

ISTANBUL BILGI UNIVERSITY  
INSTITUTE OF SOCIAL SCIENCES  
INTERNATIONAL RELATIONS MASTER'S DEGREE PROGRAM

CHINA-EU ECONOMIC RELATIONS:  
TOWARDS CONFLICT OR RESOLUTION?

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115605006

DR. ÖĞR. ÜYESİ CEMİL BOYRAZ

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ÇİN-AB EKONOMİK İLİŞKİLERİ: ANLAŞMAZLIK MI ÇÖZÜM MÜ?

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## **ABSTRACT**

In this study, China-EU economic relations under the influence of problematic structure of the neoliberal globalization period in will be examined. The main argument of the thesis is that the period of neoliberal globalization, in which China-EU relations are established, is problematic, and as a result of the integration policies of CPC and development of China, possibility of economic and political conflicts between China and the EU are more visible. Characteristics of the neoliberal globalization period that we are in have been analyzed in detail in order to understand the relations between China and EU which are two important economies of the world. The result of the analysis shows that the problems of neoliberal globalization and China's integration model were the main reasons for the China-EU relations to develop towards current situation. The outcome of the 2008 financial crisis and the policies and projects that China has brought up with the leadership of Xi Jinping have made it possible for this study to achieve the result of a possibility of economic and political conflict between both sides.

Keywords: China, EU, neoliberal globalization, integration, Communist Party of China

## ÖZET

Bu çalışmada dünyanın içinde bulunduğu neoliberal küreselleşme döneminin sorunlu yapısı altında Çin-AB ekonomik ilişkileri incelenecektir. Tezin ana iddiası Çin-AB ilişkilerinin sürmekte olduğu neoliberal küreselleşme döneminin problemlili olduğu ve bunun sonucunda ÇKP'nin entegrasyon modeli ve Çin'in gelişmesi ile birlikte, Çin ve AB arasında ekonomik ve siyasi anlaşmazlıkların büyüme ihtimalinin daha görünür olduğudur. Dünyanın iki önemli ekonomisi olan Çin ve AB arasındaki ilişkilerin doğru anlaşılabilmesi için içinde olduğumuz neoliberal küreselleşme döneminin özellikleri ayrıntılı şekilde analiz edilmiştir. Analizin sonucunda ortaya çıkan sorunlu yapının ve Çin'in bu düzene entegrasyon modelinin, Çin-AB ilişkilerinin bugünkü durumunun asıl nedeni olduğunu göstermiştir. Bu çalışma 2008 finansal krizi ile başlayan sürecin nedenlerinin ve Çin'in Xi Jinping dönemi ile birlikte ortaya koyduğu politika ve projeler ile taraflar arasında olası bir ekonomik ve siyasi anlaşmazlık ortamına doğru gidileceği sonucunun daha mümkün olacağına anlaşılmasına olanak sağlamıştır.

Anahtar Kelimeler: Çin, AB, neoliberal küreselleşme, entegrasyon, Çin Komünist Partisi

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## LIST OF ABBREVIATIONS

|      |   |
|------|---|
| AIIB | Asian Infrastructure Investment Bank                      |
| ASEM | Asia-Europe Meeting                                       |
| CEE  | Central and Eastern Europe                                |
| CPC  | Communist Party of China                                  |
| CRS  | Contract Responsibility System                            |
| EC   | European Commission                                       |
| EEC  | European Economic Community                               |
| EFSF | European Financial Stability Facility                     |
| EU   | European Union  |
| FDI  | Foreign Direct Investment                                 |
| GATT | General Agreement on Tariffs and Trade                    |
| GDP  | Gross Domestic Product                                    |
| GDR  | German Democratic Republic                                |
| HRS  | Household Responsibility System                           |
| ILO  | International Labor Organization                          |
| IMF  | International Monetary Fund                               |
| IPR  | Intellectual Property Rights                              |
| OBOR | One Belt One Road   |
| OICA | International Organization of Motor Vehicle Manufacturers |
| SEZ  | Special Economic Zones                                    |
| SOE  | State Owned Enterprises                                   |
| TVE  | Township and Village Enterprises                          |
| UK   | United Kingdom  |
| UN   | United Nations  |
| US   | United States   |
| USSR | Union of the Soviet Socialist Republics                   |
| WB   | World Bank  |
| WTO  | World Trade Organization                                  |

## INTRODUCTION

When the “Age of Extremes”, as Marxist historian Eric Hobsbawm called the period of 1914-1991 (2014), was coming to an end, the idea of globalization started to become hegemonic over the world. The capitalist system, which was unrivaled with the dissolution of the Soviet Union, entered into a struggle to get itself accepted and become a dominant force in places where it had not been able to penetrate before. The dissolved socialist countries were faced with the consequences such as chaos, high unemployment and war in the process of integrating capitalism. Capitalist countries got into the socialist countries that were demolished, with the mask of globalization and integration, and get into a struggle to made them dependent to themselves.

While all these were happening, China, which was positioned itself differently from other socialist countries especially in the last couple of decades before the end of the Cold War, started its reform and opening up process. China, which underwent a period of change that began with the end of the Mao era, has now reached to a position where it can be regarded as one of the pioneers of the globalization. The process of reforming and opening up the country, which both protected the power of the CPC and integrated China with the capitalist world economy, gave opportunity to the foreign companies and investors in China, and also to newly emerging Chinese businesses to expand to the world and turned China into one of the most important economic powers in approximately 25 years.

After China’s decision of reform and opening up, major powers of the Western Bloc, US and European Economic Community (EEC), gave positive responses and started to establish relations with China. China and EEC, which was the previous formation of the European Union until 1993, established diplomatic relations in 1975. Before 1975 and even until the end of the Cold War, China and Europe could not treat themselves as how they really wanted due to the strict political and economic conditions of the Cold War. On the one side, there was a Europe which was dependent on the US for security and economic support. On the other side, there was a China establishing close relations with the US, however, still known as a “communist” country. So, to understand the actual bilateral relations between China and Europe, besides the first steps of the relationship, mostly the Post-Cold War period will be focused on. This thesis will examine what are the problems of neoliberal globalization, which is the dominant model of the global politics and economy, how China integrated to the global economy, which is an

important process to understand today's world as China continues to gain even more power, by specifically analyzing its economic relations with the EU, which social sciences mostly started to interest not more than a couple of decades.

When looking into international relations, it is important to analyze the neoliberal globalization and its problems. To understand the relations between countries, parties or any international actors, only looking at the relationship between them would cause a lack of analysis. It is important to pay attention to world as a whole, so we cannot think the structure of China-EU relations isolated from the rest of the world. Conditions of neoliberal globalization and its problematic structure mainly determined the establishment and progress of their relations. As a result, China-EU bilateral relations cannot be taken as the only unit of analysis. It must be analyzed in a historical context, which examines China's integration model and the establishment of the relations with EU, and in an integrative context, which examines China-EU relations in the conditions of neoliberal globalization.

This thesis is and will be a very helpful resource for the further researches about how neoliberal globalization effected China's integration and its relations with the EU. The connection between China-EU economic relations, and how China make itself integrated to the capitalist world economy are the main points that what make this thesis specific. Also, with the help of the theoretical discussions, it is possible to see the structure of the economic relations between China and EU. By looking at how economic relations established between China and EU in this world structure, especially after the China's integration into the world economy, this thesis will try to analyze how the process of integration of China into the world economy has worked and is working for both China and EU.

The subject of this thesis is the structure of neoliberal globalization, how China is integrated into it, and how China-EU relations have developed in this context. In examining these, neoliberal globalization and the significance of China's integration model was taken into consideration, and as a result the formation and development of China-EU relations have been examined in these conditions. The outcome will be the possibility that the China-EU relations will evolve into an increasing political and economic conflict in the future.

It is possible to say that, China-Europe relations are historically quite old and as it was in the past, trade had an immense importance. The interaction between the two regions lasted for many years without significant political and/or economic demands until the Opium Wars. The history of economic relations between China and Europe started with the historical Silk Road and

quickly grew. There is a very long and rooted relation between these two regions. However, this thesis will focus on the relations starting from 1975, because after 1975, the relations between China and Europe was formally started with the reform and opening up process of China. The timeframe for the thesis is between 1975 and the 19th Congress of the CPC in November 2017. The selection of this timeframe is suitable for analyzing the establishment and development of China-EU relations and especially for analyzing the situation of the relations after the 2008 crisis.

This thesis is focusing on how China-EU economic relations has established. Because of the nature of economics, this thesis includes political, economic and international relations of both sides at the same time. To understand the economic relations between China and EU, the integration process of China into the world economic system must be examined in detail. Economic integration of China into the neoliberal globalization is different than other less and middle developed countries. Due to its huge size and population and cheap labor opportunities, EU did not give priority to China's political system but rather benefit from the economic opportunities that China offered.

In order to understand the China's economic integration with the West and how the economic relations between China and EU shaped and contributed to this process, those questions must be considered: What is the impact of the neoliberal globalization on China-EU relations? How China has integrated into the world economy, and what is the role of EU? How EU-China trade relations play a role in economic integration? Which institutions are being used in the negotiation process? How will China-EU relations will be affected from the China's rise?

In the light of these questions above, a comprehensive literature survey on the China-EU relations will be presented. In the literature, there are lots of books and articles on neoliberalism, globalization, imperialism, China's integration and China-EU relations. Literature on globalization that have been used in this study is mainly critical about the concept of globalization and defends the position that neoliberalism is not beneficial, and globalization is actually imperialism of today's world (Harvey 2005; Savran 2011). Books and articles about the integration process of China are generally descriptive and slightly emphasize the main arguments of this thesis (Oktay 2017; Jiang 2013; Coase & Wang 2013; Kissinger 2011). On China-EU relations, authors generally accept that there are problems between China and EU. However, there are two different viewpoints about the future of the relationship; positive and negative. In this thesis, it will be shown that the relations might be lean towards the negative side due to the problematic structure of neoliberal globalization.

Since the main methodology in this thesis is literature survey, written and electronic sources such as books, newspapers, magazines, articles and reports about the subject have been primarily used and examined. The information about the thesis is obtained from both Turkish and English sources and documents. Also, the thesis includes the analyses of the reports about the economic relationship between China and EU. The reports and data of WTO, WB, IMF and EU have also been analyzed. These resources are also shown and supported that China is already a major force in the region and the world. Not all these sources supported the possibility of a future conflict between China and EU. However, with the guidance of the theoretical discussion, and the historical and integrative viewpoints of this thesis, the outcome of this work will show that even though there are examples of China and EU acting together in certain international issues, there are also certain situations that reflects the possibility of conflict between two parties in future.

## **Chapter Organization**

In the Chapter 1, as the relationship between China and EU established in the conditions of neoliberal globalization, theories about those concepts are explained. Also, the popularization of the “globalization” after the cold war, and the adaptation of the neoliberal policies and their potential effects on China and Europe will be emphasized. Also, the similarities between the outcomes of imperialism theories and neoliberal globalization will be explained.

While the beginning of the globalization is debatable, it is very clear that a huge wave of globalization has been around from 1980s until today. It seems that, the claims of present-day globalization are not reflecting the reality. Due to the neoliberal structure of today’s globalization, it has problems that can be explained by imperialism theories. So, to understand the relationship between China and EU, the world order must be analyzed as a whole. In short, in the first chapter, there is the clarifying of the what is neoliberal globalization and in what sense it would affect the China-EU relations.

Chapter 2 is about the recent history of China’s economic reforms and its integration to the capitalist world economy. In this chapter, the important breakpoints of China’s economic history will be examined. Firstly, the reform process in the China in the Post-Mao period, which is after 1976, will be analyzed. Deng Xiaoping’s ideas and policies, and the effectiveness of

them will be discussed. Then, the beginning and the development of the China-EU relations will be explained.

In the 3rd Chapter, the establishment and the evolvement of the relations between China and EU will be discussed. The membership of China to the WTO and the China's integration to the neoliberal globalization with the contribution of EU will be analyzed in detail. Then, the trade mechanisms and projects of the China and EU will be explained. In this chapter, as a result of the uneven development of China and its unique integration model, the beginning of the conflict between China and EU will be explained.

In the conclusion chapter, a brief summary of thesis will be mentioned and the future of the economic competition between China and EU will be discussed. With the help of some more up-to-date examples, the future of the relations will be tried to be explained. So, being examined how China-EU relations have developed in the neoliberal globalization period throughout the thesis, there will be an exertion to see the future of economic relations between two parties.

## CHAPTER 1

### NEOLIBERAL GLOBALIZATION AND ITS PROBLEMS

Although there are multiple ways to understand the world, the world order must be examined in a certain way and in detail to understand the relationship between China and EU. To understand the world that capitalism is still the main economic system, Marxism is the proper way due to its integrative and historical analysis and critics against it. Especially after the Cold War, Marxist analysis of the international relations has become more important. Contrary to the idea that most of the problems of the world have been solved after the Cold War, they continued. Multiple economic crisis and wars all around the world after the Cold War shows that the problems of the world remain in their places.

The purpose of this chapter is to understand the world which China-EU relations are established. Without understanding the world as a whole, China-EU relations cannot be analyzed correctly. For this reason, the neoliberal globalization, which is accepted as the dominant system, must be analyzed and understood correctly; neoliberal globalization has problems. It is important to analyze neoliberal globalization's characteristics and their similarities with the imperialism because without fully understanding the invalidity of the globalization's claims and explain its problems, China-EU relations cannot be examined correctly. So, at the beginning, it is necessary to observe how the Chinese-EU relations developed in the conditions of neoliberal globalization. For this reason, first of all, neoliberalism will be mentioned briefly, then the relation between globalization and neoliberalism will be explained and finally the invalidity of the claims of neoliberal globalization will be examined in this chapter.

The emergence of neoliberal globalization and its problems have been started to seen at the end of the 1970s. As being a domestic economic policy at the beginning, neoliberalism has spread many countries in the world in many ways. Unfortunately, in many countries, neoliberalism has settled sorely. As one of the centers of the neoliberal policies, EU got into non-capitalist markets and created sufficient market economies for its own benefit in these countries.

On the other hand, in China, the ruling CPC has entered a different path than other countries. The oppositional views on the Cultural Revolution that had appeared after the Mao period were dominated the party and therefore the upper levels of the state, and it resulted as a transition

from the orthodox line to the reform line. CPC realized the destruction brought by neoliberal globalization to other countries and began to implement a different economic model in China. CPC opened China to foreign investors and made market reforms, thus protected its power as not being isolated from the globalization.

It is obvious that neoliberal globalization has many problems. One of the biggest problems of neoliberal globalization is its similarities with the outcomes of the imperialism. The second one is its invalid claims. In this chapter, it will be explained what the claims of globalization are and why they are invalid, and why its problems are still valid and preserves its features. Also, in later chapters, two important results of these problems will be closely watched while looking at China-EU trade relations today, which are imperialism is not a choice but an obligation for capitalist countries and imperialism causes conflicts<sup>1</sup> between these powers.

### **1.1 The Emergence of the Twins: Neoliberalism and Globalization**

The concepts of neoliberalism and globalization appeared and became popular by the late 1970s and early 1990s. The emergence of these two concepts right after each other, must be considered as a result of a need, not a coincidence so, neoliberalism cannot be separated from globalization (Saad-Filho & Johnston 2005, p. 2). With these two complementary concepts, capitalism, which was in crises and had problems in the 1970s, saved itself from these troubles for a short term and renewed its dominance over the world. The main theme of this chapter is what the concept of globalization means in neoliberal era in essence. The structure and character of the capitalist dominance, which recovered itself with neoliberalism and perpetuating its dominance, will be examined in order to understand the China-EU trade relations.

Neoliberalism can be seen as an attempt to recover capitalism once again after the Keynesian era, in the sense of capitalism entering an crisis due to the events during the 1970s like OPEC crisis, Arab-Israeli War and the failure of the Bretton Woods System. Together with the Soviet interests in the Middle East and Central Asia and the stagnation of the capitalist economy, led the capitalists in Western Bloc to take action again. David Harvey explain this situation as:

“When growth collapsed in the 1970s, when real interest rates went negative and paltry dividends and profits were the norm, then upper classes everywhere felt threatened. In the US

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<sup>1</sup> In this thesis, “conflict” is only used to mention economic and/or political conflicts.

the control of wealth (as opposed to income) by the top 1 per cent of the population had remained fairly stable throughout the twentieth century. But in the 1970s it plunged precipitously as asset values (stocks, property, savings) collapsed. The upper classes had to move decisively if they were to protect themselves from political and economic annihilation.” (2005, p. 15).

Neoliberalism has been started to be exported all over the world at the end of 1970’s, during the 1980’s. The achievements of the neoliberal policies in Latin America gave courage to the Western Bloc, and neoliberalism turned out to be a last hit of the Western Bloc to end the Cold War and also opening up the isolated markets and made them integrated into the neoliberal globalization.

Here, instead of detailly explaining what neoliberalism is, its relationship with the globalization will be defined. So, what is the relationship between neoliberalism and globalization? First of all, there are many arguments about what globalization is and when did it start. However, while focusing on the globalization of our time, it is important to emphasize that globalization is the main concept of neoliberalism by representing its main demands all over the world (Yeldan 2007, p. 43).

Domestic and regional problems started to become international problems because of the increasing economic and political integration in the late 1970s. For this reason, it was necessary to find an international solution to these local and regional problems. Neoliberalism, which is the emergency exit for capitalism running from the crisis, presented globalization as an international solution to local problems especially after the Washington Consensus in 1989. The main principle of the Washington Consensus is mainly reducing the state control over the economy by privatization of the public sector with global neoliberal policies. Also, Williamson (2004) sorted 10 policies of the Washington Consensus. These are: Fiscal adjustments, changes in public expenditure priorities, tax reforms, financial liberalization, competitive interest rates, trade liberalization, removal of barriers for foreign direct investment, privatization, deregulation and protection of property rights.

To efficiently implement these policies, in Washington Consensus, which is a consensus that institutionalize the neoliberal globalization, institutions such as IMF and World Bank stipulate conditions for countries, who want to be part of this process, such as reducing the role of public sector and implementing austerity policies (Yeldan 2007, p. 43-44). As a result, free trade policies and minimum barriers for the flow of capital, goods and services began to spread all around the world. Technological developments such as internet and information technologies,

also made the movement of capital, information and goods much more transitive. However, these fast changes in economic and daily routine started to become more and more realized. So, in order to survive in this climate, many governments began to adopt neoliberal policies of economic liberalization such as privatization of government institutions and organizations, reducing tariffs and changing the conditions of trade. These policies increased the market dominance in the economy and reduces the government effects.

As seen in the principles and policies of the Washington Consensus, the main point about globalization throughout the history is that it is an idea of reaching and opening all markets of the world. With neoliberalism, the ruling class still has the same goal. Also, it is undeniable that neoliberalism is promoting the concept of globalization, which is arguably the dominant economic and political concept of our time. With the Washington Consensus policies, it is obvious that neoliberalism is actually a global project to impose new economic regulations to under-developed and developing countries. The ruling classes of under-developed and developing countries collaborated with the international capital and accepted their conditions in Washington Consensus. It appears that globalization is a tool for the need of creating the ideal environment for neoliberalism to improve and expand capitalism's hegemony across the globe.

The so called short term benefits of neoliberalism such as economic growth, increase in financialization, increase in free trade opportunities helped capitalism to recover and re-establish itself. As Harvey says, "We can, therefore, interpret neoliberalization either as a utopian project to realize a theoretical design for the reorganization of international capitalism or as a political project to re-establish the conditions for capital accumulation and to restore the power of economic elites" (2005, p.19). Although Harvey says that the second of these two possibilities is valid and that he defends it, actually both arguments have the same meaning. The reorganization of international capitalism and the return of power to "economic elites" means the same. It would be correct to state neoliberalism as, after the political and economic crises in the 1970s the "economic elites" that strengthens its hand on power, and with that power they wanted to reorganize the international arena.

As capitalism, neoliberalism is not an ideology and has not an absolute definition. Just as Alfredo Saad-Filho and Deborah Johnston argues, because of neoliberalism is not a mode of production like capitalism, it is a flexible idea that can suit anything (2005, pp. 1-2). While, capitalism can suit in both liberalism and fascism, neoliberalism can also suit military dictatorships and European liberal democracies at the same time.

As neoliberalism appears and became the mainstream trend all over the world, it spreads out with the globalization. Even though these twins, namely globalization and neoliberalism, seems like new phenomenon, their traditional roots are based on imperialism. So, to understand how China integrated to the world economy and how China-EU economic relations established and developed, it is important to understand and mention the problematic characteristics of the neoliberal globalization.

## **1.2 The Claims of Globalization and Their Invalidity**

It is important to analyze the claims of globalization to understand today's world. In order to examine China-EU relations, globalization must be evaluated as the main tool for internationalization of neoliberalism. So, in today's world, when looking into China's integration to the neoliberal globalization and establishment and progress of China-EU relations, it must be kept in mind that both are evolving in the conditions of neoliberal globalization.

Even though it is not the main subject of the thesis, emphasizing some points about imperialism would be useful to explain the problems about the claims of neoliberal globalization. After the Cold War, many people try to find explanations and solutions about the new international economy and politics. Especially after the 1990s, with the rise of liberal hegemony, the idea that imperialism theories can no longer explain today's contradictions, became mainstream. However, the structure of neoliberal globalization showed its face in both economy and politics around the world. So, if neoliberal globalization has problems, we should benefit from different approaches about imperialism theory to explain and answer to the claims of neoliberal globalization (Screpanti 2014, p. 39).

The concept of imperialism has many definitions and approaches. However, as mentioned before, imperialism theories are not the main subject of this thesis. So, instead of focusing on the different definitions and approaches towards imperialism, focusing on different outcomes will be much more helpful to explain the invalidity of the claims of neoliberal globalization.

Many definitions of imperialism have been made at the end of 19<sup>th</sup> century and throughout the 20<sup>th</sup> century. First of all, the classical imperialism theories have been formed at a time when capitalism, while well advanced in parts of the world, was very far from a truly global economic

system (Wood 2003, p. 125). However, even though their explanations and claims about the system itself might be needed an update, the outcomes of these claims are still relevant when it comes to answer the claims of neoliberal globalization.

In this chapter, contributions of Hobson, Luxemburg, Lenin, Harvey and Wood are used. Findings of these authors are enough to explain the problems of neoliberal globalization and by answering its claims. The common points of these authors are according to their idea, imperialism is not a choice for a capitalist country but also the possibility of a conflict between great powers (Hobson 1912; Luxemburg 1913; Lenin 1916; Harvey 2003; Wood 2003). So, the meaning of this chapter is to construct a base for the claim of if China continue to be a capitalist country, it does not have a choice to become an imperialist country or not. Also, apart from being a capitalist or a socialist country, China is already a great power, so the possibility that China and EU to get in an economic or political conflict is high.

As mentioned before, to understand the neoliberal globalization, Marxism is the best suitable option. Marx's ideas give hints about the internationalization of capital. For example, in *Grundrisse*, Marx mentions about the conditions for internationalization of the capital;

“As long as capital is weak, it still relies on the crutches of past modes of production.... As soon as it feels strong, it throws away the crutches, and moves in accordance with its own laws. As soon as it begins to sense itself and become conscious of itself as a barrier to development, it seeks refuge in forms which, by restricting free competition, seem to make the rule of capital more perfect, but are at the same time the heralds of its dissolution and of the dissolution of the mode of production resting on it” (1973, p. 651).

Marx did not describe what imperialism or globalization is, but he described the movement of capital. When looked at neoliberal globalization, capital has the same laws of movement that Marx described. Lenin also mentions a similar condition:

“Capitalism only became capitalist imperialism at a definite and very high stage of its development, when certain of its fundamental characteristics began to change into their opposites, when the features of the epoch of transition from capitalism to a higher social and economic system had taken shape and revealed themselves in all spheres.” (1999, p. 91).

We can say that neoliberal globalization is mainly the globalization of capital. As seen in these two quotes, at some point capital needs to spread towards better opportunities. Rosa Luxemburg describes this as:

“Capitalism needs non-capitalist social strata as a market for its surplus value, as a source of supply for its means of production and as a reservoir of labour power for its wage system.”  
(Luxemburg, *The Accumulation of Capital*).

For EU, China is a place to benefit from its market and cheap labor force due to the opportunities of surplus value in China. This is also what Harvey's new imperialism is based on, which is the interpretation of the work of capitalist accumulation that Rosa Luxemburg put forward in her book "Capital Accumulation" (Luxemburg, *The Accumulation of Capital*; Harvey 2003). In “New Imperialism”, Harvey’s concept of “accumulation by dispossession” can be observed on China-EU relations. Other than stock speculation, the structural devaluation caused by inflation, the impoverishment of the people under high debt etc. accumulation by dispossession causes commodification of production information through the World Trade Organization Intellectual Property Rights Agreement (Harvey 2003, p. 155). With the institutions of neoliberal globalization such as WTO, Harvey sees China’s integration easier:

“The setting up of the WTO makes it easier now for China to break into the global capitalist system than would have been the case back in the 1930s when autarky within closed empires prevailed, or even back in the 1960s, when the state-dominated Bretton Woods system kept capital flows under stricter control.” (Harvey 2003, p. 155)

As neoliberal globalization became more and more effective on the world since 1980s, the relationship between China and EU effected from this situation. As China-EU relations has established at the same time period with the neoliberal globalization, it is important to understand the neoliberal globalization and its problems while looking at the China-EU relations. Other than that, as capitalism became more and more dominant on the world economy, the conditions of the world have been changed in years and outcomes of the imperialism theory is turned out to be the partially relatable and valid in explaining problems of neoliberal globalization.

While "war" is generally anticipated in the definitions of imperialism, this can be considered too ambitious for today. However, the possibility of economic and political conflict is still stands as a problem of neoliberal globalization. This is the main reason for explaining the problems of neoliberal globalization with imperialism. Due to its capitalist core, neoliberal globalization shows imperialist characteristics at some points. After nearly 100 years after the WWI, the conditions of the world have been changed a lot, but we still have the international effects of capitalism with the new era called neoliberal globalization.

Neoliberal globalization brought a different explanation about the world. It appeared as a new concept with new claims. However, it continues to be difficult to deny that capitalism is still standing with all their problems as the main economic system. Even though the end of the Cold War was a disengagement from the past and a beginning of a new era for the world politics as Hobsbawm says (2011), it would be inaccurate to say the same for capitalism.

So, to keep in mind that globalization is actually a tool for spreading neoliberalism, it is worth mentioning the claims of globalization. The purpose of examining these claims is to show that there are problems of neoliberal globalization and they can be explained by looking at the outcomes of the imperialism. For this reason, it is very important to look at the claims of globalization with that aspect. Also, in terms of China-EU economic relations, globalization can be seen as the one of the most important concepts. Understanding the truth about globalization and the world order will help to find out the basis of the China-EU economic relations. In order for globalization to be understood, it must be emphasized that the claims of globalization are not valid. Because the different viewpoints, which the claims of globalization are true or false, will lead to different conclusions about the relations between China and EU.

There are many definitions about globalization's claims. Here, Manfred Steger's will be used because he represents the claims of globalization in 5 points, which are very general and commonly accepted. These claims are, globalization is about the liberalization and global integration of markets, globalization is inevitable and irreversible, nobody is in charge of globalization, globalization benefits everyone, globalization furthers the spread of democracy in the world.

The first claim, which seems to be the only truthful one, is globalization is about the liberalization and global integration of markets. That claim is true and it reflects one of the important points of this chapter. The characteristic of today's globalization is economic liberalization and the global integration of the isolated markets during the Cold War era. It can be also seen as a transition period for those countries who had not been adapted to the neoliberal system completely. Although neoliberalism and globalization need government support to infuse the national economies, the main goal is to liberation and the integration of the markets. Steger formulates this process roughly as liberation and integration of markets results globalization (Steger 2013, p. 98).

This claim can be seen in both China and Europe. To integrate or to be a part of the neoliberal globalization both China and Europe implement liberalization in their economic models to

integrate to the global markets. The entrance of Western European capital into the former socialist states of Eastern Europe to use cheap labor force and benefit from their markets (Zloch-Christy 1998 as cited in Berberoglu, 2003, p. 9-10). Also, in China the reform process after 1978 can be seen as a result of this process, which is a different process than Eastern Europe and as a result caused problems with its relations with EU.<sup>2</sup>

For the second claim, which is globalization is inevitable and irreversible, today's political conjuncture is the perfect example. First of all, this claim is actually based on the idea that in the process of globalization the importance and impact of nation states would decrease, and globalization became inevitable and irreversible by turning national capital into international capital. However, it can be seen that even the developed countries could not reach that model. Today, the contradictions of capitalism reflect that the importance and impact of the nation states is still effective (Savran 2011, p. 31). Also, it is possible to see the appearance of China and other Eastern Europe countries in the globalization arena after the capitalist restoration started to become a problem for globalization's claim of irreversibility<sup>3</sup> (Savran 2011, p. 129).

Today, there are governments and political parties that are getting much stronger that seem to oppose globalization. Especially in the EU, the growing numbers of refugees created a political crisis in some countries, and as a result fascist and xenophobic parties and organizations has gained more and more power and support. The internal economic problems of EU can be seen as the most important reason to oppose the idea that globalization is irreversible. We clearly see that, globalization cannot please its own people even in the developed countries, and that the people react to this by shifting mostly to the right of the existing political lines. Today, one of the most important promises of globalization, which is the abolishing of borders, is perhaps has the most serious opposition. The rising anti-globalization in the fortresses of globalization, in Europe and even in the US, shows the contradictions of the globalization due to its imperialist background. Today, the EU, which seems to be the most pro-globalization region, has closed its borders to immigrants and they even discussed about suspending Schengen system (EC Migration and Home Affairs, n.d.).

The third claim, which is nobody is in charge of globalization, is also has a similar answer with the second claim. The effects of states and non-state actors on international relations arise from the fact that states act as an instrument of the ruling class and non-state actors contribute to the

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<sup>2</sup> For further discussion check Chapter 2.

<sup>3</sup> The increasing xenophobia and protectionism in Eastern Europe and China's challenge to the existing conditions of globalization.

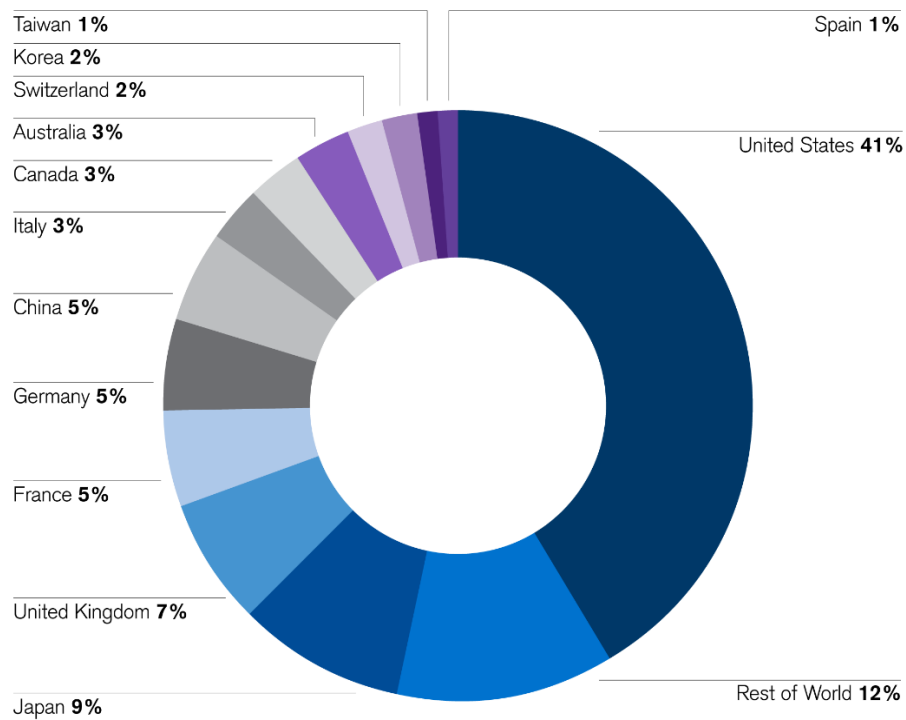
preparation of the ideological ground to support this role. Even though there are many actors supporting and opposing the ideas, at the end, the ultimate decision maker is the state. It decides and applies the decisions for non-state actors with their support, recommendation and even opposition. But these two tools (state and non-state actors) are fed from the same place, which is capital.

As mentioned earlier, capital is in charge of globalization, so the situation can be summarized as the more capital you have most control you have. As an example, Lenin described that by the economic data of the early 20th century. For Lenin, the economic basis of imperialism is the replacing of open competition by monopolies. In 1904, there were 1900 businesses who makes more than \$1 million in the United States. They employed 1,4 million workers which was the 25,6% of the workers and they produced \$5,6 billion which was the 38%. Five years later, in 1909, there were 3060 businesses (1,1% of the country), 2 million workers, which was the 30,5% of the workers and they produced 20,7% billion which was the 43,8% of the production. As we see 1% of the businesses produce nearly the half of the country's goods (Lenin 1999, p. 20).

Also today, there are many examples of monopolies. The automotive industry can be a proper example to explain the monopolies in our time due to the technological and economic necessities to produce. According to International Organization of Motor Vehicle Manufacturers (OICA) data, the amount of total sales of automobiles in 2016 is 94 million (Total Car Sales, n. d.). The half of the sales of automobiles is distributed between 5 main automotive manufacturer groups. Volkswagen sold 10.3 million, Toyota sold, 10.2 million, Renault-Nissan sold 8.51 million, Hyundai-Kia sold 8.25 million and lastly, General Motors sold 7.97 million cars in 2016 (Volkswagen 2017; Kageyama 2017; Groupe Renault 2018; Reuters 2018; Statista, n. d.). In short, 5 automotive manufacturers sold nearly the half of the world's car in 2016.

Keep in mind that all these car manufacturers are one of the main powers of the globalization. In the figure below, in the number of dollar millionaires by country, it can be seen that the United States has the 41% of the world's millionaires. On the EU side UK, France, Germany, Italy and Spain has only 21% in total, which is nearly half of the US.

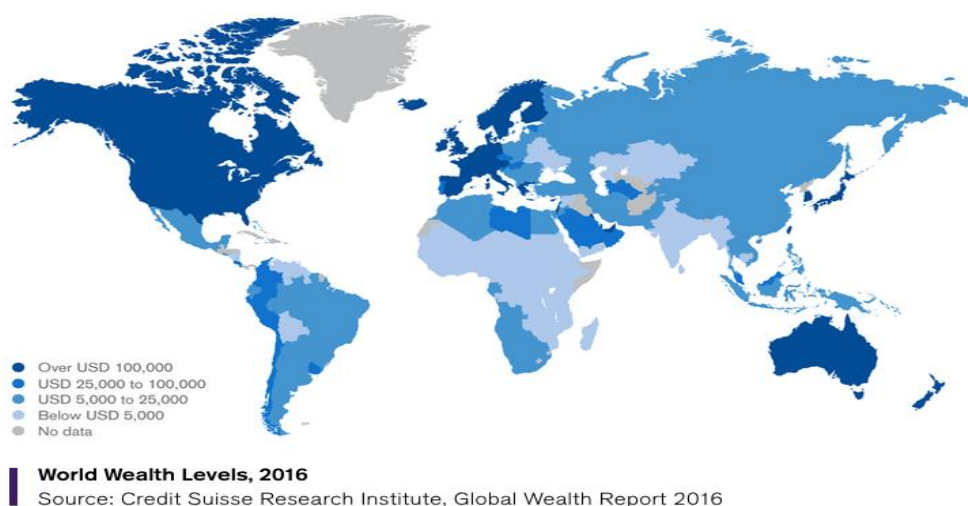
**Figure 1.1: Number of Dollar Millionaires by Country (% of world total)**



**(Global Wealth Report 2016)**

Also, the total wealth distribution shows the dominance of the US, EU and other Western countries. These countries with the dark blue are in charge of globalization.

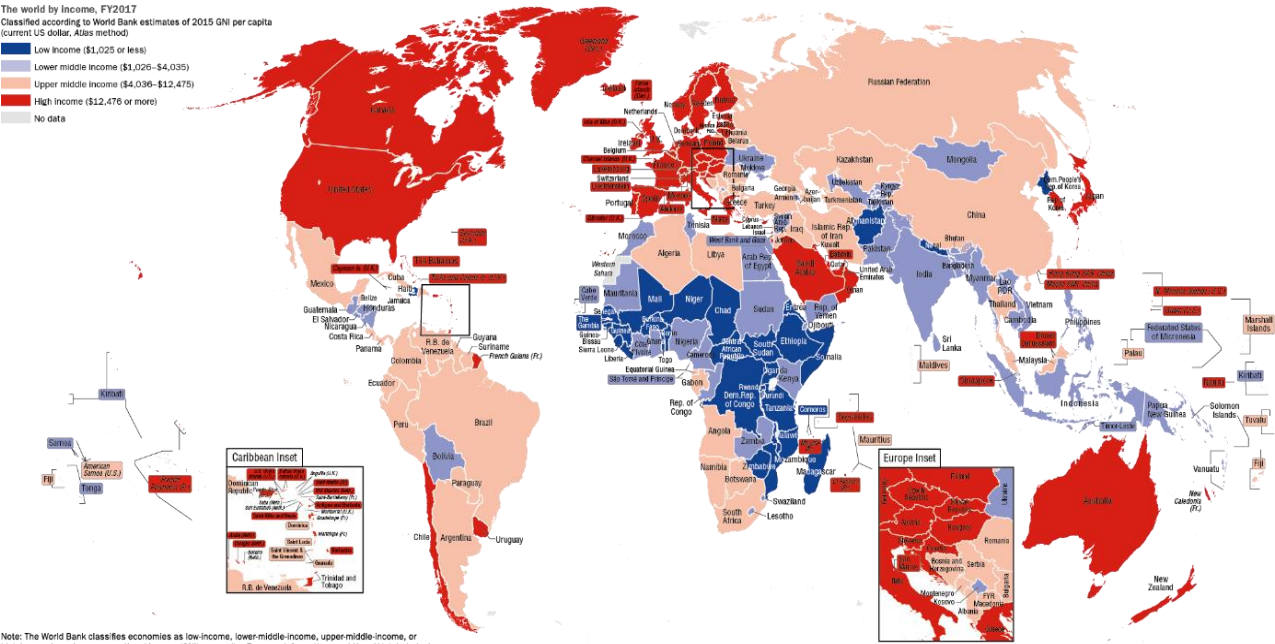
**Figure 1.2: World Wealth Levels**



**(Global Wealth Report, 2016)**

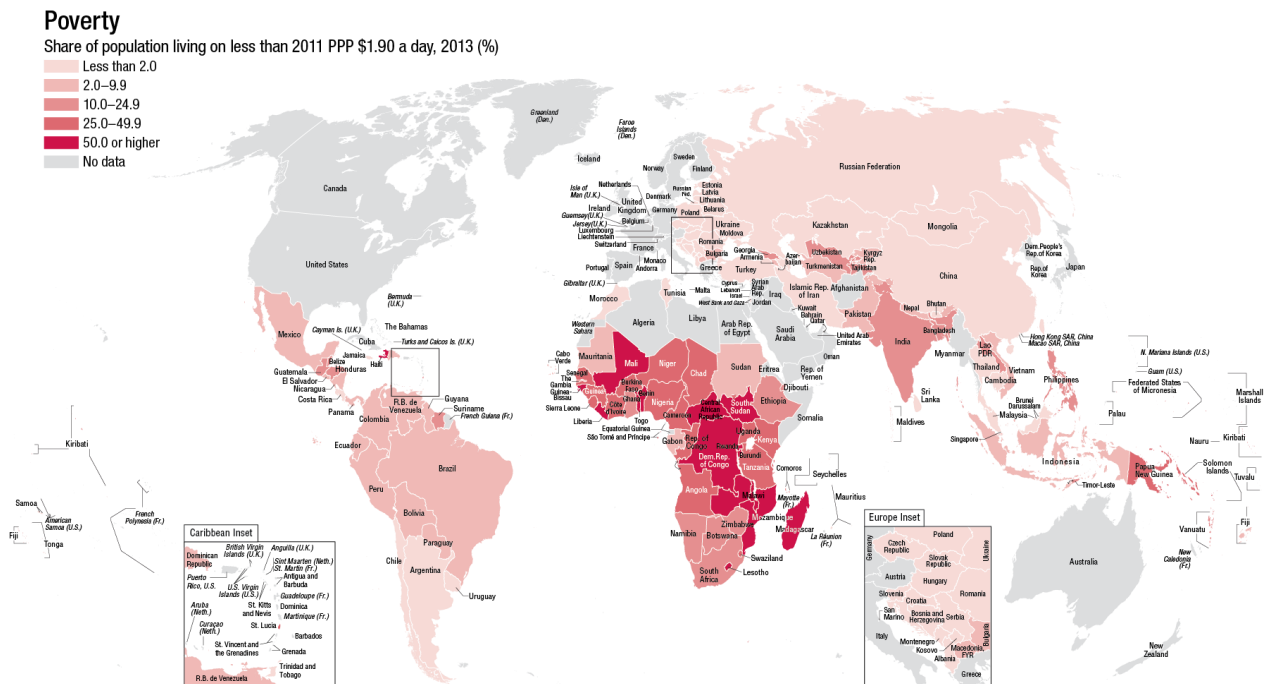
Related to the third claim, the fourth claim is globalization benefits everyone is, in essence, not possible due to the nature of capitalism. As mentioned above many times, the neoliberal globalization is a concept that determined by the needs of national and international capital. The fact that capitalism is the dominant economic system in the world, is the biggest obstacle to the claim that globalization will benefit everyone (Savran 2011, p. 130). In this condition, where capitalism is dominating the world economy, wealth cannot be distributed equally. While the wealth concentrates in several countries, regions or monopolies, the wealth of the other world decreases. As seen in Figure 1 and Figure 2 (World Bank 2015), according to World Bank data, there is still a huge gap between the regions. While North American and Western European states have higher income and less poverty, Asian, South American and African states have much lower income and higher level of poverty.

**Figure 1.3: The World by Income**



(WDI 2017)

**Figure 1.4: World Poverty Map**



(WDI 2017)

These maps are the obvious proofs that globalization does not bring equality to anywhere. On the contrary, because of the neoliberal globalization, the movement of the profit is towards the developed countries (Berberoglu 2003, p. 8). Also, as mentioned before, there is not a disengagement from the Cold War era for capitalist world economy. The injustice conditions of the 20th century are still effective and even getting worse.

For this reason, the main point to look at when examining international relations is the movement and demands of the capital. As Steger mentions, “After the collapse of the USSR, the major developments related to economic globalization have been the internationalization of trade and finance, the increasing power of transnational corporations, and the enhanced role of international economic institutions like the IMF, the World Bank, and the WTO” (2013, p. 41)

The last claim is globalization furthers the spread of democracy. This claim is based on the idea that free markets and democracy are hand in hand (Steger 2013, p. 110). It is a claim that globalization, or in other words neoliberalism and free market economy, brings peace, democracy and prosperity to the world. However, in the neoliberal globalization, even in the statistics of the Economist’s democracy index, which is a dedicated supporter of the idea of globalization, democracy did not spread (Economist, 2017). In fact, this claim is used by US to

invade Iraq. In short, globalization does not spread the democracy, but it spread free market policies and neoliberalism with the cover of democracy.

As seen in these 5 claims, globalization's claims are not valid. These claims can be disproved by using present-day data and different approaches of imperialism. To emphasize once again, the importance of discussing these claims concerns how China-EU relations will be dealt. For this reason, it is important to understand how world works in every sense.

As seen in this chapter so far, the dynamics and claims of neoliberal globalization has problems. All these continuity and similarities shows that the problems of the neoliberal globalization must be kept in mind while looking into China-EU relations and to find real solutions to today's problems. The phenomenon called globalization has undoubtedly led to the globalization of the capital. It is the internationalization of the capital at the national level. Sociologist Berch Berberoglu defines that by saying that "Globalization, then, much as during the earlier stages of capitalism, is driven by the logic of profit for the private accumulation of capital based on the exploitation of labor throughout the world" (2003, p.3). These policies determined by the ruling classes of the developed, developing and under-developed countries by capitalism's nature. In short, profit is what makes capital move around the world.

It must be seen that the concept of globalization is neoliberal, and therefore has problems due to the nature of capitalism. It is an objective reality that the concepts of globalization, which have many different definitions, have a neoliberal character in today's the world order. For this reason, it is very important to be able to evaluate and to understand the nature of globalization and also how world functions. The capitalist core of neoliberal globalization must be examined with this viewpoint during and after the process of integration of countries to the world economy.

China's integration to the world economy should be seen as a new phase in the globalization. China's integration model is different than other socialist countries. The reforms and the opening up process take place in China at the same time as the rise of neoliberalism in the world as in other countries. However, CPC has succeeded in maintaining its power while successfully integrating the country into the neoliberal world economy in line with its decisions. In the period when communist parties fell from power in Europe, CPC integrated China into the world economy with capitalist restoration and created a superpower candidate in the world.

It can be seen as the economic relationship of China with other parts of the world has to be in a peaceful condition for their dependency to each other. However, there are many conflicts and

potential for much more between China and other countries. After the China opened itself to the foreign direct investments and entering into the process of liberalization, it brought together the technological capabilities of the West with its cheap labor power. In those days, China was a small economy with huge human resources and today it has turned into a potential super power and an important force today.

In order to understand the basis of the possible conflict situation about the China-EU economic relations, the questions of *what globalization claims are and why they are invalid* and *what imperialism is and why it is valid* have been answered in this chapter. As Saad-Filho & Johnston describes “process of globalization is merely the international face of neoliberalism: a worldwide strategy of accumulation and social discipline that doubles up as an imperialist project, spearheaded by the alliance between the US ruling class and locally dominant capitalist coalitions” (2005, p. 2). The concept of globalization is the process of integration into the neoliberalism. This is the main aim of the developed capitalist countries to obtain the lands that cannot be fully penetrated by neoliberal policies. In these conditions, the question of “how China integrated to the world system?” is becoming more and more important. While other socialist countries were dissolving and became targets for the neoliberal policies and having serious troubles, the CPC has protected its power in the government, remained in power and also established good relations with the West. So, understanding the integration of China to the world economy will be the key point to understand the China-EU trade relations.

To sum up, this chapter explains today’s world as a whole and the historical roots of the neoliberal globalization. It must be understood to truly analyze how the integration of China and the development of its relationship with the EU took place in today’s world. Contrary to widespread belief, in this chapter, we have seen that the notion of neoliberal globalization does not and would not have the capacity to unite and integrate the world. Accordingly, Chapter 2 will explain how China is integrated into this world order with its own model. Responding to the search for cheap labor that began with Europe’s neoliberalism period, China, unlike other socialist countries, maintained the power of the CPC in the period of neoliberal globalization. This prevented developed capitalist countries from penetrating China politically, and at the same time, it opened the way for the economic development of China. In other words, EU does not have a chance to interfere China’s politics due to China’s different integration model. Chapter 3 will explain how China and EU relations have developed during the period of neoliberal globalization and that there is a potential for continuous conflict between them, as

potential competitors as a result of the analysis on the neoliberal globalization and its roots in the nature of capitalism in this chapter.

## CHAPTER 2

### CHINA'S INTEGRATION INTO THE NEOLIBERAL GLOBALIZATION

As emphasized in the previous chapter, neoliberal globalization has problems due to the nature of capitalism. The neoliberal policies that began to spread worldwide especially by the end of the 1970s and 1980s, emerged as a solution to the economic and political crisis of capitalism and seem to be succeeded in the short term. In the 1970s, many countries have suffered in the process of adopting themselves to neoliberalism and integration to globalization. In this chapter, it will be seen that the reform and opening up process of China and how China protect its political independence in its integration process.

Towards the end of 1970s, the winds of change have begun to blow in China. China and the CPC, which had been worn out by the Cultural Revolution at the beginning of the 1970s, were moving towards a new process. Changes that began to take place in the last years of Mao, started to settle down with Deng Xiaoping, who never officially ruled the government and the party, but lead the country for approximately 15 years. Even though the changes that Deng brought to China is debatable, today China is one of the most powerful states of the world.

China's integration in the global market is the product of a long trial and error period. The importance of this period is to understand China's opening up to the world in the framework of neoliberal globalization as described in the previous chapter and to explain how China integrated into this system during and after the reforms and opening up processes.

The end of the 1970s, which was also the beginning of the neoliberal wave, has been the beginning years of change in China. China has been able to integrate to neoliberal globalization through the reforms that it has made in its economy and has used this to its advantage. It cannot be definitely known whether the timing of China's reform process and the neoliberal globalization was a coincidence or not. No matter how China has successfully integrated into the world economy and has become one of the most powerful countries in the world today. With reforms in China, profit-oriented production has increased, and the country has organized itself to open up itself for foreign investments. This process is similar in many parts of the world, especially in the socialist countries that have been dissolved. But what made China different was the CPC's its ability to protect the political stability of the China in reform process,

at any cost. In other words, China integrated itself to neoliberalism by not applying the methods that neoliberals offered.

One of the most important characteristics of the neoliberal globalization period has been the removal of national borders for capital. This process created an opportunity for cheaper production and technology transfer. China has benefited from these very successfully and by allowing foreign investors and technology to enter the country on this occasion while offering low taxation opportunities and cheap labor for foreign investors.

In globalization, the free flow of capital is one of the most important rules. Keeping that in mind, one consequence of the establishment of production facilities in different geographies in order to make more profit is creating a dependency between the investor country and country that have been invested, especially in developing and underdeveloped countries. Due to this dependency, the investing country strives to maintain the profitability of the investor companies by allowing precarious and irregular working conditions to protect the profit sustainability. Another problem created by the dependency situation is that the dependent country cannot develop due to this congestion, because production is inadequate as the service sector develops in these countries (Boyraz 2014, p. 412). However, due to its own integration model, dependency does not reflect China and does not stand as a potential problem in their further economic relationship.

It can be seen that China is in a similar dependency situation at the beginning of the reforms. China became dependent to the arrival of foreign investors in the country, while the service sector was developing, and the industrial production was weak due to technological insufficiencies. However, the CPC pointed out that when it opened up country for the foreign investment, its main aim was to raise the welfare of the people as well as to protect its power. As a result of this long-term plan, China has created a strong economy and has managed to become self-sufficient in many ways. So, this situation resulted in an atmosphere of conflict in trade. China and the EU are moving from the relationship of mutual interest to a conflict of interest.

## **2.1 Reform Era: China Between 1978 and 1992**

The reform and integration era of China was between 1978 and 1992. In these important 14 years, there were many changes that shifted China through market economy. In the informal leadership of Deng Xiaoping, after the 14-year period, China was started to be accepted to the international arena and establish more stable political and economic relations with the powerful countries.

The Cultural Revolution, which began in 1966, was a hope that China would stand up, however it created uneasiness both in the party and society. During the Cultural Revolution, both the state and the opposition within the party could not follow a very effective policy. Those opposed to the Cultural Revolution were sent to the villages where they learned to work as a peasant and got familiar with the country. Deng Xiaoping was one of those people.

In the last few years of Mao's leadership, Deng has been re-employed in the state, and since 1974, he has given signals for change. For Deng, acceptance of the past problems and long-term plans were required (Pu 2015, p. 228). Under these conditions, China has developed a long-term plan. Firstly, it was decided to find a solution to the problems in the past, especially in agriculture, in the process called modernization in four areas in the 4th National People's Congress in 1975. Four modernizations that predict modernization in agriculture, industry, defense, science, and technology were a goal that Mao's Prime Minister Zhou Enlai had previously proposed but could not be put on a program (Coase & Wang 2013, p. 27). But Deng was the leader that turned those goals alive.

CPC cadres who made observations in the capitalist countries before the reform process understood the importance of technological development and the welfare increase. According to Deng, political stability was a prerequisite for economic development. Also, for Deng, socialism could be protected by reforming the economy, not with the political campaigns like the Cultural Revolution (Coase & Wang 2013 p. 28). He thinks that professional competence and awarding of successful individuals was far more important than political correctness (Kissinger 2011, p. 113).

The individual initiatives in the country began at a time when neoliberalism became effective in the world and socialist countries began to weaken. This transformation in China was carried out by the CPC. The decisions in the Third Plenary Session of the Eleventh Central Committee

of the CPC in 1978 can be seen as the milestone of China's integration to the world economy. After this meeting, the CPC frequently reiterated its commitment to Marxism-Leninism, and Mao Zedong Thought<sup>4</sup>, emphasizing the intention of creating a strong socialist country, while marketization and capitalist transformation within the country continued at full speed. Although it is generally difficult to understand China's long-term plans, in a report for State Council, one of the important actors of the economic reform process, Xue Muqiao, presented a document named "Preliminary Comments on the Economic System Reform", which he envisioned that "economic reform would gradually replace central planning with market mechanisms and that all government intervention would eventually be lifted from the operation of state-owned enterprises, allowing them to become fully independent profit-seeking entities" (Coase & Wang 2015, p. 72-73). Market reforms under the reform process are the result of four key privatization stages for China. But first, it is necessary to explain why China is moving towards market reforms.

Although it has been said that the process of market reforms was to protect socialism in China, it is quite different in practice. Even though reform process has begun with the same time as neoliberalism started to spread throughout the world, China was not applying the neoliberal prescriptions; however, it was applying the rules of the market economy in the name of socialism. As Deng describes the decisions that he makes as "It doesn't matter if a cat is black or white; as long as it catches mice, it's a good cat" (Harvey 2005, p. 134). This quote means that as long as an economy works, it does not matter what type of economy it is (whether planned or market).

For CPC, the importance to protect its power is the most important motivator for the reforms. In the Sixth Plenary Session of the Eleventh Central Committee, CPC emphasized that:

"Of course, China's revolution and national construction are not and cannot be carried on in isolation from the rest of the world. It is always necessary for us to try to win foreign aid and, in particular, to learn all that is advanced and beneficial from other countries. The closed-door policy, blind opposition to everything foreign and any theory or practice of great-nation chauvinism are all entirely wrong. At the same time, although China is still comparatively backward economically and culturally, we must maintain our own national dignity and confidence, and there must be no slavishness or submissiveness in any form in dealing with big, powerful or rich countries." (Resolution on certain questions, 1981).

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<sup>4</sup> CPC prefers to use "Mao Zedong Thought" instead of "Maoism" after Deng.

Importance of protecting its power and also reforming the country was the main target of the CPC. Economic statistics in the Mao era was not enough for the necessary economic growth and technological advance. Also, the neighboring countries like Japan, South Korea and Taiwan were getting their economy powerful with their capitalist economic systems. After the Cultural Revolution CPC believed that, there was the only one way to regain the shaken confidence of the people: rapid welfare increase (Oktay 2017, p. 58).

However, it was not an easy process for CPC to shift from a planned economy to market economy. After 2 years of struggle for the party leadership after Mao, Deng Xiaoping and the reform supporters took control, but they had not a certain reform agenda. Deng describes this era as "cross the river by feeling the stones", meaning that in the reform process CPC should be careful and controlled (Kissinger 2011, p. 135). As a result, it is possible to separate the reform process into 4 parts; agricultural reforms, state owned enterprises reforms, township and village enterprises reforms, and opening up and establishment of special economic zones.

### **2.1.1 Agricultural Reforms**

Although industrialization in China came to an important point during the Mao period, agriculture was still very important for China. In 1978 while the industrial production reached 48% of the total production, agricultural production decreased to the 28% (Oktay 2017, p. 56). Before reforms, the agricultural system functioned as communes which consist of 100-150 people produced a pre-determined product in pre-determined amount, then sell those products to the state on pre-determined prices. This production method was not efficient because the low prices for products did not motivate the producers in some places of the country. The different conditions of producing a good were also affecting the profit of the communes.

The agricultural reform was actually a privatization process. Although land ownership was still state-owned, agricultural production was privatized. Together with the Household Responsibility System (HRS), the commune system was no longer used. Before HRS, extra production could again be sold by the communes for a price determined by the government. With the new system, the land is rented to the households for a long-term, and some of the products produced here could be sold to the government and some of them could be sold in market conditions. Thus, extra products produced in different quantities on different conditions

could be sold a market price, where the households could earn enough income. While the state was the only customer of the peasants after 1982 peasants could sell their goods both in rural and urban markets. The privatization process increased the growth of the agricultural production from 3% to 6% between 1978-1984 (Oktay 2017, p. 63).

### **2.1.2 Township and Village Enterprises Reforms**

Township and Village Enterprises (TVEs) were the most effective reform area for China. Before the reforms, TVEs were limited to produce iron-steel, cement, hydroelectric energy and agricultural equipment (Oktay 2017, p. 70). Due to the state policy of preventing consumerism, the products were expensive, and the labor cost was cheap. This policy and condition create big profit after the reforms. The expensive prices, cheap labor and high amounts of demand resulted as a big profit for TVEs.

The rising of TVEs can be explained with two reasons. First, the rising demand for the goods, and growing supply of the profit-based production. Second, the TVEs offered a convenient structure for combining entrepreneurial energy with government patronage, which was essential to ensure access to capital (Kroeber 2016, p. 29). As Harvey suggests, The TVEs became an incredible source of dynamism in the economy during the first decade and a half of the reform period. By 1995 they were employing 128 million people. They centered grassroots experimentation, functioning as proving grounds for reforms.” (Harvey 2005, p. 137). Even Deng describes this situation as a shocking surprise:

“In the rural reform our greatest success – and it is one we had by no means anticipated – had been the emergence of a large number of enterprises run by villages and townships . . . Their annual output value has been increasing by more than 20 percent a year for the last several years. This increase in village and township enterprises, particularly industrial enterprises, has provided jobs for 50 percent of the surplus labor in the countryside . . . This result was not anything that I or any of the other comrades had foreseen; it just came out of the blue.” (Coase & Wang 2015, p. 53).

Also, as for SOEs, they were in the planned system, but after the reforms, they had the initiative to decide what to produce and what to sell. TVEs’ dynamism brings China to produce enough light industrial goods to turn China into an export-based foreign trade.

### **2.1.3 State Owned Enterprises**

After the successful reforms in rural areas, CPC applied further reform into urban areas in 1984 (Yueh 2010, p. 27). The private initiatives, which were completely banned with the revolution in 1949, have begun to form on a small scale after the reforms in 1978. The concept of the private sector, which was essentially legalized after 1988 and grew well in the 1990s, was defined as an “individual initiative” in this period and was seen as a tool only to complement to the growth of the state sector.

The control of the SOEs was under CPC. Directors of these SOEs had only one job, which was to achieve the planned targets. However, after the reforms, these enterprises are given the authority to produce out of the plan and had the opportunity to sell the products in the market. The system called Contract Responsibility System (CRS), as management of these enterprises had more initiative. According to the “Dual Track” regulation in the mid-1980s, every SOE could produce whatever they want on the condition that to reach the pre-determined production level that the state predicted. For example, due to its profitability in the market, a tractor producer could produce motorcycles after it produced the pre-determined number of tractors (Oktay 2017, p. 68). Stability of SOEs is the most important and necessary aspect of the dual track transition for CPC to implement new reform policies (Yueh 2010, p. 27).

In short, the SOE reforms provide the directors of the enterprises to make decisions and gave them initiative, rather than only applying orders of the CPC. Reforms also helped the SOEs to adapt to the market economy by increasing their level of competition with each other.

### **2.1.4 Opening Up and Special Economic Zones**

Perhaps the most important reform process can be seen as the opening up process which benefits from extra production and profits from the other three reforms. The liberation of foreign trade and opening up the country for foreign direct investment (FDI) were the two important milestones for China since the revolution in 1949. In the first half of the 1970s when there was a tension between the Soviet Union and China, Western Bloc started to develop a sympathy

towards China. After US President Richard Nixon's visit to China in 1972, the embargo on China has been lifted and also the UN has recognized China. Even though the foreign trade of China started to increase, it was not a significant leap.

According to Kroeber, after the trial and error period, economic policymakers of China focused on following elements: a shift from capital-intensive heavy industry to labor-intensive light industry, a focus on light industrial exports to generate the foreign exchange needed to import capital equipment; the establishment of Special Economic Zones (SEZs), allowing foreign companies to set up factories on preferential terms; price reforms, to reduce the power of central planners and increase the role of the market; increased tolerance for private enterprises (2016, p. 47). He claims that the first two policies are representing the East Asian development model, while the last two are the tasks that required for a transition from a socialist economy to capitalist economy. The third policy is also the reform model of Yugoslavia, but it turned out to a unique Chinese model as it was an FDI driven growth model (Kroeber 2016, p. 47). So, it can be generalized as two major steps in transformation in production and trade, and opening up the country. The need for reforms in foreign trade created a two-step reform process, liberalization in production and foreign trade by shifting towards light industry, and opening up the country to the foreign direct investment by creating SEZs (Jiang 2013, p. 300).

The first steps of the liberalization process of foreign trade were to break the link between exports and the planned economy, and to create an export competition (Oktay 2017, p. 73). These two steps also increased foreign currencies, especially in the TVEs. The currencies that the enterprises had, could be sold to the state or saved and sold in the market for a higher price. The labor-intensive light industry that organized as sub-contracting export model gave opportunity to the foreign companies to exploit the cheap and skilled workforce of China. With this model, foreign companies can enter the Chinese labor market, and especially the areas that TVEs were dominant, where people started to work with this model.

The second step was the establishment of the SEZs. In 1979, with the "Joint Investment Law", foreign companies could be able to establish enterprises with the partnership of a domestic company in the condition of exporting the products of this enterprise. Then in 1980, four regions selected as SEZs; Shenzhen, Zhuhai, Xiamen, and Shantou. These regions were assigned to attract foreign investors to Chinese soil. Obviously, the main reasons for foreign investors to come to China were the cheaper labor force and low taxes. While SOEs were paying 55% and other domestic enterprises were paying 33% income tax, the foreign enterprises were only paying 15% in SEZs (Oktay 2017, p. 75). At the same time, SEZs started to establish new areas

such as industrial parks to present bureaucracy-free and faster administrative process and advantageous deals of employee-employer relations. In short, SEZs were tried to be used as foreign investors' paradise in China.

The first foreign investment began to enter Shenzhen intensively from Hong Kong. After the success of the first four SEZs until 1984, in 1988, Hainan Island, the Yangzi River Delta, Pearl River Delta, Xiamen-Zhangzhou-Quanzhou in southern Fujian, Shandong Peninsula, and the Liaodong Peninsula in Liaoning were opened to foreign direct investment. In 1992, the Pudong New Area in Shanghai was created as a SEZ. After this, all provincial capital cities were gradually opened to foreign investment. The most recent ones added to the list of Special Economic Zones were Binhai New Area in Tianjin in 2006 and Kashi in Xinjiang in 2010. After three decades of reform, the Special Economic Zones have grown steadily and spread inwards from the periphery to the core of China's economy (Coase & Wang 2015, pp. 63-64).

Japanese, South Korean, and Taiwanese investors, whose currency values were rising, began to benefit from the opportunities offered by China. In the following years, the obligations of export of the goods that produced in SEZs and to operate SEZs with local partners have also been lifted and China has come to a point which there was not a better alternative for foreign investors. Asian investors, especially from Hong Kong and Taiwan, benefited from investment opportunities in China, so EU and US investors were also attracted to China. As a consequence of this situation, FDI, which was 20 billion dollars in 1990, increased 10 times in 2000 and reached 200 billion dollars. The reason for this was the main cause of the neoliberal globalization, which is to shift the production to the countries with cheap labor power; "US companies from Intel to General Motors, 'face a simple imperative: invest in China to take advantage of the country's cheap labor and its fast-growing economy or lose out to rivals.' Once just a manufacturing center, China has become the place to develop and sell high-tech goods. 'Everybody and their brother wants to go to China. There are 1.2 billion consumers over there,' says the head of US tech trade group AEA." (Arrighi 2007, p. 353).

## **2.2 End of 1st Decade of the Market Reforms, Tiananmen Protests and 14th CPC Congress**

China has integrated to the neoliberal globalization, which the world economies are integrated, the national economies are internationalized, and borders for capital are removed. With the reform and opening up processes, which resulted as marketization of its economy, were two important reasons for the establishment and development of the China-EU economic relations.

Between 1978 and 1988, which could be defined as the first stage of the reforms, China had essentially passed the stage of transition to the market economy and profit-oriented production. The economy has grown by an average of 10% in the 10-year period and GDP has increased by 2.5 times (Oktay 2017, p. 77). Both imports and exports have been well balanced and have reached nearly \$50 billion. Also, the employment statistics were rising in the number of self-employed household businesses and single proprietorships increased from 140,000 in 1978 to 310,000 in 1979, 806,000 in 1980, and reached 2.6 million in 1981 (Coase & Wang 2015, p. 68).

For CPC, the importance of protecting its power is the most critical motivator for the reform process. Even though Chinese economy has relatively successful statistics in the Mao era, it was not enough for the necessary economic growth and technological advance. Right after the beginning of the reforms, in the 1980s, CPC has entered in an ideological dilemma. Although CPC leadership still believed in socialism, they were also not happy with the economic condition of China compared to the Western capitalist economies. The voices that began to rise for more individual liberalism in both in the party and society after the reforms, created an alarming situation in CPC. In a conversation with US President James Carter about the issue, Deng says:

“The reform of the political structure covers both democracy and the legal system. In China those two are connected. People tend to associate democracy with the United States, assuming that the U.S. system is the ideal democratic system. We cannot copy your system. I believe you understand that. If China adopted your system, with multiparty elections and separation of the three powers, there would be chaos. If one group of people took to the streets today and another group did so tomorrow, with a population of one billion, there would be trouble 365 days a year, and then how could we carry on? Where would we find the energy for development? So our problems cannot be approached from your point of view” (Pu 2015, p. 401).

However, after transition to the market economy, corruption and unemployment increased as well as the rising unrest in the society. During the reform process, CPC could not fully control the macro-scale market, and high inflation affected production from time to time. This has led to economic problems and unrest. Increasing unrest since 1986 caused the rise of both planned economy advocates in the party and liberal democracy demands in society.

In 1989, the protests in Tiananmen Square were very important tests for China. These events, which took place at the end of the first decade of China's reform period, had two important points for CPC. First, it fueled the controversy between the reformists' faction and the traditional (planned economy supporters) faction in the party. According to the traditional faction of the party, the protests in Tiananmen Square were an explosion of problems brought by the market economy. Market reforms and Tiananmen protests have created both a demand for liberal democracy in the society and caused unrest in the society due to the reforms (Kissinger 2011, p. 146). This has become an important trump card in the party and in society against the market economy supporters. However, Deng succeeded in coming over this problem. Market advocates Jiang Zemin and Zhu Rongji became party general secretary, deputy prime minister respectively. In addition, Deng's Southern Tour in 1992 showed the success of SEZs and solidified the position of the market reformists in the party.

Secondly, CPC has succeeded in protecting its power while other socialist countries in the world were being dissolved. CPC has protected its power by developing its own model and by carrying out its own integration with its own prescription. The strong reaction that China has shown in Tiananmen Square and risking the newly established relations with the West have shown how important it is to protect political stability for the CPC. As a result of the events, China has had a strong reaction from the EU, and their political and economic relations have almost reached the pre-reform period level. China has maintained its political stability after these events but has also had some lesson. After these events, Deng insisted that China should be emphasized that China is not a threat to the West and Western values. Deng argued that China should “observe clearly, secure our position, and cope with affairs calmly” (Shambaugh 2013, p. 15). Although being a reformist, as a knowledgeable person of Marxism, Deng, who knows how capitalism reacts when it feels barriers and threats facing the capital, wants to focus on China's trade relations and try to show that cooperating with West is more important than supremacy against it. He emphasized in 1992 during his famous Southern Tour that, “We will only become a big political power if we keep a low profile and work hard for some years, and then we will have more weight in international affairs” (Shambaugh 2013, p. 15-16).

The 14th year of China's reforms was summarized in 1992 by the General Secretary Jiang Zemin at the 14th Party Congress. In the report, the belief in socialism with Chinese characteristics, namely socialist market economy, emphasized, the mistakes of the past evaluated and the goals of the CPC in 1990s is explained:

“To accelerate economic growth we must further emancipate our minds, speed up the reform and the opening to the rest of the world and not get bogged down in an abstract debate over what is socialist and what is capitalist. To achieve superiority over capitalist countries, socialist countries should not hesitate to adopt from abroad, including from the developed capitalist countries, any advanced methods of operation or management techniques that reflect the general laws governing modern production and the commodity economy. Foreign funds, resources, technology and skilled personnel, along with privately owned enterprises that are a useful supplement to our economy, can and should be put to use for the benefit of socialism. That will not harm socialism but help it, since political power is in the hands of the people, and since we have a strong public sector.” (Jiang Zemin’s Report 2011 [1992]).

The 1990s had been a time when China started to become economically and politically powerful in the world and developed remarkably. China was getting richer as the Jiang and Rhu administration continued to offer cheap labor power of China to the world market. China's transition to a market economy has not been like any other country, and it has emerged quite powerful and steady from this process. China did not import the market economy as in the West but did learn to use it itself. As Vice-Premier at that time, Qian Qichen told Kissinger: “China started economic reform out of China’s own interest not because of what the US wanted” (2011, p. 140).

China's integration into the world economy has also led to the development of trade relations with other countries and regions. The relations between the EU and China also advanced diplomatically and economically during this period. After the EC recognized China in 1975, relations continued to grow except for the events in Tiananmen Square. These difficulties, which China has pursued following the first integration steps, have exceeded the marketization policies of Jiang and Rhu in the 1990s. Privatization, increased foreign investment and more rapprochements with the EU took place in this period.

## 2.3 Integration of EU

As emphasized in the first chapter, capitalism was in a crisis of profitability towards the end of the 1970s. As a result, the emerging globalization in parallel with the emerging neoliberal policies became very important for the EU, which is one of the most important powers of the world economic system. In the long run, EU capital has entered into the tendency of falling profits, and with the desire not to stay in a certain market, the market has begun to expand continuously. For this reason, capital has looked for the opening of the world's closed markets in order to increase its profitability by their aggressive neoliberal policies.

Globalization claims to involve the integration of national economies with the global economy, in other words, the eventual integration of the world into a single market, the elimination of barriers for the circulation of goods, services, capital, knowledge, and labor around the world. The idea of globalization is the point where unlimited and unimpeded economic freedom is reached. Given the above definitions, dynamics such as openness, rapprochement, similarity, and liberty are the conditions for globalization to be as a one-piece.

Similar to China, in the EU, there have been some regulations in the 1980s. The institutionally changing EC has expanded in the 1970s. Following this expansion, the "Single European Act" signed in 1986. As its name implies, it was an effort to create a single market within the EC. Also, by the end of the 1980s, socialist countries in Eastern Europe began to dissolve, opening the way for European capitalism to enter these markets through neoliberal globalization.

It is also possible to say the same for China. However, USSR and other Eastern European countries were making political and economic reforms in their countries towards an anti-communist line for the transition to the market economy. Pro-liberal democratic rulers were applying neoliberal prescriptions, which EU also pioneered. On the other hand, in China, something different was happening. While the economy was shifting towards market economy and the country opened itself to the FDIs, the communist party was still in power and reacting harshly against the liberal democratic views. In other words, China applied its own prescription in the process of transition towards market economy. Nevertheless, this prescription of transition was a prescription similar to neoliberal prescriptions and compatible with globalization.

China's reforms have provided a unique source for the EU's market search. China-EU relations, which officially started in 1975, have been a very useful development for both sides at the beginning. Both sides began to integrate to the neoliberal globalization and take the necessary mutual steps for their own interests. These steps made the European capital depend on the cheap labor force in China and the desire to benefit from low taxation. On the other hand, China also depends on a need for foreign investment and technological development. However, as time pass by, China became stronger as a result of uneven development and EU felt more threatened. The purpose of this chapter was to explain how China integrated to the neoliberal globalization. It is important to realize that China has its own model of integration because this process creates one of the main reasons for conflict between China and EU in the future. Also, as mentioned in the first chapter, China's rise will be a reason for conflict with the EU. To understand this in the best way, it is necessary to mention how economic and trade relations between the parties are established, how they operate and where the relations will evolve.

## CHAPTER 3

### CHINA-EU ECONOMIC RELATIONS

In the period of neoliberal globalization, the effects of China's integration with the capitalist world economy, which is determined and processed by itself, not by external intervention, have also reflected on the economic relations it has established with the EU. The problems of the neoliberal globalization and China's integration model are examined in the previous chapters. In this chapter, the question of how these two factors affected and shaped the economic relations between China and EU will be answered.

There is a difference between integration models of China and the rest of the world. Because of China's unique model of integration, which is both protecting the communist party's power and also reforming the economy in a capitalist way, EU had trouble to decide how to handle China. EU regarded China as a communist country trying to integrate the world economy, but because of its own model, China has differentiated from other countries. However, in this 42-year period to be examined, it will be seen that China-EU relations cannot be regarded as only a bilateral relationship, and the problems that are experienced all over the world are reflected in the relations positively and negatively.

The process of economic globalization in the world has created a backdrop for China's opening up to the outside world (Jiang 2013, p. 290). The problems that China had with the USSR during the Cold War following the death of Stalin and the weight given to domestic politics have been two major obstacles for China's development. In the last years of Mao, China began to get closer and closer with the United States, due to the economic and political pressure from inside and outside. The two obstacles mentioned above were the most important reasons for this.

In this chapter, China-EU relations will be examined in three periods. These are "the interdependence period" between 1975-2001 which is starting from the establishment of the diplomatic relations between EEC<sup>5</sup> and China; "the instability period" in 2001-2013 which is starting with China's membership to the WTO, and "towards the conflict period" between 2013-2017 which is starting from the Xi Jinping's first term.

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<sup>5</sup> EEC became EU after 1993.

China-EEC relationship, which began officially in 1975, has developed gradually over the years, and both have become economically dependent on each other and they were not seriously challenging one another. However, as will be seen in more detail later in the chapter, the long-term views and plans of the two countries about each other are different. Although EEC has established its relationship with China with the belief that China will always be dependent to it, China has developed over the years and has become economically and politically a threat to the EU as a result of uneven development.

The year 2001 is a very important year for both China and the world. China became a member of the WTO in 2001 and since then, its economy has continued to grow even faster. At the same time, between 2001 and 2008, EU began to express its discomfort towards China. The underlying reasons for this are that EU felt threatened by certain key sectors of China. With the crisis in 2008, relations have softened again, and mutual cooperation has been accepted as an obligation.

In 2013, Xi Jinping became the General Secretary of CPC and the President of China. The Xi era is the period when China started to become an active force in the world. With global economic projects, commercial aggressiveness and the rise of the protectionist economic models, China's pro-globalization view has caused China to stand out as well as its economic power in the world. These situations since the establishment of the relations raised questions about the future of China-EU relations: towards conflict or resolution?

### **3.1 Interdependence Period (1975-2001)**

EU wanted to take steps to improve its relations with China, after the reforms that China made towards the integration to neoliberal globalization. China's reform policies and its effort to integrate into the neoliberal globalization and EU's opportunity to get into the biggest market in the world and to benefit from the cheaper workforce, ensured China and EU to establish their relations. Also, China's need for technology and foreign capital, and EU's market quest to exit from the crisis at the end of the 1970s have made China and EU mutually dependent on meeting each other's needs. China, with its reforms and integration efforts, has been a solution to the quest for market and cheap labor force of the world capitalist system and has made a major contribution to the recovery of capitalism. However, as it was seen in the later years of the

reform process, China, which was adapting itself to the conditions of neoliberal globalization, took measures against external interventions that could interfere its domestic politics and reacted them in a hard way when necessary as Tiananmen Square events.

EEC has started to establish relations with China after the US. Consequences of OPEC crisis, Cold War, and inefficiency of the Keynesian model for capitalist economies, resulted in a decrease in the role of the states and increase in the private sector in the economy. The increasing role of neoliberal globalization in the world economy, caused the private companies to enter the markets of developing and underdeveloped countries. Countries that have closed markets or not got enough market opening for neoliberalism to get in, such as Latin American, Eastern European and Asian countries, were accompanied by civilians or military politicians who would pursue politics in the direction of neoliberal policies. China-EU relations started under these conditions.

EEC, which is one the most powerful and important actors of global economy and politics that the US is the dominant power, is also one of the most important engines of neoliberal globalization. EEC, also as the world's largest FDI provider and receiver, is a region with strong economic and ties with the rest of the world (EC Investment, n. d.). In addition, the internal integration of the EEC was a crucial factor that adds strength to it. Western Europe, both within itself and with eastern and southern Europe, has lifted trade borders and increased capital circulation, providing economic and political benefits, especially to Western European countries.

European integration was also important for China. EEC's effort for establishing a single market, and growth with the acceptance of new member states, supported by China, because it would be an advantage for China to reach more markets more easily (Ash 2007, p. 193). Starting from the late 1980's China's leadership, including Deng Xiaoping, General Secretary of CPC Hu Yaobang and Zhao Ziyang increasingly urged a united Europe to assume new global responsibilities. In reflection of this policy towards EU, in a visit to the Netherlands in May 1997 former CPC General Secretary Zhao Ziyang said:

The unification of Europe, its growth and strength, the strengthening of the cooperation between China and Western Europe, and the rapprochement between Eastern and Western Europe will play an important role for the maintenance of global peace. (Ash 2007, p. 190).

There is no doubt that the Cold War structure had affected the relationship between China and Europe until China change in its position in the 1970s. As China started to move towards the

anti-Soviet camp and got closer with the US, its relations with Europe was also started to get better. After the US National Security Advisor Henry Kissinger's secret visit to China in 1971, and the establishment of a joint communique between US and China in 1972, namely Shanghai Communique, European states also started to establish diplomatic relations with China one by one. The agreements between European states and China have strong emphasizes about mutual respect for sovereignty and territorial integrity, non-interference in each other's internal affairs, and sovereignty and mutual benefit (Snyder 2009, p. 31).

At the beginning of 1970's, European states started to establish diplomatic and economic relations with China bilaterally in the wake of normalization of the relations. Before 1975, China had economic and diplomatic relations with socialist states of Eastern Europe, and also Finland, Denmark, and Sweden. After most of the EEC members established relations with China, they established official relations in 1975. Following that year, multiple bilateral trade agreements signed between China and European states.

The timing of the arise of neoliberal globalization and China's reform process helped to improve relations between China and EU. China was reforming its economy to be more open and market-oriented, while European businesses were in search for new markets. These conditions resulted in the first trade agreement between China and EEC in 1978. As this was the first agreement between China and EEC, it could also be seen as an evaluation of both sides for each other, and a sign of willingness to cooperate. The agreement also created an EU-China Joint Committee for Trade, to meet once a year, alternately in Beijing and Brussels (Snyder 2009, p. 57). The committee has three main functions: a supervisory function; an examination function; and a recommendation function and it became the main body for accompanying and developing EU-Chinese trade relations (Algieri 2008, p. 72).

The second agreement between China and EEC is in the 1985 Agreement on Trade and Economic Cooperation. It was a broader version and the replacement of the first agreement in 1978. It includes details in both trade and economic cooperation, in particular in industry and mining, agriculture, science and technology, energy, transportation and communication, environmental protection and cooperation in third countries.

The beginning of the agreement gives a clear hint about how both parties were satisfied in the 7-year period:

“Noting with satisfaction the development of friendly relations between the European Economic Community and the People's Republic of China, considering that the Trade Agreement between

the European Economic Community and the People's Republic of China, signed on 3 April 1978, has been satisfactorily applied, inspired by their common will to introduce a new stage into their commercial and economic relations, desiring on the basis of equality and mutual advantage, to intensify and diversify their trade and actively develop economic and technical cooperation in line with their mutual interests, have decided to conclude this agreement..." (Snyder 2009, p. 62).

After this agreement in 1985, the Joint Committee has continued its role and gained more importance in EEC-China trade relations. Since China was in the process of integration to the world economy, it wanted to be a part of an international trade organization, which is GATT/WTO. The Joint Committee helped and supported the effort of China and played a supportive attitude. The European Parliament also called on the Council and the Commission to support China's efforts, because China's membership into GATT/WTO would also create an opportunity to European states to engage China's market more efficiently (Algieri 2008, p. 73).

However, the improving relations between China and EEC had been frozen and EEC has sanctioned China due to the Tiananmen Square incidents in 1989. As CPC wanted to have absolute control on the marketization and opening up process, it did not want any Western power to interfere its domestic politics. Also, the developments in Eastern Europe in the same year, which resulted as the dissolution of all socialist countries, and communist parties to lose their power, made CPC worried about its own future. Therefore, China suppressed the protests in Tiananmen Square. This situation drew the attention of the EEC, as well as the other Western countries, and as a result, EEC cut its relations with China and impose sanctions including an arms embargo.

After the Tiananmen Square incidents, China had another domestic problem. China's reform process was also being questioned and challenged by the members of the CPC. Those who were in favor of a more traditional socialist way and against the marketization of China gained a ground for their opposition against Deng's policies. Deng Liqun, who was a Politburo member at that time said: "If we fail to wage a resolute struggle against liberalization or [against] capitalistic reform and opening up, our socialist cause will be ruined" (Kissinger 2011, p. 146). This concern, which was also alarming for the EU, could have led to the strengthening of socialist factions in CPC and even the decline of market reforms. In this case, cutting the relations was the best solution for the EU in terms of surviving this risky period.

This troublesome situation in 1989 started to get solved in the following 3 years. The first step to solve this problem has been made by Deng Xiaoping. In his speeches addressing the

sanctions, Deng encouraged private companies all over the world and expressed the hope that ‘foreign businesspeople would pressure their governments to improve relations so that they could once again have access to the Chinese market’, and he urged Chinese executives and diplomats to work with ‘foreign friends’ to get sanctions lifted (Friedberg 2018). In a period that European companies started to benefit from China’s highly profitable production opportunities, Deng’s call could be seen as an effective political move.

Secondly, Jiang Zemin, who was the mayor and municipal party secretary in Shanghai, became the General Secretary of the CPC in 14th National Congress in 1992. Jiang was also supporting the reforms and showed that officially to the world in the party congress by delivering a report titled “Accelerating the Reform, the Opening to the Outside World and the Drive for Modernization, So as to Achieve Greater Successes in Building Socialism with Chinese Characteristics”:

The Party Congress acknowledged the substantial achievements made in reforming and opening up as well as in the modernization drive since the end of 1978, systematically summarized the practices and experiences over the previous 14 years, made a brilliant exposition of Deng Xiaoping Theory of building socialism with Chinese characteristics, and outlined the major tasks in the reform and economic and social development in the 1990s. It was an official declaration that the target of China's economic restructuring was to establish a socialist market economic system. (14<sup>th</sup> National Congress of CPC, n. d.)

Also, at the end of 1992, Deng went for the Southern Tour and visited SEZs to show he was still behind what he achieved, and the process will continue. He gave many speeches and promoting the reforms and said that the program of economic liberalization must continue for “a hundred years” (Kissinger 2011, p. 146).

The 14th National Congress of the CPC and Deng’s Southern Tour gained EU’s trust back. The suspicion that EU had after the Tiananmen Square incidents ended with the reformists in CPC secure their position in China’s government. However, as it will be seen in the documents, for EU, problems about human rights and marketization process in China still existed. But in further documents signed between EU and China showed that, for EU, the economic opportunities in China is far more important than the other issues like human rights or democracy.

### **3.1.1 EU Documents on China**

From 1975 to today, there are lots of documents and papers that both sides have published. However, there are some important and significant ones that have been selected and also enough for explaining the basis of the relationship between China and EU. These are important documents to understand how China-EU relations started. As mentioned before, the early years of China-EU relations have not many serious problems, so these important documents should be seen as mostly EU mentoring China in its integration policies.

After the normalization in the relationship between China and EU, there were four important documents published by EU to describe and build the economic and political relationship with China. These are Towards a New Asian Strategy (1994), A Long Term Policy for China–Europe Relations (1995), Building a Comprehensive Partnership with China (1998) and Implementation of the Communication “Building a Comprehensive Partnership with China” (2000).

#### **3.1.1.1 Towards a New Asian Strategy**

After the relations between EU and China normalized, in 1994, European Commission set its general policies on Asia with the Commission Communication called “Towards a New Asian Strategy”. This document was not only for China but the Eastern and Southeastern Asia countries in general. In this document, EU mentions an urgency to strengthen its economic presence in Asia. As the region started to be a competition area for neoliberal globalization and the increasing economic presence of the US and Japan in the area, EU emphasizes its presence in the region as urgency. Also, the dramatic rise in the number of consumers and the purchasing power of Asian people mean a new market for EU to impose itself. EU’s neoliberal policies turn EU an investment manager for the companies in the EU. The desire of being included to this growing market opportunities, to remain economically powerful, to protect its interests, to maintain stability and security in the region was seen as the main interests of EU in this document.

In this document, the main purpose of EU in Asia is not to miss the train of Asian market opportunities and also to provide EU business model to the region to do business properly. Also

in the first years of entering the Asian market, EU did not want to give priority to the political problems of the region and gave priority to the economy: “The main thrust of the present and future policy in Asia is related to economic matters. However, this major component of the Union policy has to be presented in the framework of the political and security balance of power in the region” (EC 1994).

EU sees Asian states, mostly China, “to represent between quarter and a third of the world economy by the year 2000.” According to EU, the growth in Asian economies were variative and rapid. So, EU’s strategy to maintain this expectation was “European Union strategies will have to be flexible and modular in order to anticipate changes in all three regions of Asia, and they will have to be geared to the particular circumstances of the different countries and regions there” (EC 1994).

As seen in the language and mentions of these documents, it is clear that as long as China does not pose a threat and remains as a cheap labor heaven and a huge market for the EU, human rights is just a drop in the bucket (However, when economic relations do not go well, EU immediately play the human rights card). This can be seen as one of the main contradictions of neoliberal globalization.

In this document, there were the first signs of EU’s enthusiasm to integrate Asian states to the international trade organizations. EU mentioned that it will be “aimed to assist the ongoing reform process” and “to encourage the growth of new markets that are open and compete within the internationally agreed framework of the GATT”, as the market transition of these countries and external trade plays an important role in rapid economic growth (EC 1994).

In the document, EU suggests several points for its strategy in Asia. These are categorized as 2 main titles and 16 subtitles. The first main title is “Economic policy implications”. Its purpose is to establish a high profile of EU in the region and maintain and secure the best conditions to integrate the Asian states to the world economy. The second main title is “Strengthening the European Economic Presence in Asia”. Different than the first title, it focuses on establishing businesses and have an impact on policymaking of these countries. In short, these two strategies are for direct and to help to integrate Asian states to the world economy and to have an impact on these countries with trade, investment and cooperation in several areas (EC 1994).

In the conclusion part of the document there are important supporting points of the EU’s plans on Asia. It was emphasized that EU should give higher priority and deepen its dialogue; develop its political dialogue, needs to emphasize market opening, economic cooperation in sectors such

as banking, energy, environmental technologies, transport equipment, telecommunications; and must assist Asian countries including China which are moving towards market economies (Snyder 2009, p. 339).

These are some of the points that EU concluded this document. These points clearly show that with the neoliberal globalization agenda, EU wants to collaborate with newly emerging Asian markets for the opportunities that they might offer. It wanted to take advantage of the huge markets and cheap labor power of the Asia, especially in China, and also wanted to direct them with political and economic policies.

### **3.1.1.2 A Long Term Policy for China–Europe Relations**

As China is the biggest country in Asia, both by its size and population, EU wanted to be sure that it has to have a long-term policy on China. By seeing China's potential and its effort and enthusiasm to integrate the world economy, EU prepared a specific document called "A Long Term Policy for China–Europe Relations" in 1995.

In this document, EU mentions China as "increasingly strong in both the military-political and the economic spheres." The need of having a long-term policy on China was also important for China, because China was already a member of World Bank and IMF, and seeking to integrate WTO by its active negotiation in the 1990s.

According to EU, China's political importance makes its stability more important for the whole world. As mentioned in the Chapter 2, the political stability is a key point for CPC in the reform process. As both EU and China were aware of the importance of the stability of China, and China declared its commitment to the market liberalization in 1992, EU showed its confidence in China and published this document for its long-term policies on China.

China's market reforms and opening up is important for EU in two ways: a huge number of labor force and the number of potential consumers for EU companies. As the most populated country in the world, China is also the second biggest economy on the basis of purchasing power parities (PPP). So, in these conditions, EU mentioned that:

"China's size and influence on world trade gives its economic policy global significance. It is in the world's interest, as well as China's, that the Chinese economy continues to grow and to

open up, and that China takes its place as a major player in the world system of economic rules and policies. It is also essential to help China to participate fully in the rules-based system of the World Trade Organisation.” (EC 1995)

As seen here, EU also wanted China to become a member of WTO, because this would lead EU and China to establish trade relations more effectively and securely:

“The EU is eager to see China sharing in the opportunities and responsibilities at the heart of the international community as China opens up to a freer flow of ideas and cooperation, both in the key Asian region and globally. We support the wholehearted participation of China in the international community.” (EC 1995)

After China’s declaration of commitment to the market economy, EU also declaring its commitment to help China in the process of transition. Obviously, the booming economy of China made EU’s mouth watered and by helping China to integrate into the neoliberal globalization and supporting its membership to the WTO, and also by supporting China in OECD and G-7 EU were looking to maintain and increase its developing conditions in the region.

Of course, WTO membership was very important for China. For China, which plans reforms and economic structure based on exports, becoming a member of the WTO would provide considerable advantages. Like other developed countries, the EU has also become a supporting position for China's membership in international institutions for its commercial and economic interests in China. The cheap labor and the big market in China were raising the appetite of the ruling classes of the developed countries. For this reason, China's membership in the WTO is a threat to the EU and the US today, but it was a necessary step for them at the beginning of the 1990s.

EU and China also held bilateral trade talks. The Economic and Trade Working Group, which was established in 1993, held various discussions on IPR, agriculture and financial services in 1994. The EU, which is especially sensitive to IPR, has signed agreements on this issue.

The document also suggests that there are 3 key targets for EU-China cooperation. These are the improvements in the further human resource development, encourage a more wide-ranging program of supporting the reforms to create a fair and effective working system and to facilitate a cooperation between EU’s and China’s private sectors to support the healthy evolution of the business environment in both economies. For these three cooperation targets, there are 2 areas for potential future development. These are environment and, scientific and technological areas.

There are important trade data in this document. The data gives a clear hint about the economic and technological capabilities for both sides: while 65% of EU exports to China concentrated on machinery, transport equipment, and nuclear reactors, 57% of China's export to EU consisted of textiles and clothing (20%), toys, electrical material, leather goods and footwear (EC 1995). As clearly seen here, while EU exports based on technological products, China's exports did not. This can be seen as the main problem of China's economy of that time. Due to lack of technological production in China, and EU's demand of market and cheap labor, EU and China were dependent on each other in the 1990's. Although China's export was not including any advanced technology, EU brings quotas to some products that are imported from China. The reason is "the unique nature of Chinese economy and its potential to disrupt the EU market in some sectors" (EC 1995).

These quotas include products like footwear, toys, and silk showed a clear example of how neoliberal globalization works. As mentioned in Chapter 1, globalization is a tool for expansion of the neoliberal policies to the developing or underdeveloped countries. The claim of the removal of the borders is not including the imports from the developing or underdeveloped countries. Every national economy wants to protect its domestic sectors due to nature of capitalism. So, globalization is becoming a tool for neoliberal policies of developed capitalist countries to impose their political and economic policies in developing or underdeveloped economies.

### **3.1.1.3 Building a Comprehensive Partnership with China**

In 1998, EU published another document called Building a Comprehensive Partnership with China. 1997 was an important year for both China and EU. For China, there was the 15th National Congress of the CPC, the Asian Financial Crisis and Britain has handed over sovereignty of Hong Kong to China, and for EU, with the Treaty of Amsterdam there was a transition towards a single currency and an enlargement process. In these conditions, EU and China continued to progress in their relations. EU became pretty sure about China's passion to reform with 15th party congress and wanted to engage China to the international community (Snyder 2009, p. 370).

Under these conditions, which is also mentioned in the document, EU listed the aim of EU-China partnership as:

“Engaging China further, through an upgraded political dialogue, in the international community, supporting China’s transition to an open society based upon the rule of law and the respect for human rights, integrating China further in the world economy by bringing it more fully into the world trading system and by supporting the process of economic and social reform underway in the country” (EC 1998).

In the first article, the EU mentions about steps to increase the political dialogue with China and to boost China's international activity. It is stated that the annual EU-China Summits have developed mutual relations and problem solutions. It also notes that the EU supports China's active role in regional issues in The Asia-Europe Meetings (ASEM) and other regional issues. In the second article, the EU argues that China should be more zealous on human rights issues and that the situation of the workers in the country should be raised to ILO standards.

In the third article, it is mentioned that China needs to take mutual steps in the integration of international economies. This is the most important part of the EU-China partnership, because as seen from the today, China’s accession to the WTO will be a key moment for the world, China and also China-EU trade relations.

The main reason for EU to bring China to international trade system is to secure its trade advantages against China. A systematic membership to an international trade organization makes China to apply the trade rules and regulations, as WTO brings a set of standards on trade regulations (Deraniyagala 2005, p. 100). So, EU supported China’s accession to the WTO and also aimed to strengthen the bilateral trade relations which started, organized and mentioned in 1985. Also in 2000, EU published another updated version of this paper called “Implementation of the Communication ‘Building a Comprehensive Partnership with China’” and supported China against the challenges that China faces through the WTO membership and expansion of the EU-China relations. EU declares itself as an assistant of China “to become a global economic player fully integrated into the world economy and able to comply with common rules should be achieved through a combination of trade discussions and targeted cooperation initiatives.” As a result, EU demands China to respect WTO principles such as transparency of law and regulations, national treatment for foreign companies and non-discrimination against EU companies and other trading partners (EC 1998).

### **3.1.1.4 Implementation of the Communication “Building a Comprehensive Partnership with China”**

In the eve of China’s membership to WTO, EU published a Commission Report called “Building a Comprehensive Partnership with China” in 2000. The report was for evaluating the previous documents and pointed China to take action for the accession to the WTO.

In the document, under the title of “Bringing China into the World Trading System”, EU mentions about the problems of China that it must solve to be a proper member of the WTO. These problems are mainly about the market access barriers of China. EU wants to solve those problems, which creates indirect barriers for trade. For example, it is a priority for EU that China’s unsatisfactory situation in IPR must be solved by China to take advantage of all the benefits of the global trade.

The bilateral agreement between China and EU was also seen as a important milestone for EU. According to EU, this agreement has secured the China’s accession to WTO in 2001. For EU, this agreement has also secured “vastly improved access for EU (and other WTO member countries’) firms to the Chinese market.” (EC 2000).

As seen in those 4 agreements, EU wanted China to be a member of a WTO since China has proved its market economy and the openness of the country will be permanent in the early 1990’s. For EU, it was important to took advantage from the opportunities that China offered, however EU also wanted to secure itself by make China to adapt certain international trade regulations. The best way that both sides mutually found is China’s membership to the WTO.

### **3.2 Instability Period (2001-2013)**

China became a member of WTO in December 2001. This is a very important milestone for both China and the world (Chen 2009, p. 1). China’s membership of WTO is also important for China-EU relations. The 26-year relationship between the two countries has entered a new era. In the journey of China to become a member of WTO, it has EU’s support to be involved in the world trade network, but obviously EU supported China’s membership primarily for its own benefit. Seeking an active role in the China’s market, EU wanted China to be a WTO member.

The reason for that was, as a WTO member, China would have to apply the rules and regulations of WTO, thereby making the EU's position in China's market, reliable and risk-free.

China, on the other hand, took an important step in the name of global economic integration, which is one of the main targets of the reform policies that launched in 1978. As it will be seen in this chapter, China's integration into the world economy is mostly useful for China. The economic and political achievements after China's WTO membership have made China one of the world's most important power today, and as a result, a competitor of EU.

In the next 12 years after China's membership to WTO in 2001, China-EU economic relations has reached another level. There are 3 important break points between 2001 and 2013, which are China's should be divided into 3 parts; China's declaration of its EU policies in 2003, problems appeared in 2006 and the events after 2008 global financial crisis.

After almost 15 years of mutual assistance of the EU, China and WTO had concluded their negotiations on China's membership in the end of 2001 (WTO 2001). The conditions that China has accepted are similar to what EU demanded from China such as, non-discriminatory treatment to all WTO Members, transparency in law making and regulations and not to control prices in China.

There were three important changes in the China's economic policies after the WTO membership. The first one was, the opening up policies of the China are spreading out to the whole country from certain port cities and SEZs. Experimental SEZs, which China began with the reform process, began to spread throughout the country after the WTO membership. After the WTO membership the concept of "regional opening up" was replaced by the concept of "opening up of industrial sectors" (Jiang 2013, p. 299).

Secondly, the production and capital market has been more internationalized. After the WTO membership, China's market has become more and more open to the foreign investors. Also, the process of Chinese companies to expand throughout to world has gained speed.

Thirdly, China's laws and regulations has become more standard and integrated to the world. China has conducted the restructuring of the market economy and the processes of opening up. As a result of this, CPC was trying to accomplish market-based changes in the infrastructure and the law and regulations of the market economy in the superstructure, in a controlled manner. On the one hand, it had to fulfill the requirements of the market economy and on the other hand,

it had to make the institutional changes that the market economy would require (Jiang 2013, p. 300).

These measures opened China out and integrated it into the world economy, while at the same time trying to fulfill the needs of neoliberal globalization. Hu Jintao administration did not apply rapid market reforms as Deng and Jiang during his term. Nevertheless, China's FDI and exports grew more than last decade, because of the benefits of being a WTO member. China's membership to the WTO expanded its access to the world markets, and as a result, world economy grew 5% a year between 2003 and 2007, well above the average. China's exports also grew 27% between 2001 and 2008, from 266 billion \$ to 1.4 trillion \$ (Kroeber 2016, p. 50).

China's WTO membership has brought many advantages and challenges for both China and the EU. After China's acceptance to WTO, China became one of the most important figures in the world economy, due to fast economic growth, large amounts of FDI inflows and rapid expansion in international trade. Because of its demographic and geographic conditions, China's economic activities like production, consumption and trade started to effect world economy. (Chen 2009, p. 6).

### **3.2.1 2003: China's First Policy Paper on EU**

After China's acceptance in WTO, China-EU relations has entered a new stage. In 2003, the China-EU Strategic Partnership has been established. The establishment of the strategic partnership between China and EU referred as "one of the most important yet least appreciated development in world affairs in recent years" (Shambaugh 2004, p. 248). Strategic Partnership means that China and EU will establish closer economic relations and also solve political and security issues according to their common interests (Farnell & Crookes 2016, p. 4).

On the other hand, China has published its first policy paper on EU in 2003. After EU published its policies several times since the establishment of relations, China published a document called "China's policy paper on EU". In this document, China outlines the areas and plans of cooperation and related measures in the following five years.

The document consists of 3 major parts. The first one is "Status and Role of the European Union". In this part, China mentions its pleasure EU's incoming enlargement in 2004. China praises European integration and claimed that it is "irreversible" (China's Policy Paper 2003).

The second part is “China’s EU Policy”. In this part, China emphasizes that the China-EU relations benefits both sides and “now better than any time in history” (China’s Policy Paper 2003). According to China there are no fundamental conflict of interest between both sides because common ground outweighs disagreements. China sees its relations with EU as complementary in 2003.

The third part called “Strengthen China-EU Cooperation in All Fields” and consists of 5 minor headlines. These are The Political Aspect, The Economic Aspect, The Education, Science-Technology, Culture, Health and other Aspects, The Social, Judicial and Administrative Aspects and lastly The Military Aspect. Here, only two of them will be mentioned: Political Aspect and Economic Aspect.

On political aspect, China emphasizes several points. Strengthening political dialogue and international cooperation, importance of one China policy, promoting the EU's understanding of Tibet and enhancing mutual understanding between Chinese and European legislative organs are the important political points from the Chinese side.

On economics aspect, there are two main cooperation aspects for China. In “Economic Cooperation and Trade”, China demands EU to “ease restrictions on high-tech exports and tap the enormous potential of technological cooperation” and also, “trade in line with the WTO rules and grant China a full market economy status” (China 2003). As mentioned before, technology is one of the most important needs of China. So, easing the restrictions in technological cooperation would be good on China’s side. Trade is also important for China due to its high level of export.

In “Financial Cooperation”, China tries to establish the conditions for increasing the opportunities for China to make investment in EU. China hopes to see “appropriate settlement of the issue of Chinese financial institutions' access to the EU market” (China 2003). China also offers to establish a high-level financial dialogue mechanism for financial security.

This policy paper shows the China’s courage to protect and enhance its economic and political relations with EU. On the other hand, this paper also shows China’s targets to benefit from the opportunities in the EU market. As a result, EU started to be concerned and took action against China in 2006.

### **3.2.2 2006: The Official Beginning of EU's Concerns**

It can be said that China-EU relations was going through a stable direction since the establishment of the relations. However, since the membership to the WTO, China has reached a rapid growth rate, started to benefit from the opportunities of the WTO and EU market, and still determined to protect its domestic market. During the period between 2002–2007, the total value of China's foreign trade increased from US\$ 620.7 billion to US\$ 2173.8 billion, with its exports increasing from US\$ 325.6 billion to US\$ 1218.0 billion and imports increasing from US\$ 295.1 billion to US\$ 955.8 billion. (Li & Wang 2009 p. 20). The extraordinary increase of China's foreign trade started to concern EU. This is the world's biggest bilateral trade imbalance; since 2006 EU's trade deficit with China has been higher than the deficit with the US (Godement, 2011; UN Comtrade, 2012 as cited in Mezo & Udvari 2012, p. 445). As a result, in 2006 the first negative signs for the relationship has begun.

Since 2005, EU started to be suspicious of the growing strength of China and decided to change its policies towards China. The expanding relations between China and EU, increasingly started to face with new contradictions and tensions, and frictions compared with those at the previous stage. For this reason, to complain about China's double standards in trade and to express its concerns European Commission released two policy papers towards China in 24 October 2006, which were named as "EU-China: Closer Partners, Growing Responsibilities" and "EU-China Trade and Investment: Competition and Partnership" respectively. (Li et al. p. 37; Ash 2007, pp. 193-194). These two policy documents have different tones than the past ones. EU continued to support China but laid more stresses on China's responsibilities. (Li et al. p. 37)

In these two papers, EU directly accepted and expressed the danger of China. The statements in the documents like "Europe needs to respond effectively to China's renewed strength" and "China is the single most important challenge for EU trade policy", clearly showed that EU started to see China as a threat (EU 2006). For EU the reason for that is explained as:

"The EU's open market has been a large contributor to China's export-led growth. The EU has also benefited from the growth of the Chinese market: EU exports to China have more than doubled in the past five years. Competitively priced Chinese products have helped keep inflation and interest rates in Europe lower. European companies have gained from their investments in China. But competition from China has raised serious challenges for Europe in some important manufacturing sectors." (EU 2006)

As seen here, EU is concerned about an unequal condition of EU in China. So to speak, the economic opportunities in the EU for China are not equal as economic opportunities in China for EU. The reason for that is, China is a more competitive producer than the EU and that high-cost EU goods and services cannot find buyers in the Chinese market (Farnell & Crookes 2016, p. 24). Also, the rapid growth of the China's economy has created new opportunities for EU companies. However, EU could not calculate the costs. Traditional labor-intensive industries, such as ceramic, furniture, lace, or book printing, have practically disappeared in Europe (Farnell & Crookes 2016, p. 29). As a result, while Chinese companies were growing in EU and even started to threaten the EU manufacturing sectors, EU cannot have the same efficiency in Chinese market.

This condition should be seen as one of the main potential conflict points of China-EU relations. As mentioned in the first two chapters, the neoliberal globalization could not get what it planned to get from China. As a necessity of neoliberal globalization, EU companies moved most of their manufacturing business to China, due to China's cheap labor. On the other hand, China, which is integrate itself to the global economy by itself, does not lose the control on its own economy and does not let Western companies to enter Chinese market rampantly as happened in former Soviet Republics.

EU also concerned about China's rise in international politics. In the document, EU criticizes China's "peaceful rise" policy and says that this policy does not reflect the reality: "China has traditionally described its foreign policy as one of strict non-interference, but as it takes on a more active and assertive international role, this becomes increasingly untenable." (EU 2006).

In short, EU is satisfied about the Chinese investment in EU as it lowers inflation and interest rates. However, the growing concern is that the China's growing economic and potentially political effects on EU countries would cause trouble for EU in the future. So, EU directly expressed its ideas on China by saying "China is the single most important challenge for EU trade policy" (EU 2006). This period referred as the end of Honeymoon. (Li et al. 2007, p. 38)

### **3.2.3 2008 Crisis: A Breakpoint in Economic Relations**

The EU-China relationship which started to move in a negative way after 2006, had to return what it used to be during the 2008 financial crisis. Even though the crisis in 2008 seems like it

did not affect EU economy that much, when focused on the country by country, it can be seen that the situation is not so shiny for EU. 2008 economic crisis is a breakpoint in China-EU economic relations. Before 2008, China-EU relations can be summarized as the interaction between China and the EU was unbalanced as the EU being offensive and China defensive. After 2008 crisis EU faced challenges that coming from China (Heng 2017, p. 117).

First of all, with the mutual effort from both sides, China-EU relations had returned to normal track in 2009, since EU was into a deep crisis in 2008. Also, Chinese Prime Minister Wen Jiabao visited EU countries in 2009 which played an irreplaceable role in rebuilding trust between the two sides (Li et al. 2017, p. 38).

While China, and the major partners of EU such as Germany and France have managed to save themselves from the negative effects, eurozone in general was still feeling the effects of the crisis in 2008. The crisis was hard to manage for EU, because each member state has different problems. It is estimated that, more than 2 trillion euros is needed to bail out Greece, Italy, Ireland, Spain and Portugal. At first, EU wanted to solve this problem in itself, however, EU budget for recovery amounts only to 108 billion euros which was far from enough (Mezo & Udvari 2012 p. 445). So, EU established European Financial Stability Facility (EFSF) in 2010 to provide financial support to those countries.

While EU was trying to solve its economic problems, it is important to remember that China wants an integrated EU, but also it chooses to establish trade relations by specific countries in the EU. What EU means for China is, EU is a huge single market for Chinese goods. So, the free trade within the EU is beneficial for China, when China establish economic relations with a specific EU country. So, if EU does not create its own solution for the post 2008 crisis problems, they risk facing a version of the prisoner's dilemma, which means that each member state will consider and sign their own deals, and this might lead to block any future common policy of EU about China (Godement & Parello-Plesner & Richard 2011, p.2).

After all that, China decided to take an early step to solve EU's economic problems. As mentioned above, economic conditions of the eurozone is important for China, due to their strong trade bonds. So, China started to buy European countries' debts in 2011 and has made deals with Greece, Spain and Portugal. After that move, the head of the EFSF, went to Beijing to discuss the terms of how China would inject money into eurozone economies (Groves, 2011 as cited in Mezo & Udvari 2012 p. 448).

China is becoming more present in EU in three ways: by purchasing European government bonds; by directly investing in companies, especially in Europe's periphery; and by participating in European public procurement (Godement & Parello-Plesner & Richard 2011, p. 3). Although, most of China's EU investments are made in UK, France, Italy and Germany, EU is mostly concerned about investments in Greece, Spain and Portugal. It is necessary to return to Chapter 1 to answer this question. Due to the nature of neoliberal globalization, major powers of EU regarding themselves as entitled to the weaker states of the EU. EU, which plans to provide economic and political influence over these countries through their debts, is complaining when China takes over its own peripheries' debts. This plays an important role in the planning of EU policies on China. But on the one hand, claims of China buying political support within the EU, and the uncompromising attitude of the major partners of the EU to China, will cause a conflict in the future.

30% of China's investment and commercial spending in Europe goes to Portugal, Italy, Spain and Greece. Also, Chinese companies are buying well-established companies of the EU. Chinese state-owned companies bought brands such as Pizza Express, Volvo, and Pirelli. (Godement & Parello-Plesner & Richard 2011, p. 2). Princeton University's Sophie Meunier wrote that, "For the moment, Chinese investment seems like money falling from the sky, but it could turn ... into a Trojan horse introducing Chinese politics and values into the heart of Europe" (Bershidsky 2015).

EU is already suffering from state control on markets in China. EU's most basic discomfort is that it cannot make China accept free market values, but on the other hand, China can easily use free market conditions in the EU for its own benefit, especially after the 2008 crisis. The fact that this double standard appeared between China and EU exactly after the policy change of EU in 2006 has made the situation more difficult for the EU. China's approach to the specific EU countries is a direct challenge to EU and means that "I can do what you cannot do". This is an obstacle to the EU's ability to develop a common approach to China with all EU countries as in 2006. China turned out to be a major financial and investment provider for Europe. However, EU has lower access to the same sectors in China, due to China's control over them (Godement & Parello-Plesner & Richard 2011, p. 2).

China describes most of its sectors as "strategic". Its China's legal right to decide its own strategic sectors due to the regulations of WTO. On the other hand, for EU, there are less strategic sectors than China's. So, for example, while Chinese companies can buy Sweden's

Volvo, EU cannot buy or make high amounts of investment to the Chinese car companies (Godement & Parello-Plesner & Richard 2011, p. 6).

The other problem that EU has with China is the lack of transparency of Chinese companies investing in Europe. Even though it is not a big problem for Chinese companies to be opaque in China, it became a problem when those companies investing in Europe. EU wants to be sure about these companies are not direct influence of the CPC (Godement & Parello-Plesner & Richard 2011, p. 5).

As a result, the relations between China and the EU after the crisis of 2008 are necessarily normalized, but the situation shows that in the future China's relations with EU may increase tension and confusion. Especially Xi Jinping's international trade policies will be one of the most important factors in increasing the tension.

### **3.3 Towards the Conflict Period (2013-2017)**

EU's concerns about China continues to be relevant between 2013 and 2017. China's political and economic activities in Europe, make EU take other measures. As China becomes more and more experienced in technological production in materials such as wind turbines, solar panels and telecommunications equipment, and also increased the production of cheaper steel are the main reasons for EU to take measures against China. These measures are mostly seen as anti-dumping cases. EU has lots of anti-dumping investigations against China: nearly half of EU investigations initiated since 2011 and two-thirds of the EU's anti-dumping measures currently in force concern China (Farnell & Crookes 2016, p. 80).

The trade volume between China and EU returned its normal levels after 2008. However, in near future, China's decision on changing the economic priority from export oriented to increasing domestic demand will affect both China's economic growth and exports to the EU. This can be seen as a main reason for China's insistence on supporting globalization with their policies and international projects between 2013 and 2017 (Farnell & Crookes 2016, p. 72).

So, China's efforts to increase its political and economic power in Europe and EU's defense against it shaped the 4-year period. Even though the rising protectionism in the world caused a temporary collaboration between China and EU, the tension between them is still valid.

### 3.3.1 One Belt One Road: A Challenge Against EU?

As Xi Jinping became the General Secretary of the CPC and the President of the China, a new era has been started for the country in 2013. China has launched a huge international trade project called “One Belt, One Road” (OBOR). The importance of OBOR is to highlight the China’s power in the global economy and trade and a precaution for future trade disputes around the world.

When Xi first announced the “New Silk Road” economic corridor project in Kazakhstan, he says that:

“To forge closer economic ties, deepen cooperation and expand development space in the Eurasian region, we should take an innovative approach and jointly build an "economic belt along the Silk Road". This will be a great undertaking benefitting the people of all countries along the route. To turn this into a reality, we may start with work in individual areas and link them up over time to cover the whole region.” (2013).

China launched this project by claiming that, the project would be beneficial for all countries. Although it cannot be said that the claim of China would be true, it is obvious that the project would create another conflict area between China and EU. As a potential for conflict, OBOR consists of two parts: Silk Road Economic Belt and 21st century Maritime Silk Road. The economic belt is planned to be on land and the maritime road is planned to be on sea, so this means China needs roads, railways and ports to connect Europe.

As mentioned in the previous sub-title, China has already begun to invest in southern European countries after 2008 crisis. Its main policy in EU is to establish relationship with the countries one-by-one rather than trying to solve EU’s problems with EU. OBOR also opened another door for China’s entry into the EU market. China has financially supported the southern EU countries in 2011, and after 2013, it started to invest in the Eastern European countries. CEE countries who were hungry for FDI to their countries, found China in their doorstep.

Chinese investment in CEE is very strategic. For its needs for OBOR, China started to buy and invest CEE’s roads, railways and ports. An initiative called 16+1 is the formal format of the China-CEE relations. It consists of 11 EU member states and other 5 states in Eastern Europe<sup>6</sup>.

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<sup>6</sup> These countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

With this initiative, China aimed at intensifying and expanding cooperation with these 16 countries in the fields of investments, transport, finance, science, education, and culture.

This initiative is another reason for growing tensions between EU and China. As happened after the eurozone debt crisis, China is bypassing the EU and establish bilateral relations with the EU member states and even establish its own initiative. Even though China emphasize that it is a coherent with the EU-China strategic partnership, in articles in the CPC's Global Times tell the opposite. For example, Director of Department of European Studies at CIIS Cui Hongjian observed that "China's economic presence in Central and Eastern Europe is too strong to be shaken." (Turcsanyi 2017).

China's investments in the CEE can be seen as a China's desire to has a powerful condition in Europe. The purchase of the Piraeus port of Greece, Budapest-Belgrade railroad construction are the most important examples of Chinese investment in CEE. As clearly seen, these investments are mostly trade oriented.

Obviously, these investments have not been made only for economic reasons, but also political reasons. As in southern Europe, China wants to buy political effect within the EU. The OBOR investments have gave their first fruits in an EU voting against China about organ harvesting and Greece blocked EU's criticism at UN of China's human rights record (Emmott, R. & Koutantou A., 2017). Also, when EU wanted to screen Chinese investments in Europe to put the "national security" card on the table. However, this also could not happen due to CEE countries' block.

On the other hand, AIIB, which is established under the leadership of China, take EU's support. AIIB seen as an alternative to IMF and WB and considered as the main financial support for the OBOR. Even though major partners of EU are not happy about the Chinese influence in the EU, they supported the establishment of AIIB by being founding members. Germany, France and UK are in the top ten shareholders of the AIIB (Top 10 shareholders of the AIIB 2015). Even their shares are low in percentage, it shows that major partners of the EU also do not want to miss the possible positive opportunities of AIIB.

On the China's side, OBOR is a project that will enable the sale of products with overcapacity in China. With this project, China desired to minimize the effects of EU's anti-dumping investigations. Also, China wants to increase domestic consumption and it is also becoming infrastructure oriented rather than export oriented. It should be seen as an effort to minimize the negative effects of decreasing trade in the world as in 2008 crisis. Also, China's OBOR

project will enable trade to develop in the countries where the project has taken place and to spread Chinese products to the world.

### **3.3.2 China Holds the Wheel of Globalization**

As tensions between China and the EU continue, a similar period between the years of 2006 and 2009 began to take place in 2016. As the 2008 crisis affected the whole world and the neoliberal globalization could not find a solution to the 2008 crisis, the protectionist economic models began to gain strength. The debate on the future of globalization has turned out to be a matter of concern for both the EU and China. For the EU and China, which are the two most important centers of global trade, the unnecessary barriers that put in front of the trade should be abrogated. For this reason, China and the EU's defense of globalization was very important. The invitation of Chinese President and CPC general secretary Xi Jinping to Davos at such a critical time revealed the need for EU capital in China at this critical period once again.

Davos is one of the most important places that tries to find solutions to the problems of capitalism and Xi's invitation and attendance is important for many aspects. On EU's side, it shows that EU still cannot find a proper solution to exit from the crisis, EU sees protectionism as a more serious threat than China. On China's side, this invitation means that EU capitalism accepts China as a political and economic authority and acceptance of China's globalization policies are valid.

The inability of the EU to find a solution to its own internal problems and the discomfort of China's activities in Europe could be seen as the results of EU does not have a valid and adequate plan for the crisis. On the other hand, in his speech, Xi said that globalization was not wrong, but criticized the type of globalization which is neoliberal. He also emphasizes that every country has its own way to develop.

This emphasize should be seen as a criticism towards EU. Since the relations between EU and China started, EU usually warns China about what it should do to integrate the global economy. However, in 2016 a Chinese President gave a speech titled as "Jointly Shoulder Responsibility of Our Times, Promote Global Growth" and said that:

“China has in the past years succeeded in embarking on a development path that suits itself by drawing on both the wisdom of its civilization and the practices of other countries in both East

and West. In exploring this path, China refuses to stay insensitive to the changing times or to blindly follow in others' footsteps." (Xi 2017)

Even though Xi's speech seems to be effective, especially after the election of Donald Trump in the United States, it does not end the tensions between EU and China. Temporary recoveries were seen in the past between these two, however the tension and possibility of conflict is always permanent.

## CONCLUSION

The world order affects China-EU relations and its future like anything else. Political and economic conditions of the world always affect the relations of both domestic and international relations of the countries. So, it is not possible to understand China-EU relations without knowing how the world politics and economics work. For this reason, problems of neoliberal globalization must be emphasized in terms of an integrative and historical perspective.

In today's world, globalization is based on neoliberalism. The economically and politically strong countries have tried to present neoliberalism together with globalization in order to overcome the crisis situation in the late 1970s. Neoliberalism has spread to the entire world with globalization under the leadership of US and UK. EU was also an important part of the globalization process. As it changed its name from a "community" to "union", EU's major partners took a step to integrate Europe to the neoliberal globalization together with the enlargement processes. In its documents on Asia and China, it is clearly seen that EU also trying to integrate China and other Asian countries to the neoliberal globalization.

Neoliberal globalization has problems. Neoliberal globalization has increased the economic and political influence of strong capitalist countries on other countries and has deepened exploitation. Globalization seems as a hope for many, but it is obvious that globalization is a failure more than a hope because, neoliberal globalization is not enough to explain today's world order. Theories about imperialism and especially their analysis of the outcome of the imperialism must be considered to explain today's world order due to its similarities with the neoliberal globalization. The outcomes of imperialism theories are enough to explain the neoliberal globalization's claims and why they are not valid. It also helps to understand the China-EU relations and its future by two main claims as it is mentioned in Chapter 1; imperialism is not a choice for developed capitalist countries and it will cause conflicts between different great powers.

The quest of finding cheap labor and transferring the production process towards China was a critical move for EU. To loosen the effects of the crisis in the late 1970s, EU wanted to shift its production to China due to its cheap labor and also its huge market. However, the main potential problem between China and EU would be the China's integration model.

China integrated to neoliberal globalization with preserving its political independence and has reached its present strength thanks to this feature. China, which entered the reform process at the end of the 1970s when neoliberalism emerged, has also improved relations with western countries. The domestic economic reforms and the opening up process have strengthened the Chinese economy and thus strengthened the power of the CPC. But China's political willingness to remain independent and its accomplishment has created a contradiction for the EU. There is a contradiction between the enormous profitable production conditions in China and the EU's political demands such as democracy and human rights for the safety of its investments in China. This contradiction is easily seen in the EU's documents on China in Chapter 3. These documents contain both economic and political aspects, but the economic side is always dominating.

As a part of economic relations, trade between China and EU is the most developed part of their relation (Herrero et al. 2017, p. 7). Until 1989, EEC's concerns about CPC, and CPC's concerns about EU's potential to interfere its domestic politics were the main concerns of both sides about each other. EU was concerning about CPC because, even though China started to reform its economy and open the country, Cold War did not finish, and CPC was still seen as a communist party. On the other hand, CPC was concerning about EEC's capability of intervening its domestic politics as in 1989 in Eastern Europe.

After 1989, China declared its dependence to the market economy in the 14th National Congress of CPC and Deng's Southern Tour in 1992. For EU, the Cold War has ended, and China did not insist on being a socialist country against capitalism so, there was not any serious obstacle left for EU capital to exploit Chinese workers. Throughout the 1990s, China-EU economic relations developed and both sides were ignoring the political side of the relations because both sides needed each other. China's need for technology and foreign investment, and EU's need for cheap labor made politics to become secondary importance.

In the 1990s, EU was assisting China to become a part of the international trade system. EU supported China to fulfill its obligations to become a member of WTO. At the end, China became a member of WTO in 2001. It was a milestone in the relations between China and EU. After WTO membership, China's trade grew rapidly. So, by supporting China to become a member of WTO, EU has caused interdependence period to end indirectly.

Due to China's integration model, China protects its political independence, while its economy was developing. Even though EU has long-term plans about China and put China in an

important position in world trade, it is clear that EU could not foresee that China would become one of the most powerful economies of the world. In 2006, EU decided to change its policies towards China. However, with the 2008 crisis, EU had to put its policy change towards China on the shelf.

As China became more and more strong economically, its political power also became stronger. On the other hand, during and after 2008 crisis, EU had a lot of economic and political problems. China saw these problems as an opportunity and took a step to take advantage of the situation. China started to buy European debt of the periphery countries of the big guns of the EU. Southern, Central and Eastern European countries' debts were bought by the Chinese government. China also made investments to those countries as it desires to enlarge its trade connectivity in Europe.

This economic opportunity was also a political one for China. By investing these countries, China was also buying political power. It must be seen as a result of the reflection of the changes in economic base to the political superstructure for China. China always emphasized that it would be respectful for other countries' domestic decision-making processes. However, as seen in the examples in Chapter 3, some of the EU countries are acting as a barrier against the EU's decisions on China. Also, as China started to affect EU's periphery, EU cannot answer back to China, due to China's own integration model and structure. These situations are concrete data for the possibility of a conflict between China and EU as a result of the problematic structure of the neoliberal globalization. As mentioned in the Chapter 1, for a developed capitalist country, imperialism is not a choice but a necessity. Today, it is too early to mention China as an imperialist or even a developed capitalist country, but China's policies in Europe shows that although China supports the idea of "peaceful development", which is a policy that emphasizes China will not interfere other countries domestic policies (China's Peaceful Development 2005), China had to interfere EU's decision making processes by effecting the EU member states. Also, China challenges EU by establishing its own initiative in Europe such as 16+1. These policies are not a choice for China, but they are necessities to protect its economic and commercial presence in Europe. As a result, secondly, economic and political conflict possibility is growing between China and EU.

So, in this study leans on the side that, the conflict between China and EU might grow. As the outcomes of imperialism theories foresees, when its necessary there would be conflict between great powers. As EU is already a great power, and China is in the stage of being a great power and threatening EU, conflict between China and EU is might grow in parallel with China's

growth. However, possibility of conflict between China and the EU is not an absolute prediction. Conditions may lead to a convergence as it was after 2008 crisis and in Davos 2017 against protectionist policies of US and some other European countries. In addition, when there is a conflict situation that concerns the whole world, China and the EU can also be on the same side as the US and the USSR are on the same side in the WWII. As main imperialism theories written in the conditions of WWI, the possibility of a military conflict is much higher than today. Today, military conflict is almost impossible and unnecessary between China and EU thanks to their balanced relations, but political and economic conflict is always possible. All these possibilities should be taken into account and no definite judgments should be made. Nevertheless, it should be kept in mind that the current situation shows that there is a greater possibility of a conflict between China and the EU in long term. As China settle in Europe, effect EU decisions by investing Eastern Europe and establish international projects such as AIIB and OBOR, and by doing these, politically and economically threatening EU, might be the reasons for a future economic and political conflict between China and EU.

It was understood at the end of the 1990s that globalization, despite all its ornaments and make-up, meant nothing more than merely transferring profits from other countries and markets. In the meantime, the movements of the capital increased in extraordinary sizes. For example, direct investments were below \$ 200 billion per year between 1990 and 1994, while in 2000, they were close to \$ 1.5 trillion. FDI, which exceeded \$ 2 trillion in 2007, averaged around \$ 1.4 trillion in 7 years between 2010 and 2016, as there were many cross-border mergers and acquisitions in this process (World Bank n. d.).

The foreign policy that China defines as a peaceful development is based on not interfering with the internal affairs of other countries. However, as China grows economically and engages in commercial projects around the world, China's policy may have to change. For example, in order for OBOR project to progress properly in a specific country, that country needs to give full support to the project. To guarantee this support, China needs to have political influence. It is also necessary for China to have a stronger military in order to secure the OBOR project globally. Xi's recent emphasis on the strengthening of the Chinese army should be seen in this framework (Xinhua 2017).

In the past year, China held Belt and Road Summit in Beijing. Even though most of the EU countries have shares in AIIB and supported OBOR, EU pushed itself back from the summit. A high-level EU diplomat said that "We made clear that, for Europe, the Belt and Road initiative can only be a success if it's based on transparency and co-ownership" (Guardian 2017). EU has

the same reasons for blocking China since the relations has established in 1975. This seen as a problem for EU. China has a plan for what to do in Europe. On the other hand, EU does not (Delcker 2016). This prevents EU from taking permanent steps towards China and EU is trying to overcome this problem just by blocking China.

China is an important candidate to become a global power. China's political effects on EU shows its potential to become an important threat against EU. Also, China's global trade project OBOR and its financial support AIIB shows China's efforts to become a world power. China is developing its own global trade project and its financing through platforms that it controls and is trying to take measures for potential trade barriers to come. China, which can be seen as the factory of the world, develops its own global projects to overcome problems against the smooth operation of global trade such as anti-dumping, protectionist economic policies.

Today, although protectionism is gaining power in Europe, EU's center is also against the protectionist policies in general. As a defender of globalization process from the beginning, EU is still supporting the globalization idea for its own good. Although the EU seems to be in need of China as in Davos Forum in 2017, it is actually uncomfortable with potential and reality of China's growing effects in the EU. EU is actually trying to use China as a trump card against its biggest partner, US. We will see how this dilemma will be solved in the future. While economic relations are always more important for China and the EU, the obligation of coexistence of the economy and politics will lead to problems in relation. Although both sides try to avoid and ignore it, the reality stands with all its signs.

This thesis covers up most of the important points of the China-EU economic relations. However, there is much more to look at more detailly. In further researches, every period of the relation, which are interdependence, transaction and beginning of the conflict periods, can be examined in more detail. Also, China's expansion towards other regions, such as Africa, Latin America, Middle Asia and Middle East, and China's competition with other great powers in those areas would be a very beneficial subsidiary to this thesis. Last but not least, as the future of China is a mystery for many, there are much more subjects to observe and analyze. But one way or another, China will continue to be one of the most important political and economic actors in the 21th century.

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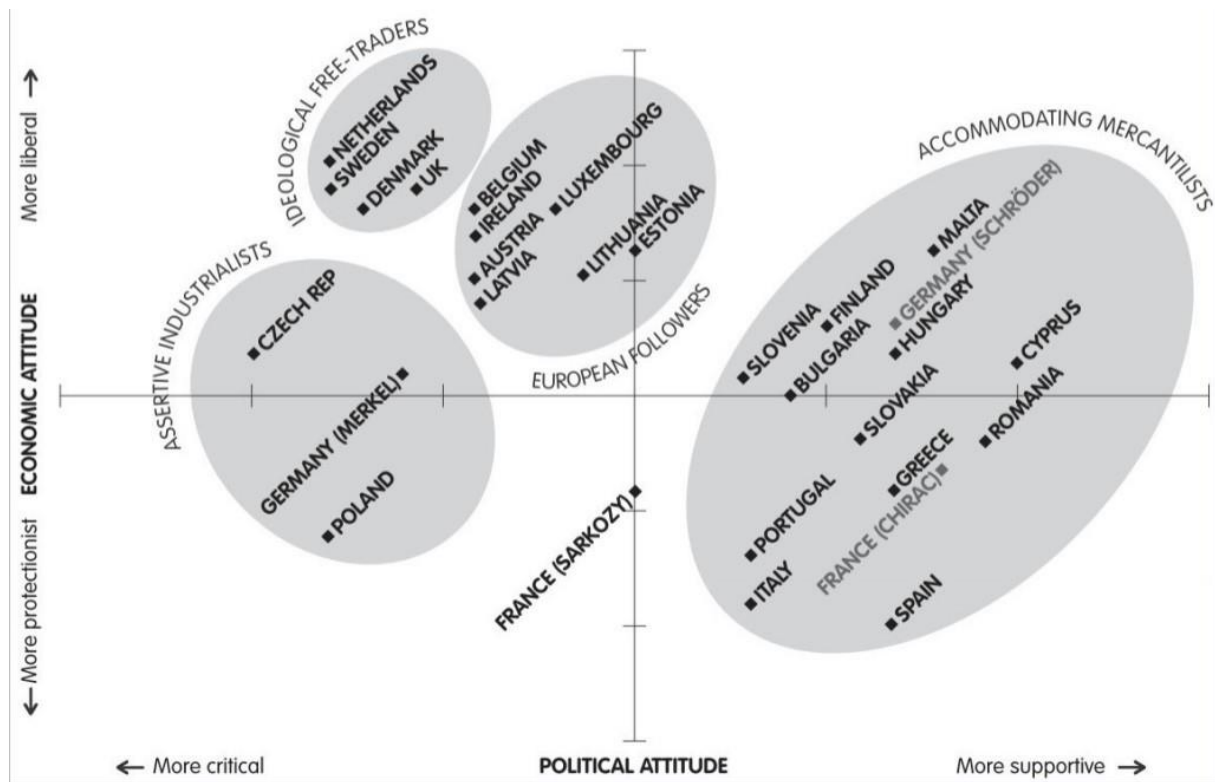
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## Appendix 1: EU Member States' Attitudes to China



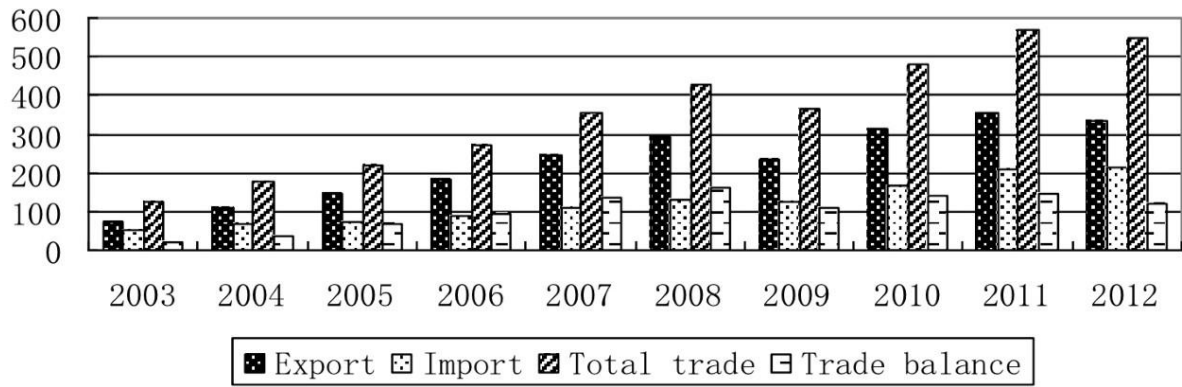
Source: Fox & Godement (2009, p. 4)

## Appendix 2: Functional Distribution of EU–China Trade, 2005

| <i>EU exports to China</i>                      |                |              | <i>EU imports from China</i>                    |                |              |
|---|----------------|--------------|---|----------------|--------------|
| <i>Products (by SITC category)</i>              | <i>Euro m.</i> | <i>As %</i>  | <i>Products (by SITC category)</i>              | <i>Euro m.</i> | <i>As %</i>  |
| Machinery and transport equipment               | 30,971         | 59.9         | Machinery and transport equipment               | 73,144         | 46.3         |
| Manufactured goods classified by material       | 6,137          | 11.9         | Misc. manufactured articles                     | 53,948         | 34.1         |
| Chemical and related products                   | 5,025          | 9.7          | Manufactured goods classified by material       | 17,393         | 11.0         |
| Misc. manufactured articles                     | 3,220          | 6.2          | Chemical and related products                   | 4,965          | 3.1          |
| Crude materials (inedible), except fuels        | 3,101          | 6.0          | Crude materials (inedible), except fuels        | 2,279          | 1.4          |
| Food and live animals                           | 590            | 1.1          | Food and live animals                           | 2,074          | 1.3          |
| Commodities and transactions                    | 572            | 1.1          | Mineral fuels, lubricants and related materials | 750            | 0.5          |
| Beverages and tobacco                           | 198            | 0.4          | Commodities and transactions                    | 377            | 0.2          |
| Mineral fuels, lubricants and related materials | 63             | 0.1          | Beverages and tobacco                           | 68             | –            |
| Animal and vegetable oils, fats and waxes       | 20             | –            | Animal and vegetable oils, fats and waxes       | 34             | –            |
| <b>Total</b>                                    | <b>51,746</b>  | <b>100.0</b> | <b>Total</b>                                    | <b>158,040</b> | <b>100.0</b> |

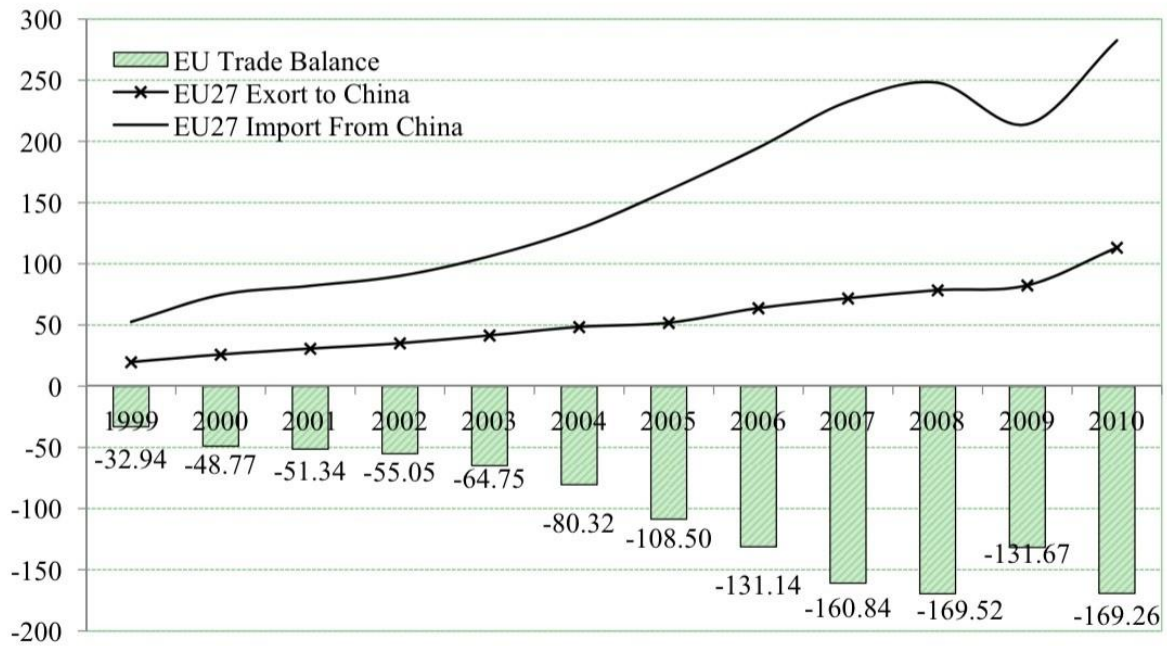
Source: EUROSTAT (as cited in Ash 2007, p. 204)

**Appendix 3: China's Trade with EU Between 2003-2012, in Billion USD**



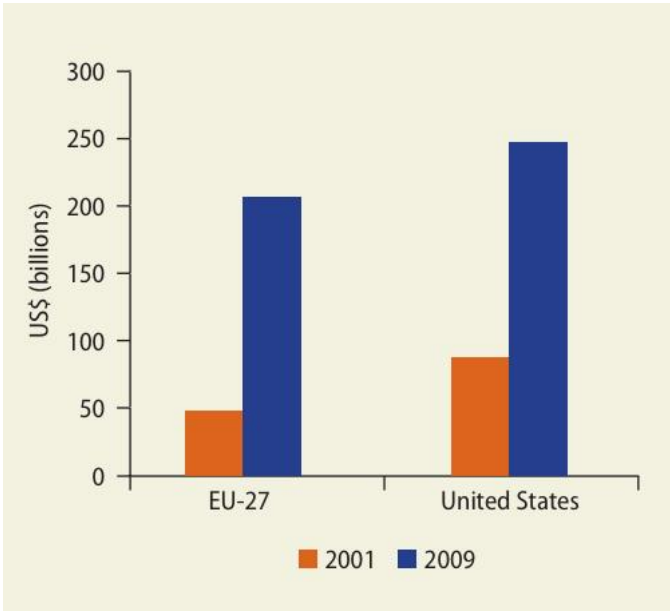
Source: MOFCOM

#### Appendix 4: EU-China Goods Trade Trends Between 1999-2010, in Billion Euro



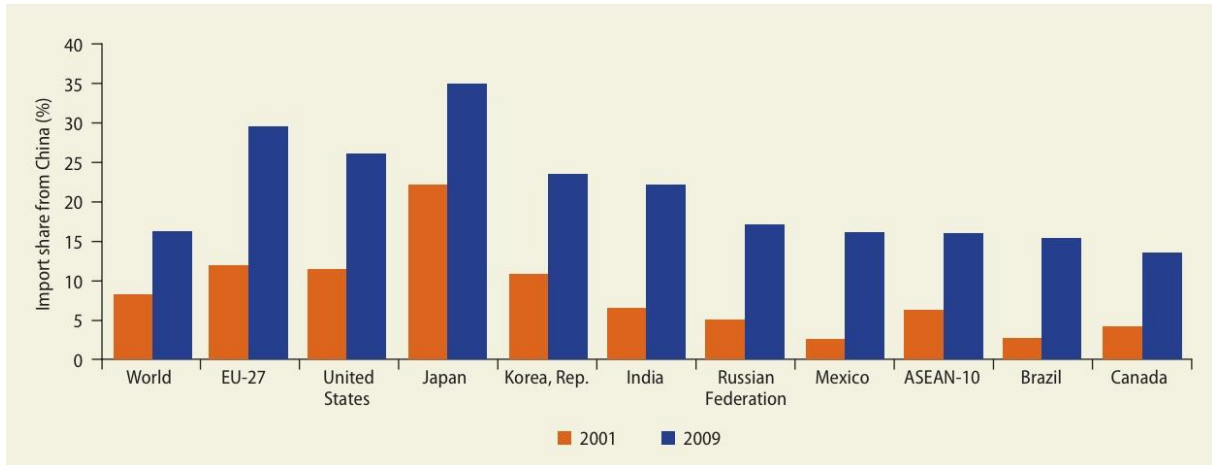
Source: EUROSTAT

**Appendix 5: China's Trade Surplus in Industrial Goods with the US and the EU**



Source: World Bank

## Appendix 6: China's Share in Industrial Imports of the World's 10 Largest Importers



Source: World Bank