

## ATLANTIC OUTLOOK

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## Trade with China: The EU Speaks with an American Accent

Charles Freeman

*“We are taking a distinctively European approach to [China’s] problems of WTO accession. Our approach is not to swing the club straightaway, but to address the questions rapidly in a rather positive way with the Chinese.”—Pascal Lamy, EU Trade Commissioner, October 17, 2002*

*“We have been constructive and patient [with China]. But the return we have received on that patience has frankly been too low.”—Peter Mandelson, EU Trade Commissioner, November 26, 2007*

What a difference five years makes. In 2002, China’s first full year as a member of the World Trade Organization (WTO), European officials were bullish about the EU-China economic relationship. They recognized there were irritants, but reasoned that these were wrinkles to be smoothed over in respectful discussion. The political sound and fury and legal histrionics of their American counterparts were not the way one deals with China.

Or so went the prevailing wisdom. As 2008 opens, European attitudes toward trade with China are acquiring a less patient tenor. A December 2007 Pew Research Center survey showed a dramatic plunge in Europeans’ favorable perceptions of China, largely attributed to economic concerns. Fewer than 50 percent of Europeans surveyed regarded China favorably, with 61 percent of Italians (who have been particularly challenged by imports of Chinese apparel and footwear) expressing unfavorable attitudes. Media coverage of Europe’s economic dealings with China now bubbles with anxiety and frustration.

Europe’s rising concern has been fueled by some eye-catching numbers. After the European Union became China’s top trading partner in 2004, its current account deficit with the country boomed. In 2007 alone, the deficit rose 46 percent to \$134.4 billion. The dollar’s slide against the euro has further exacerbated the pressure. Although Beijing began to loosen the link between the Chinese currency, the renminbi (RMB), and the dollar in 2005, the RMB’s exchange rate is still governed by a dollar-denominated basket of currencies. The result has been a 13 percent drop in the value of the RMB in euros. Chinese goods have accordingly become even cheaper than those produced in Europe, confounding efforts by European leaders to reduce the trade gap and heightening European perceptions that China trades unfairly.

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Peter Mandelson, EU Trade  
Commissioner

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## A European View: Don’t Ease the Pressure on Iran

Bruno Tertrais

It is not often that an intelligence assessment stops policymakers in their tracks. The oft-quoted first line of the U.S. National Intelligence Estimate (NIE) on Iran released in December 2007 did exactly that. But halting pressure on Iran now would be a terrible mistake.

After months of negotiations, China, France, Germany, Russia, Britain and the United States were close to an agreement on a third round of sanctions just as the NIE was released. The opening line—“We judge with high confidence that in fall 2003, Tehran halted its nuclear weapons program”—grabbed the headlines and derailed the sanctions’ momentum.

Many analysts and officials subsequently pointed out that the NIE was referring to nuclear weapon design and weaponization work, even though in June 2006 Tehran had restarted its enrichment program, which could produce fissile material for nuclear weapons, and had never stopped its missile program, which could deliver a nuclear warhead.

It is sometimes overlooked that the NIE also concluded “with high confidence” that Iran’s halt “was directed primarily in response to increasing international scrutiny and pressure.” Many conservative commentators hastily concluded Tehran got scared of being next on the list after the U.S.-led overthrow of Saddam Hussein. The story is a little more complex.

A close look at the chronology of events of October 2003 shows pretty clearly what happened. Tehran made a tactical decision to halt some military-oriented activities for fear of international exposure. It chose to sign the International Atomic Energy Agency (IAEA) Additional Protocol, granting IAEA inspectors greater authority in verifying the country’s nuclear program, in order to

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European alarm, however, extends beyond the deteriorating trade balance. Allegations of Chinese piracy and violation of European intellectual property rights (IPR) have greatly contributed to popular impressions that the economic playing field is uneven. Mandelson and his predecessors have tried unsuccessfully to resolve such disputes through comprehensive dialogue with their Chinese counterparts and a patient approach to Beijing's efforts to rein in IPR lawlessness.

Rising economic nationalism in China is further exacerbating trade tensions. New policies giving advantages to domestic Chinese enterprises over foreign competitors are frustrating attempts by Western businesses to gain market share in China, and in Europe, growing concerns about globalization have exacerbated hostility toward challenges from overseas.

As a result, Europe's trade policies toward China have increasingly begun to resemble those of the United States. Trade actions against China are at an all-time high: through the first nine months of 2007 the EU had initiated 39 antidumping investigations against China since China's accession to the WTO, far more than against any other country, and joined as an observer or initiated numerous WTO cases. In 2005, the EU forced China to agree to reduce exports of textiles and apparel.

But the "distinctively European" approach to trade with China is unlikely to converge completely with that of the United States. Washington tends to focus almost completely on seeking systemic reforms in China to increase U.S. market access or reduce Chinese competitive advantages.

European leaders are much more likely to go for large ad hoc concessionary purchases of European goods or services.

Chinese officials also favor one-off commercial contracts, which are easier to accomplish than more politically difficult systemic changes. As European leaders become shriller about Chinese trade, China will probably continue to seek these concessionary opportunities. For American and European companies that compete for large-scale purchases in China—from aircraft to power suppliers—the playing field thus looks likely to tilt in Europe's favor, unless American leaders demonstrate a greater appetite for such deals. Nevertheless, now that Brussels is speaking with a more American accent, U.S. and European approaches may draw even closer in the future.

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avoid a referral of the Iran file to the UN Security Council. As former negotiator Hasan Rowhani admitted later in a 2005 interview, Iran feared that a referral to the Security Council would be used as a pretext by the United States to strike Iran.

The NIE concludes that the Iranian decision, "in response to international pressure," indicates that Tehran's decisions "are guided by a cost-benefit approach rather than a rush to a weapon irrespective of the political, economic, and military costs." That is exactly what the Europeans assumed in 2003 when they started their *démarche vis-à-vis* Iran.

Britain and France are right to argue that the reasons why the United Nations sanctioned Iran in 2006 and 2007 have not changed. Tehran is continuing nuclear enrichment, even though Iran has no need in the short or medium term for enriched uranium and there is little economic justification for such a program. Britain and France also note that Iran continues to improve its inaccurate medium-range ballistic missiles, which only make sense if armed with nuclear warheads.

The British and French are thus pushing for further Security Council action. Although, many of their partners are reluctant, it is essential to maintain the international pressure that led to the welcome conclusions of the NIE. The danger is that, if the world becomes complacent, Iran will become overconfident and accelerate its nuclear program. This could escalate tensions and create the very crisis that everyone wants to avoid.

Although there were moves to tighten existing measures in January, the time is right for a new round of sanctions to send a signal to the Iranian regime that the international community is still watching. It is probably the only realistic way to affect the political calculus and the balance of power in Tehran. If, as is to be expected, the next report to the IAEA Board of Governors by Director General Mohammed El-Baradei, due in March, shows that Iran is not fully compliant with IAEA and UN demands, the Security Council should adopt harsher sanctions. If it proves impossible to achieve consensus among the five permanent members, then sanctions should be taken by a "coalition of the willing."

The implementation of such sanctions will require strong solidarity both across the Atlantic and inside the European Union. It will not be possible, however, to exert serious pressure on Iran without them.

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## Recent and Upcoming Events

**December 5 and 6**—Transatlantic Briefing and Congressional Staff Forum: “An Update on the Third Site from the Czech Republic: On Track or Off Course?” with Tomáš Klvana, Czech government coordinator of communications on missile defense.

**January 10**—Launch of report, “Towards a Grand Strategy in an Uncertain World: Renewing the Transatlantic Partnership,” by General (ret.) Dr. Klaus Naumann (Germany), General (ret.) John Shalikashvili (United States), Field Marshal The Lord Inge (United Kingdom), Admiral (ret.) Jacques Lanxade (France), and General (ret.) Henk van den Breemen (The Netherlands), sponsored by the Noaber Foundation.

**January 18**—Transatlantic Briefing: “Muslim Alienation, Violence, and the Problem of Identity Politics in Europe Today,” with Hugh Roberts, former director, North Africa Project, International Crisis Group.

**January 28**—Statesmen’s Forum: “Albania’s Road to NATO Membership and Kosovo’s Future Status,” with Lulzim Basha, Albanian foreign minister, moderated by Julianne Smith, director of the CSIS Europe Program.

**January 28 and 29**—U.S.-German Bilateral Dialogue, cosponsored by CSIS and Axel Springer AG, with German and U.S. officials and leading policy experts, focusing on U.S. and European relations with Russia and related issues including energy policy, arms control, missile defense, and Kosovo.

**January 30**—“Midcourse Corrections for NATO’s Mission in Afghanistan,” discussion among U.S. and European security experts, policymakers, and scholars of policy changes needed on the ground in Afghanistan and the challenges of selling such policies to increasingly skeptical public audiences at home. Hosted by Klaus Scharioth, ambassador of Germany to the United States.

## In the EU Chair, Slovenia Aims to Tackle Balkan Problems

Milena Staneva

Slovenia, which assumed the six-month rotating EU presidency on January 1, is hoping to shift the international spotlight back to the Balkans, the troubled region that has set the European Union a series of major challenges in recent years. The government in Ljubljana, wants to use the presidency to draw its west Balkan neighbors closer into the European family and to foster international consensus over the region’s biggest problem—the future of Kosovo.

Slovenia’s tenure comes at a critical moment, following two years in which tensions over Kosovo have steadily mounted. Now, with the failure of the latest round of negotiations on December 10, it is clear that the current impasse can no longer continue. Expectations in Kosovo of early independence have reached unprecedented levels, and delay could further exacerbate the enmity between Serbs and Kosovar-Albanians, perhaps even sparking violence. It is widely expected that Kosovo will soon declare its independence unilaterally, at the risk of seriously provoking Serbia and Russia.

Despite its small size and short history of independence, Slovenia is arguably the EU country best suited to tackle this explosive issue. Slovenia is the most successful state to emerge from the breakup of Yugoslavia; the first west Balkan country to join the EU and NATO; the first former communist state to adopt the euro; and the first of the latest crop of new members to hold the EU presidency. Slovenians understand the region and the rivalry between Serbs and Kosovar-Albanians far better than most of their EU colleagues, and Balkan stability is probably more important to Slovenia than to any other EU member state. But there are also several potential challenges to Slovenia’s Balkan agenda.

Having itself gained independence from Belgrade 17 years ago, Slovenia is sympathetic to the Kosovar cause. In the EU presi-

dential chair, however, Slovenia must represent all 27 member states. Ljubljana must strike a balance between its support for Kosovo’s independence and the strong opposition of countries like Spain, Greece, Cyprus, and Slovakia, which fear that Kosovo could set an inflammatory precedent for other European regions with separatist movements. While Slovenia will try to ensure joint EU action in any crisis over Kosovo, Ljubljana now seems to accept that not all EU member states will recognize an independent Kosovo simultaneously.

The second challenge is to prevent Serbia from becoming isolated and unstable. Ljubljana has said it will use its presidency to bring all former-Yugoslav states, including Serbia, closer to membership in the Euro-Atlantic institutions. There are some grounds for hope. Although Serbia gave the EU an ultimatum that it must choose between Kosovo independence and ties with Belgrade in December, the government now says it hopes to sign a Stabilization and Association Agreement with the EU (a step toward ultimate membership) at the end of January. Slovenia has announced the formation of a special task force to speed Serbia’s integration into the EU.

Perhaps the biggest challenge for Slovenia, however, will be to cope with any dangerous spillover effects from Kosovo’s independence in areas in which EU carrots and sticks have little or no influence. The concern is that an assertive Russia will exploit Kosovo’s move by making trouble in divided states like Georgia and Moldova, where strong pro-Russian movements are flourishing in separatist enclaves. Slovenia will have to rally EU governments to reject provocative acts by Moscow and warn that such conduct could jeopardize a new EU-Russian partnership agreement. Despite its many assets, Slovenia will need help from France, which takes over the chair on July 1, the rest of the EU, and the United States.

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## Denmark May End “Opt-Outs” from EU Monetary and Military Policies

Reginald Dale

Denmark’s recently reelected prime minister, Anders Fogh Rasmussen, is seeking to end his country’s self-imposed exclusion from important EU activities by eliminating a series of “opt-outs” that Denmark negotiated more than 15 years ago. If he succeeds, Denmark will join the euro and participate fully in EU military cooperation. But it will not be easy. The government must hold one or more referendums before it can abandon its opt-outs from some provisions of economic and monetary union, the common defense policy, and cooperation on justice and home affairs.

The government would prefer to wait until the EU’s new Lisbon Treaty on institutional reform has been ratified. But the voting could come anytime after Ireland holds what is likely to be the only national referendum on the treaty, perhaps this summer—assuming the Irish say “yes.” If the Lisbon Treaty were to be shot down, like the ill-fated EU constitution that spawned it, too much confusion would reign for Copenhagen to pursue the case for dropping the opt-outs. Meanwhile, the government is still considering the best way of putting the question, or questions, to the Danish people.

EU leaders agreed to the opt-outs in Edinburgh in December 1992, after Danes rejected the EU’s Maastricht Treaty on European Union in a referendum in June, preventing the treaty’s entry into force. Once exceptional treatment was secured for Denmark, the Danes approved the treaty in a second referendum in May 1993, but rejected the euro in a referendum in 2000.

The practical impact of Danish euro entry would not be enormous: the krone already tracks the euro’s exchange rate, and Denmark observes the economic convergence criteria prescribed by the Maastricht Treaty. But the move would be an important political symbol of the often doubting Danes’ commitment to European integration, leaving Britain and Sweden as the only West European EU members outside the euro zone.

Ending the defense cooperation opt-out would allow Denmark to participate in military decisions and actions under the EU umbrella, in addition to the purely civilian collaboration it currently undertakes. Many Danes would like their country to play a full part in joint EU security operations in places like Bosnia, Macedonia, and the Congo, from which Denmark is now barred, and the government wants to join the EU’s Nordic Battle Group, likely to be ready for action this spring.

The government would also like to participate fully in counterterrorism and police cooperation under the joint EU policy on justice and home affairs—the snag being that many Danes wrongly believe that ending the opt-out in this field would lead to an uncontrolled surge in immigration. These and other concerns about national sovereignty mean that even though most mainstream politicians now favor ending the opt-outs, it remains possible that a wave of popular opposition could once again defeat the plan for Denmark to become a “normal” EU member.

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## News Updates

- Prime Minister Gordon Brown of Britain offended some of his European partners by arriving late for the ceremonial signing of the EU Reform Treaty in Lisbon on December 13 and then signing it quietly by himself. At home, Brown’s Labor government began a concerted effort to look beyond the treaty so as to head off calls for a referendum by the Conservative opposition. Brown told a business conference in January that the institutional debate was settled for the foreseeable future and that the EU must now move on to address economic stability, growth, competitiveness, and jobs.
- The European Parliament adopted rules standardizing lending conditions, making it easier for Europeans to borrow money in other EU countries. Only 1 percent of the \$1.2-trillion consumer credit market currently crosses borders. Member states will have two years to implement the new rules.
- France is to establish a permanent military base in the United Arab Emirates (UAE), the only one in the Persian Gulf for a Western power other than the United States. France, which also agreed to help the UAE develop peaceful nuclear energy, will station up to 500 personnel at the base, improving its ability to project force outside its traditional sphere of operations.
- U.S. homeland security chief Michael Chertoff told the BBC that Europe-based terrorists now constitute one of the biggest threats to U.S. security, adding that it was important to step up security checks on passengers from Europe.
- The European Commission launched a major new antitrust investigation into Microsoft in January, just four months after the second-highest EU court upheld a commission ruling that Microsoft illegally tied audiovisual software to its Windows operating system. Microsoft, which has already paid more than \$1.16 billion in EU fines, said it had broken no rules and would cooperate with the inquiry into whether it abused a dominant market position in promoting its Web browser and Office and Outlook products.
- Cyprus and Malta joined the euro zone on January 1, bringing total membership to 15 of the 27 EU member states. Meanwhile, the EU’s Schengen zone, in which internal border controls have been abolished, expanded to 24 countries with the addition of nine new members—Estonia, the Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

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