The EU’s Trade Relations with China (1975-2008):
A Linkage Power at Work?

(Presentation on the public defence of PhD thesis on the 20th of April in the ULB)

President, jury members, colleagues, friends, my parents,

The central aim of this thesis is to improve our understanding of the EU’s bargaining power, especially in external trade relations. My hypothesis is that the EU is a distinctive kind of linkage power. Linkage power is defined as an actor relying on linkage as a crucial modus operandi to increase negotiating leverage. I explored how, to what extent and in which distinctive ways the EU has been such a power. I begin my presentation with an anecdote in the early days of the European-Sino relations.

On the 4th of May 1975, a Commission delegation led by Christopher Soames, Commissioner for external relations, arrived in Beijing, prepared to talk about establishing diplomatic relations between the European Economic Community and China. However, right up to the arrival, this delegation was completely ignorant of the programme, except for the dates of arrival and departure. Officially, the host was the Chinese People’s Institute of Foreign Affairs, a quasi-governmental organisation, who had held preliminary conversations with the delegation. Repeatedly raised in the discussions was the Taiwan question. Once it became clear that the EEC considered the Beijing government as the only Government of China, and had no official ties with Taiwan, only then was a heavy political programme organised for Soames to meet, among others, foreign Trade Minister, Foreign Minister, Vice Premier and finally Premier Zhou Enlai. As a result of this visit, the Chinese side decided to establish diplomatic relations with the EEC, sending an Ambassador to Brussels, and signalled its readiness to negotiate a trade agreement between the
two parties to replace the bilateral agreements with the Member States that were due to expire at the end of 1974 (Kapur 1986, pp. 35-36).

This case reflects precisely the central theme of my thesis – linkage. Tying unrelated or only loosely-related issues in order to gain increased leverage in negotiations is an ancient and accepted aspect of diplomacy (Wallace 1976, p. 164). In this case, the Taiwan question was linked by the Chinese side to another political issue - the establishment of official relations with the EEC, while the European side linked the Taiwan question to its economic interests, which was to sign a Community-level trade agreement with China. However, I go far beyond the traditional definition of issue linkage. In this thesis, I identified altogether seven types of linkage strategies to reflect a wide spectrum of the leveraging means that the EU used. They include: political-economic issue linkage, economic-economic issue linkage, conditionality, contextual linkage, linkage with a third party, cognitive linkage and synergistic linkage. Despite being heterogeneous in names and appearances, these linkages can all be put in the same category as a leveraging strategy. An issue can be a lever like in issue-linkage, so can a party, a context or even an idea, which corresponds respectively to linkage with a third party, contextual linkage and cognitive linkage.

However, my theoretical construction of linkage power as an analytical tool does not stop at simply expanding the definition of linkage. I go one step further in giving a power analysis to linkage and evaluating the effectiveness of different linkages over time and across linkage types. That is why my analysis was based on three logically interrelated concepts – linkage, power resources and power effects. Power resources is defined as “all the resources - opportunities, acts, objects, etc. that an actor can exploit in order to affect the behaviour of another” (Dahl, 1970). For example, political and economic interdependence, asymmetry of interdependence, instruments, competences and institutions of bilateral cooperation can all be power resources. Linkage is here used as a strategy to translate power resources into impacts – meaning affecting or changing the behaviour of another party. If linkage can be compared to cooking, power resources are the ingredients and power effects are the successful dishes. By putting linkage and power together, we created a new term – “linkage power”. The EU, the US, China or any other power can all be such labelled, though they may differ in power resources, linkage strategies and the variables affecting power effectiveness. When applying such an analytical lens to the EU, we gave particular attention to the implications of the EU’s sui generis nature on its power, like being a non-unitary
actor, non-military character, evolving institutions and etc.

With the theoretical framework put in place, I now move to the case studies to test hypothesis and answer research questions. Due to time constraint, the cases I used in the presentation are just a selected few.

After the EEC and China established official ties, different linkages were then applied to the EEC’s talks with Beijing on the 1978 Trade Agreement and the 1979 Textiles Agreement. In negotiating the Trade Agreement, the Commission exercised what I called “contextual linkage”, which places a specific trade issue in the broader context of the bilateral relationship, linking the technical aspects of trade talks to the overall relationship – which had just been considerably improved in the wake of newly established official ties. In negotiating the 1979 Textiles Agreement, the Commission exercised what I labelled linkage with the United States, a type of linkage with the third party, in response to Chinese pressure. The substance of this linkage was to introduce a third party into the negotiation, originally involving only two parties. The addition of a new party may change the existing power structure and advantage one party against the other. In this case, the Commission calculated that China badly needed an agreement with Europe, to neutralize the adverse political and economic effects of the abortive Sino-US textile talks. This was because the U.S. Carter Administration had given in to domestic pressure to impose limits on Chinese imports as part of a bargain with the US textile industry and labour representatives for their support of a new GATT agreement. The Commission thereby gained an advantageous bargaining position vis-à-vis China. China finally accepted the quota amount of 40,000 tons, rather than 60,000 it originally wanted.

The turning point of the EC-China trade relations came in 1989, when the Tiananmen Square Crisis broke out. The EC imposed economic sanctions to press China on the human rights front. This strategy, however, did not survive for long, nor did it pay off, which was largely attributed to the EC’s institutional handicaps, where foreign policy was largely in the hands of Member States rather than at the EC-level, and divergent interests among the Member States. Germany favoured a milder approach while France preferred stronger. The economic sanctions, due to Germany’s objections, were made non-binding. Soon after, in 1990, the Italian government, after suffering serious losses in its exports to and investment in China, started to lobby in favour of relaxing the sanctions. As a result, the EC’s economic sanctions were quickly phased out, and
there was no visible evidence to show that China caved in and changed its human rights policy immediately after the sanctions.

Having realised that a confrontational approach did not work well, the EU and its Member States started to change their China policies in 1993 and embraced a period of partnership with China: Firstly a constructive partnership with China was established in 1998, then a comprehensive partnership in 2001, finally upgraded to a comprehensive strategic one in 2003. From the perspective of power relationship, I argue that the EU is a power through partnership during this period, the substance of which was a complex of different linkages, involving political-strategic issues and economic and human rights issues as well. The partnership, once established, fostered new linkages and consolidated old ones. Political and strategically, there was a trade-off between China’s pursuit of multipolarity and the EU’s pursuit of multilateralism. Economically, there was a trade-off on the basis of reciprocal market opening. On human rights, what was behind the EU’s new soft approach was its attempt to link this issue with China’s overall economic and social opening up (an issue linkage), as well as putting the human rights issue in the overall EU-China partnership context (a contextual linkage). I find that the EU’s power through partnership was at its most effective for the whole period of 1975-2008, whereas the confrontational approach of sanctions had been much less effective. This could partially be explained by the evolution of the EU’s power resources vis-à-vis China. In 1989, the EC’s political and economic interdependence with China was undermined and the bilateral institutionalised cooperation was compressed to the minimum as the European-Sino relationship was badly hit. In such circumstances, the opportunities for creating issue linkage, contextual linkage or other types of linkages were constrained. In comparison, the EU’s power resources reached the peak in 1993-2004, during the partnership periods, where we saw plenty of linkage chances.

In 2005, textiles re-emerged as a source of tensions. The end of the textiles import quota at the beginning of 2005 opened Pandora’s Box, confronting the EU head-on with a rapidly rising China, newly confident after its WTO accession. To avoid market disruption and allow China some increase in its textile exports, the Commission started talks with the Chinese by using a combination of linkage strategies. In particular, the Commission used what I called cognitive linkage, tying issues into packages in accordance with some contrived knowledge, which the EU
structures, reorganizes, creates or even manipulates to its own interest. Like an issue, an idea or knowledge can be used as a lever, which is the essence of cognitive linkage. In the Textiles Dispute, the development dimension, as an idea or shared understanding of an issue, was introduced into the classic trade dispute, in order to convince the Chinese government of the legitimate link between restricting Chinese textile exports and protecting the economic interests of other developing countries, who very much relied on European markets. This linkage was based on the EU’s intellectual persuasion of China, China’s perception of the EU as the world’s biggest assistance donor and China’s self-perception as a developing country.

One year after the Textiles Dispute, the trade deficit issue hit the headlines, coupled with a series of political spats between Europe (France and Germany) and Beijing on the Tibet issue. In the middle of 2007, the Commission started to toughen its approach towards China. Although linkage was again used to try to redress the trade imbalances, its effects were not satisfactory. Here, we would like to introduce a new type of linkage called synergistic linkage, which is first posited by Robert Putnam in his Two-level Game Model, the essence of which is that a new policy option or incentive at the external level is introduced to resolve the deadlock at the domestic level. The EU’s then trade policy priority was to strike a grand bargain (Mandelson 2007), to achieve a reciprocal market opening vis-à-vis China. Synergistic linkage was essential. If striking a grand bargain is seen as an external action between the EU and the third party, synergistic linkage is an internal bargain needed for domestic consensus. The Commission attempted to “bribe” the protectionist southern European Member States to keep their markets open through further market opening in China. However, this linkage was taking place in an unfavourable international context of fast growing globalization and rapidly rising emerging economies, increasingly seen as a threat. That led to a two-level game dilemma. The external and internal bargaining process was like a seesaw, with the internal and external bargains sitting at each end - only when a balance was struck could the EU’s linkage strategy succeed. Although the Grand Bargain did not bear fruit as expected, the Commission was successful in prompting a recalculation by the Chinese authorities on the EU’s concerns, which resulted directly in the creation of a high-level Economic and Trade Dialogue Mechanism (HED), aimed at addressing trade imbalances. What lay behind was the Commission’s Machiavellian linkage with the US by repeatedly signalling to the Chinese that the EU was less well treated as the US, who had already got a high-level economic dialogue with
China one year before. Again, in April 2008, by calling French boycotting the opening ceremony of Beijing Olympic Games a “political gimmick”, the Commission made shrewd use of French President Sarkozy’s squabble with Beijing, to advance its own economic agenda - launching the first session of the high-level trade dialogue mechanism during President Barosso’s visit in Beijing, which was a typical political-economic issue linkage exercise.

With these case studies, I have by and large confirmed my hypothesis that the EU was a linkage power with its own characteristics, notably in its trade relations with China in 1975-2008. The relevance of my research lies in the fact that it forms part of a long-standing debate about the EU’s power. My concept of linkage power builds upon the work of Telo, Hill and Smith, and Sapir, who see the EU as a power, but a peculiar kind of power, whose power needs to be qualified by reference to geography, issue, pillar structure and competences (Telo, Hill and Smith, Sapir). Recognising the strengths of the work of the above-mentioned authors, I turned to studying the links and relevance between issues, between parties, between pillars and between competences. That is to say, what I focused on was the dynamic process, in which linkages translate power resources into power effects, often helping the EU overcome its inherent institutional handicaps to create bargaining leverage.

Specifically, I have drawn the following conclusions: Firstly, linkage is a crucial modus operandi in the EU’s internal bargaining and external relations, NOTABLY with China. The case studies show that the linkages were applied at least 29 times, demonstrating that the EU is a frequent user of this strategy, not only externally, but also internally. Like Rosenau and Putnam, linkage is used as a distinct analytical lens in my thesis, cutting across two levels – domestic and international. More specifically, two types of linkages – linkage with China and synergistic linkage, were used by the Commission for internal linkage politics. The Commission was given prominence in my analysis, which is more than the agent in the traditional Principal-Agent analysis and more than chief negotiator in Putnam’s two-level games. In my thesis, the Commission, served as a distinct actor, enjoying quite some autonomy in trade policy area and able to bargain with Member States on an equal, if not more advantageous, position.

Secondly, linkage was generally effective vis-à-vis China, but with variations, either over

---

1 The EU is seen as a civilian power (Duchêne 1972), civil power (Schioppa 2004), normative power (Manners 2002), soft power (Nye), transformative power (Leonard 2004), fragmented power (Sapir 2007) and etc, not to mention Hedly Bull’s and Kenneth Waltz’s suspicion that the EU can be qualified as a great power at all.
time or across different linkage types. We find that the EU’s linkage power was much more effective as a power through partnership (in 1975-88 and 1993-2005) than as an offensive power (in 1989 and 2006-08), which was partially due to the evolution of the EU’s power resources. We also find that linkage strategies differed in terms of effectiveness. Some linkage types were generally more effective than others. Among the most effective were linkage with the US, with China, contextual linkage, cognitive linkage and issue linkage within the same trade policy area. The linkage across political and trade policy areas, and synergistic linkage were relatively less effective on average. I find that the linkages based on the EU’s position in the international structure, such as linkage with the US, with China and contextual linkage are quite effective. The reason that the EU’s linkage was easier to establish within an issue-area than across issue-areas is mainly due to the EU’s sui generis institutional structure, featuring horizontal and vertical competence divisions.

Thirdly, the EU is a linkage power with its own characteristics. As a sui generis polity, the EU is characterised by divergences of interests between and among Member States and the Commission, evolving institutions, competences, instruments and even territories. These characteristics have had significant implications for the EU as a linkage power. We find that the more the EU became integrated and developed bilateral cooperation institutions vis-à-vis China, the more opportunities were created for the EU to exercise linkages. The EU’s vertical and horizontal competence divisions and its internal interest divergences, however, have had mixed implications for its linkage effectiveness. On the one hand, the EU’s linkages tended to have more difficulties than normal powers\(^2\), but on the other, the Commission was able to make tactical use of some Member States’ squabbles with Beijing and advance its own agenda.

In closing, I would like to say that I have made a small theoretical contribution by proposing the use of \textit{linkage power} as a distinct analytical tool to understand the EU. This can, in particular, help explain the EU’s foreign economic policy and economic diplomacy. It opens the door to carrying out future \textit{comparative studies}- such as the EU’s linkage practices vis-à-vis the US, Russia and middle powers, and conversely other actors’ linkage strategies vis-à-vis the EU. Another interesting area of study could be the implications of the Lisbon Treaty for the EU’s

\(^2\) For example, establishing diplomatic ties, the 1989 Tiananmen Square Crisis, witnessing diverging MS’ interests, the 2006-08 trade/invest promotion not appreciated, Com-27 MS unbalanced dichotomy and etc.
linkage power.

With that, I conclude my presentation. Thank you.