comprehensive strategic partnership.

The global financial crisis was reflected as eurozone debt crisis to the EU. By way of its soaring foreign exchange reserves, China has regained its title as the fastest-growing economy in major emerging markets during and after global crisis. China has become a leading global power among emerging economies by maintaining its position among largest economies in the world. When EU leaders visited China during this period; President Hu Jintao, Premier Wen Jiabao, Vice Premier Li Keqiang paid return visits (Feng, 2013). From 2009 to 2010, the Export-Import Bank of China (China EximBank) and China Development Bank (CDB) have provided about £69.2 bn to developing countries and companies (Sutter, 2012, p. 283). Since 2010, China has become a key partner on the EU-related issues. A more pragmatic economic approach in relations with China has been necessitated. During the crisis, China actively engaged in multilateral diplomacy. Yet China has not abandoned the traditional advantage of bilateral diplomacy and has used through the tools of bilateral and multilateral diplomacy at all. The EU has needed to establish strategic partnership and cooperation in line with China's commercial capacity and mutual interests. Nevertheless, China's rapid development has been a significant threat to European dynamism due to its lower production cost, its market growth and the expansion of its capital and labor capacity. Euroze debt crisis has provided to better understand the degree of interdependence.

In relation to the partnership for growth, both parties are committed to the strategies of long-term development initiatives. In 2014, the Chinese government issued second paper concerning policies towards the EU titled "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation". Meanwhile, China has launched new initiatives such as the Asian Infrastructure Investment Bank (AIIB), Belt and Road initiative (BRI). BRI policy goals are to provide great potential for deeper cooperation and comprehensive strategic partnership from China through Asia, Africa and Europe. China has established the multilateral AIIB to finance BRI (Chuang, 2017, p.139). The above partnership, China and the EU have overwhelming interests as strategic partners to build a multi-polar international system.

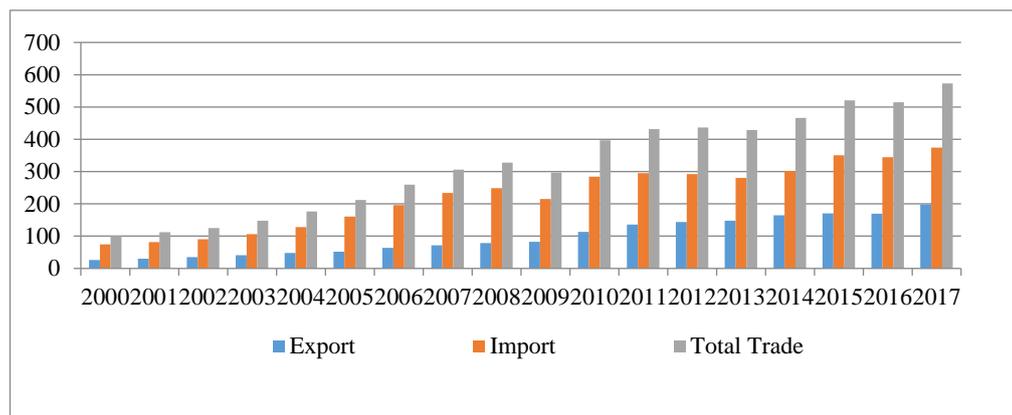
ECONOMIC INTERDEPENDENCE BETWEEN THE EU AND CHINA

For various reasons, the EU-China economic relations have developed and are still developing with ups and downs. When analyzing the economic relations of the EU and China, the most common concept used to identify their interaction

refers to interdependence. It has been widely recognized that China remains the biggest trading partner and the import market for the EU.

The first trade agreement between the EEC and China, aimed at building a stronger economic and trade complementarity and pushing ties to a higher level, signed in 1978. In addition, in 1985 the EEC and China extended the trade agreement to the broad-based trade and cooperation agreement (TCA). What's more, The EC-China Joint Committee, established under this agreement, played a leading role in providing a platform for discussion trade-related policy choices at ministerial level. One of the most important attempts of this committee was to support China in its effort to join the WTO. These trade agreements were in accordance with Chinese economic modernization program called Deng Xiaoping's policy of the four modernizations. As a result, by 1989 the total trade volume reached \$13 billion (Casarini, 2006, p.10). Shortly after having established regular relations, China applied for membership in the GATT/WTO. China's integration into the global economy was impossible without the membership of the WTO multilateral trading system. In 2001, after almost 15 years of negotiations with key members, China formally joined the WTO. China's bid for WTO accession was a historic milestone in rapid immersion in the global capitalist system. Since joining the WTO, China has become one of the major export markets of the EU. As seen in Table 1, according to the European Commission, bilateral trade has continuously risen by more than four times since 2000. Trade peaked about approximately €15 billion, while the volume of China-EU trade was about €25 billion in 2002. In general, the results of 2016 showed a slight slowdown in China's economic development. Currently, China has become the second biggest partner of the EU behind the US. Table 1 demonstrates interdependence in trade between the EU and Chinese markets.

Table 1: China-EU Trade Balance, 2002-2017 (EUR billion)

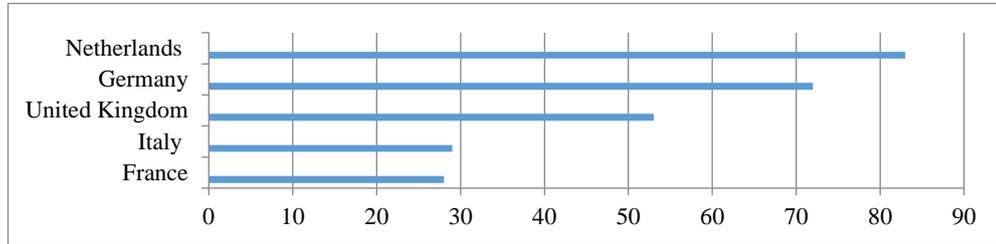


Source: European Commission (2016), Eurostat (2018) Compiled by author.

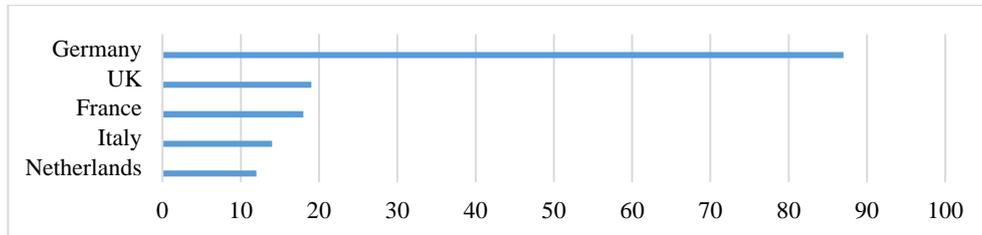
What's more, as the EU's trade with China has grown massively over the years, the gap between imports and exports have widened, which runs high trade deficits. Increasing trade deficit is the asymmetrical dimension of the economic relations between Europe and China. The trade deficit reached to €174 billion by 2016, up from approximately €49 million in 2000 (See Table 1). From an in-depth perspective, China's weakening the value of its currency, EU's facing difficulties in accessing China's domestic market, China's importing raw material, equipment, and intermediate inputs, and then exporting processed or final goods, cheap labour, huge flow of capital are the primary reasons for this asymmetry. French sociologist Emmanuel Todd has called Economic ties between the EU and China as "asymmetric globalisation" (Judt, 2005, p.23). Since the very beginning, the economic relations have been based on prospects of interdependence.

In addition, the economic and trade relations, which has progressed with the membership of China's WTO, has been influenced by the Eurozone debt crisis in Europe. The economic crisis has damaged China's economy by reducing demands and imports. However, despite the rising trade disputes, the EU and China have also shared some uniting aspects such common interests. Encouraging Chinese companies to invest in Europe has been regarded as one of the ways to ensure the economic stability of the EU. Chinese Prime Minister Wen Jiabao stated that China would play an increasingly important role to stabilize the Eurozone. (Iglesias, 2014, p. 98). China has showed its intention for playing a more determinant role in solving the debt woes and accelerating the appreciation of the euro against the dollar. Chinese leaders have frequently visited Europe since the beginning of the crisis (Austermann, 2014, p. 113).

Economic relations between individual EU member states and China since the mid-1990s have been particularly important considering their different interests and separate bilateral relations with China. The EU member states differ significantly in terms of their dependence on imports to China. As Table 2 shows, there are five member states whose imports from China in 2017 are recorded in € 265 million: Germany, Netherlands, the United Kingdom, Italy, France. Western European have advanced capital-intensive production to expand their trade with China substantially. China has managed to build up equable relations with these major trading partners. Table 3 demonstrates similar information but concerning the same five highest value member states' exports to China. Germany is China's largest leading export and import trading partner in the EU (See Table 2-3).

Table 2: Imports from China by Member State, 2017 (EUR million)

Source: Eurostat, (2017a).

Table 3: Exports to China by Member State, 2017 (EUR million)

Source: Eurostat, (2017b).

More labour-intensive peripheral states' trade deficit with China has risen to its highest level. However, China has cooperated with the 16 central and eastern European (CEE) countries to participate in a mechanism called "16 + 1". The aim of the "16 + 1" mechanism, established in 2012, is to promote cooperation among the 11 EU and 5 Balkan countries, as well. Its cooperation with the CEE countries constitutes an important part of the economic links between China and Europe (Feng, 2018: 90). The importance of the 16+1 mechanism is to work within the grand strategy of the BRI. Since the establishment of economic relations, bilateral trade engagement has become second largest economic cooperation.

Conflicting Interests Between The EU And China

Anti-dumping measures

Within the framework of WTO trade rules, all member states have considered the trade policies such as anti-dumping, countervailing and safeguard measures to protect from the unfair competition against the local producers. Anti-dumping and compensatory tax measures have been applied to protect producers from injury caused by unfairly traded imports. Anti-dumping duty is determined primarily based on a comparison of the difference between normal and export prices on each import transaction.

Though China has gained advantage from its accession to the WTO, it continues to violate many of its WTO obligations. The EU has frequently used all available trade tools to tackle these violations. The EC has been authorized to investigate the justification of dumping charges in the context of common trade policy. More specifically, from 1995 to 2016 the anti-dumping measures were on China at 840, 88 of which were filed by the EU Commission (Statistics on anti-dumping, 2016). Anti-dumping measures imposed by the EU have reflected China's economic slowdown. Without the status of a full market economy, China has been the easy target of the greatest number of anti-dumping measures. It is regarded as an obstacle to China's easy access to European markets. From this angle, anti-dumping and countervailing measures are still seen as a major obstacle to economic and trade relations. The following case studies of economic competition illustrate how China and the EU trade friction has been managed.

Market Economy Status (MES)

One of today's most important and timely discussions in the EU-Sino relations is China's market economy status. China has achieved a rapid economic growth from a centrally planned economy (CPE) into a market economy. China gathered market economy recognition from Australia, Argentina, Brazil and some Asian countries; but most importantly the EU has attempted the refusal of granting MES to China so far and recognized China as transitioning economy. (Leal-Arcas, 2011, p. 98). China has seen it as a major obstacle to its growing economy and a political tool against the Chinese government. Consequently, China has faced punitive antidumping charges by the importing countries. Although Russia is less market-oriented than China, Russia has market economy status. It is not a difficult process for the EU to define the market economy status of any country. The EU has five key criteria for granting MES; allocation of economic resources in a free market, the absence of barter trade, the development of adequate corporate governance, the improvement of transparent property rights; and an open financial sector (Yongnian & Gore, 2014, p. 141). The Commission has often criticised China to only fulfill one of the five criteria.

The EU has given market economy status to Russia and Ukraine, the trade volumes of these two countries with the EU are not large and pose no threat to the EU industry. The EU has employed a "double standard" in relation to China. At the 14th EU-China Summit held, the EU stressed the necessity for special attention to gain market economy status in a more tolerant and inclusive manner (Men, 2014, p.35). China may have expected to obtain 'market economy' status by providing further economic aid. Highly relevant reason why the EU reject to grant China market economy status is the refusal of the US. The US has accused China of devaluing its currency knowingly, making Chinese goods cheaper, mercantilism and unfair trade tactics. The US has imposed anti-dumping duties on products to non-market economy countries on the grounds that export subsidy rates could not be calculated on target. Double taxation is imposed by the US to China for same

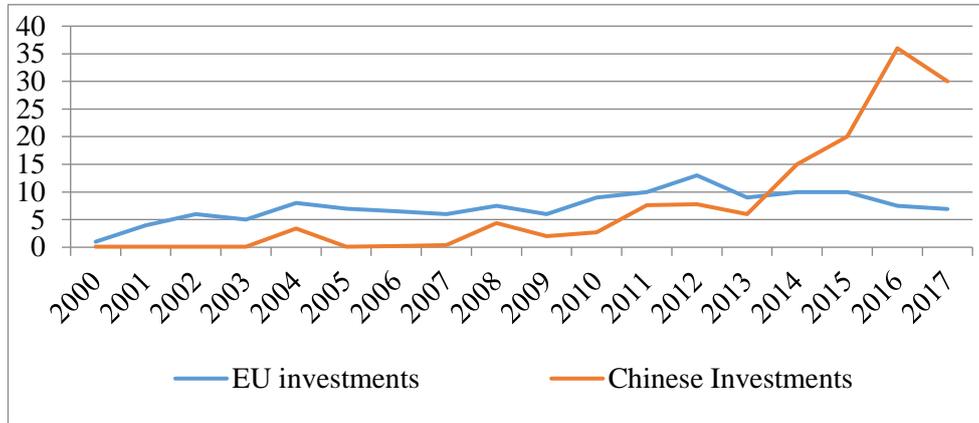
goods within the framework of the compensatory taxes (Li & Song, 2011). China became the member of the WTO under almost 15-year transition period. Since that time, China was expected widely to have liberalised its domestic economy (Wang, 2014: 95). The EU Parliament adopted a resolution to refuse market economy status for China. The EC announced China would not be able to gain market economy status by the end of the year. China seems far from having completed its transition into market economy. In fact, after 2016 the EU violated the WTO agreement by not recognizing China's market economy status. As well China has gained the right to sue the EU at the WTO properly. The MES crisis should be resolved with political and strategic solution.

Foreign Direct Investments

Cooperation has been developing not only in terms of foreign trade, but also in the field of foreign direct investments (FDI). Since 1978, the success of the economic reforms and the open door policy has been most dramatic contribution to China for the majority of FDI inflow. The early 1980s European investors arrived in Beijing for the first time to invest in China. For example, French fashion designer Pierre Cardin was invited to Beijing to meet with Deng Xiaoping (Le Corre & Sepulchre, 2017, p.100). As a result of its membership of the WTO, the new measures have helped to increase FDI in China. China has reached the status of a country which attracts and encourages FDI with the continuity and huge labor force of the world over the years. China overtook the US as the world's leading recipient of FDI with nearly \$53 billion-worth in 2003 (Pecht, 2006, p.30). EU direct investment stock in China totaled less than €1 billion, China has retained as the world's fifth largest FDI recipient (Das, 2006, p.141).

Since the 2008 global financial crisis, a growing share of Chinese FDI in Europe have also increased significantly. China's overseas investments in 2011 amounted to €7,6 billion, 3 times compared with that of €2,7 billion in 2010 and totalled €7,8 billion on net in 2012 in 28 EU countries. As the available data shows, at the end of 2016, FDI flows from China to Europe has exceeded €35 billion. Chinese outward FDI flow to the EU is set to continue growing and will reach €1 trillion by the year 2020 (Farnell & Crookes, 2016, p. 14).

Table 4: European and Chinese Investments (EUR billion)



Source: Hanemann, T & Huotari M. (2018).

The overseas investments made by advanced economies has been large scale impact on rising Chinese investments. Numerous Chinese delegations have visited overseas and trained in the west who have returned home. Chinese companies investing in Europe have conquered new markets, have stayed competitive on world markets, have benefited from Europe's highly talented entrepreneurs' experience. The Chinese government has launched several initiatives to facilitate investments to Europe. Since China launched Belt Road initiative, there have been marked shifts in accepting EU standards for Chinese companies.

Nevertheless, these initiatives also raise concerns related to imbalances in two-way FDI patterns, as the rise in Chinese FDI in Europe coincides with a drop in European investment in China. Growing trade deficit, violations of intellectual property rights, the safety of Chinese products, the depreciation of the yuan, economic insecurity, the rise of nationalism and Chinese slow pace of political reform, Chinese investments in Europe have raised concerns among European investors. Nonetheless, it is important to keep in mind that, China has quickened its integration into the global economy to produce higher- end goods that compete more directly with the products made in Europe. Since 2000, this has so far mainly related to China's interests have been growing particularly fast in the range of industries such high technology, heavy industry, health, finance, media and entertainment sectors. In recent years, China, already widely regarded as the responsible largest contributor, has been triggered concerns not only in the EU but also all over the world.

ECONOMIC COMPETITION CASE STUDIES

Since its entry into WTO, trade and economic relations have improved and changed significantly. However, much of the debate concerning differences and difficulties in bilateral relations involves economic problems such as intellectual property rights infringement, anti-dumping and countervailing measures on China, the persistent trade deficit, the effect of counterfeit and pirated products, the decline of European investments, limited high-tech exchanges, the burden of the compensatory negotiations' failure, complex bureaucratic procedures for European investors, the social and environmental standards, the devaluation of Chinese yuan against US dollar, delayed implementation of WTO commitments (Leal-Arcas, 2009:350).

China is a labor-abundant country, thus exports more labour-intensive goods and imports goods requiring much capital. From an economic perspective, their interdependence implies that the EU depends on Chinese exports labour-intensive goods, while China depends on European capital-intensive goods. European workforce and business owners have not been able to compete the stream of cheap Chinese labour entering Europe fairly. For companies to move from Europe to China where many costs are much lower has led to higher unemployment. Adam Smith states that a vast number of differences between the money price of labour and subsistence, because the real recompence of labour is much lower in China than in Europe (Smith, 1776, p.189). For all that China strives to fulfill its commitments about transparency, lowering tariffs, reduction of non-tariff barriers, facilitating financial market entry for foreign businesses; European companies have not been able to exploit the business opportunities adequately and lose their jobs. But there is no doubt that China has faced criticism that foreign-owned enterprises are not granted treatment equally. As being a pretty young WTO member, China has yet been struggling to develop its own skills and competencies related to WTO responsibilities. Undoubtedly, China's continued economic growth and its failure to fulfill increased commitments and responsibilities over the next decades may lead to exacerbate even more the competitive pressures on China in the international market. After all, China may remain an exceedingly attractive market.

Case study 1: Textiles crisis

Clothing and textile trade has been politically and economically remarkable issue in EU-China relations. The textile and clothing industry have been a long-standing strength of Chinese economy. Since 1980s, Chinese textile industry has steadily emerged as one of the most important export-orientated industries (Ramasamy & Yeung, 2008, p. 112). The Multi Fibre Arrangement (MFA), adopted within the framework of the GATT in 1974 was signed instantly by EEC. As part of the terms of WTO, China accepted to the MFA in 1984.

Therefore, the first textile treaty between the EEC and China was concluded except the MFA.

The growth of Chinese textile industry is also divided into four main phases. The first phase, from 1990 to 2001, was the pre-WTO phase. During the continuation of China's accession negotiations with the WTO, the EU and the China opted for updating and improving textile treaties. Consequently, the Agreement on Textiles and Clothing (ATC) superseded the MFA (Hoogmartens, 2004, p.112). The integration program was to be achieved in four stages under a ten-year transition period. The quotas on textile imports accounting for 16 % (1995-1997) for the initial stage, a further 17 % (1998-2001) and 18 % (2002-2004) for the second and third stages, yet another 49 % for the fourth and last stage was decided to be integrated into the WTO (Stoll & Schorkopf, 2006, p. 127).

The second phase was accepted as the period between 2001 and 2004. Growth was particularly dramatic in the textile, metal and machinery sectors since its accession to the WTO. As China imported textile machinery from the EU, textiles and paper textiles were the main imported products for the EU. In this process, China was not only a rival for the European textile and clothing industry, but also provided new opportunities. The above indicators suggested that the EU and China have become more interdependent in the textile and clothing industry.

With the ending of the MFA on 1 January 2005 and the removal of all the remaining quotas in international textile trade, the third period began. China's share in world textile and apparel exports reached from 6% in 1980 to 26% in 2015 (Reinert, et al. 2009, p.1089). In the first three months, the sharp rise in exports volumes caused serious injury to European producers. China called EU for the implementation of the commitments referred to in paragraph 242 of the Working Party Report which formed an integral part of WTO Agreement (Wu, 2005, p.13). The paragraph 242 of the report stated that importer countries might demand to negotiate with China in order to prevent shrinking market. As a result of proper circumstances, importer countries would be authorized to limit imports of Chinese textiles by more than 7.5% per year (Lee, 2014, p.162). Yet, the EU implemented quota restrictions on Chinese textile and apparel imports in 10 of the 35 categories. Both parties agreed that the annual increase in imports of these 10 categories would be between 8% and 12.5% (Snyder, 2009, p.303). In response to changing market conditions, the EU granted China to grow fairly and reasonably over the next three years. When up to 80 millions of Chinese-made textile and clothing goods piled up at European ports from July to September, relations deteriorated considerably and strict negotiations had to be made from scratch (Changhong & Jiang, 2008). Despite many problems, with the hard work China and the EU signed a "textile memorandum" to reach a mutually acceptable solution.

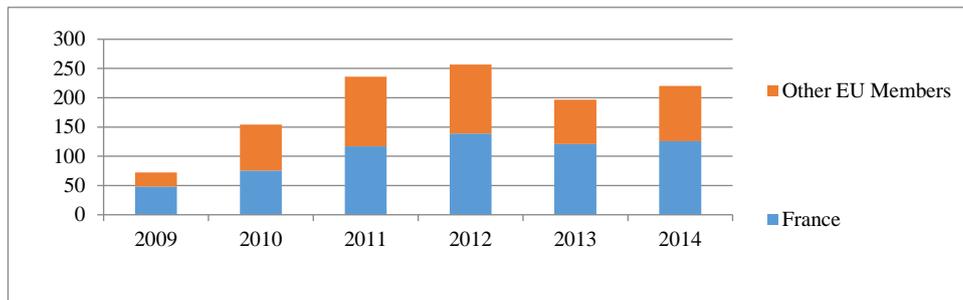
With the removal of textile quota restrictions in 2008, the fourth phase has begun. In contrast, the EU has continued to control these products under the monitoring system (Snyder, 2009, p.284). Trade in textiles and clothing products is

fully liberalized and there are no longer any restrictions. Thereby, the risk of a serious trade war between the EU and China has sharply been removed.

Case study 2: Chinese-made solar panels crisis

In 2011, \$27.5 billion in Chinese solar products were exported and 56.9 % of these solar products were exported to the EU (Yannan, 2013). China, already the world's largest solar manufacturer, produced at least half of the world's solar panels and accounted for around 70% of the European solar energy panel market. An acceleration in decreasing solar panels prices and increasing unemployed European producers have caused significant harm for the European solar panel industry. Chinese solar energy panel manufacturers have exported solar energy panels nearly 45 % cheaper than those made in Europe (Emmott & Guarascio, 2013). Several EU solar groups led Germany's Solar World complained about unfair competition to EC. The decision came after its investigation, included anti-dumping and countervailing tax, which caused a significant effect on the economic relations. The decline in demand has forced China's solar energy panel industry into a crisis. In consequence of EU duties on Chinese solar energy, the price of Chinese panels imported into the EU has fallen nearly 30 % in 2013 (Fischer, 2014, p.79). So far it appears that the lower price level has been successful in increasing demand in China. In turn, the Chinese government has also reacted by launching anti-dumping and countervailing tax investigations on the imports of European wine. It is clear that China diversifies its approach to foreign policy from carrots to sticks. The French government condemned Chinese retaliatory move as inappropriate and troubling.

Table 5: Top Wine EU Importing Countries (\$ billion)



Source: Wine Annual Report and Statistics (2015).

As a result of the investigations initiated against imports of the "Solar Energy Panels" product group, EC has aimed to raise the tax rate unless panels must be priced higher than their current price according to EU accounts. 90 Chinese solar panel companies signed this agreement (Johnson & Turner, 2016, p. 356). This problem has recently been tackled with the EU member especially Germany. Thus, it has been agreed that the price of solar energy panels exported by China to the EU should not be lower than the lowest price of a solar energy panel

product. Following the conclusion of the solar energy crisis, the EU and China have reached an agreement involving wine producers. Under the terms of the agreement, European producers have committed to providing the basis for technical cooperation and assistance to develop the Chinese wine industry. In return, Chinese consumers would be encouraged to opt for European wine more widely. These investigations appeared to bring closer the possibility of a clash over trade. It would be “extremely unfortunate” for the EU. A trade war between China and the EU now appears not to be imminent. Pan Wei has said that on balance the EU needs China much more than the other way around (Fox & Godement, 2009). As two of the major trading partners, the EU and China need each other deeply more than ever.

CONCLUSION

China's reform process started with the four modernizations in 1978 and gained a successful momentum with WTO accession in 2001. China has emerged as an economic power. The changing and developing international world order has revealed the necessity of establishing relations between the EU and China. Since the establishment of diplomatic relations, bilateral trade relations have progressed rapidly. Then, the EU and China have built an increasingly diversified relations in terms of politics, military, security and culture. In the past few decades, the ties have developed and deepened considerably by embracing the term of comprehensive strategic partnership”.

The EU and China have been predominantly focused on trade and economic issues. China-EU relations comprise a form of economic interdependence. The EU hasn't recognized market economy status and China has been an easy target for anti-dumping investigations. The textiles crisis in 2005 and the solar panel crisis in 2012 have been two important evidences of the fact that China is main target for anti-dumping measures. China's bid for recognition as a market economy serves not to permit levying the extended anti-dumping duties on Chinese goods.

Following the European Commission imposed definitive anti-dumping duties for imported solar panels, China thus launched the investigation into imports of European wine in a retaliatory move. Under Chinese political and economic pressure, the EU reached a deal by setting a minimum price to end a dispute over Chinese solar panel imports to EU. China abolished all tariffs on wines imports. Since the European sovereign debt crisis started, the relations emerged into the new period with the growth of interdependence. China has historically taken different approaches to solve the conflicting issues. During the crises, China has used carrot and stick approach. This essay has shown that the effect of economic interdependence may change depending on a series of dynamic variables. With this asymmetrical economic interdependence, China is becoming more immune to the negative manipulation of their economic interdependence by the EU. The EU's

ability to deal with a multitude of challenges are limited. European stability appears dependent on continued Chinese economic growth. The soft power of the European Union has declined.

As can be seen from the analysis of China and the EU economic ties and its costs and benefits, the interdependence cannot be explained a situation of equal interdependence. It is more urgent than ever to establish comprehensive and long-term strategic partnership with China. European and Chinese economic growth of positive impact on the development of trade relations accompanied by the strengthening of the strategic partnership and cooperation.

However, despite the progress within the framework of win-win cooperation in economic ties, there remain serious imbalances. The most important element that the trade relations is lagging behind the scope, intensity, pace and the level of the improvement of the political and strategic dialogues' effectiveness. In this economic environment, both China and the EU are not in competition. In brief, trade reduces the likelihood of conflict but should not be seen as a decisive factor as strategic interests.

Looking forward to the next decade, the EU-China relationship is of vital economic importance for member states, and the security of Europe as a whole depends upon harmonious relations.

As EU-China relationship largely evolves from an ordinary into a key role in step with ever-changing nature of individual European member countries, more sensitive bilateral issues will not underlie on the agenda for bilateral relations. The overall conclusion is that China-EU cooperation on economic relations has not yet reached its full potential. Both the EU and China should continue to follow the export-oriented strategy for the sustainability in their economic relations in the foreseeable future. The EU should encourage China to fulfill its WTO commitments for the purpose of developing economic ties with China. To solve the bilateral economic problems between the EU and China through cooperation will be an important source of inspiration in the rest of the world.

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