

Karine Lisbonne-de Vergeron

# Chinese and Indian views of Europe since the crisis: New perspectives from the emerging Asian giants

Karine Lisbonne-de Vergeron

CHINESE AND INDIAN VIEWS OF EUROPE SINCE THE CRISIS



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# Chinese and Indian views of Europe since the crisis: New perspectives from the emerging Asian giants

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## About the Author

Karine Lisbonne-de Vergeron has specialized in international relations and European politics, with a particular interest in issues related to cultural identity and defence. She is the author of *Contemporary Indian views of Europe* (2006) and *Contemporary Chinese views of Europe* (2007), jointly published by Chatham House and the Robert Schuman Foundation in English and French, of *France, European defence and NATO* (2008) published by the Global Policy Institute and the co-author of *L'Art avec pertes ou profits* published by Flammarion in 2007. She is an alumna of the London School of Economics and Political Science, HEC-Paris and the Bocconi University-Milan.



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**October 2011**

Karine Lisbonne-de Vergeron

# Preface

The financial crisis that shook the world after the collapse of Lehman Brothers in 2008 rapidly translated into a crisis of sovereign debt and economic growth in most advanced Western countries. Its impact in Europe has been, in some respects, particularly severe. At the same time, many commentators have observed that the sustained expansion of the emerging Asian giants will translate into a continuous move<sup>1</sup> of the world's economic centre of gravity from the West to the East, a trend which the crisis has accelerated. China has become the second largest economy in the world in nominal GDP since 2010 and some even predict that it could become the first one, overtaking the United States, by 2020<sup>2</sup>. India is currently further behind but potentially not too far either. It has the ninth largest national economy on similar measures (but ranks fourth when considered on a purchasing power parity basis) and could become the third largest by 2030 (behind China and the United States)<sup>3</sup>.

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<sup>1</sup> See also *The financial crisis and global power shifts*, The Global Policy Institute, Chris Dixon, April 2010.

<sup>2</sup> 'Becoming number one', *The Economist*, 24 September 2011.

<sup>3</sup> International Monetary Fund and projection estimates from Standard Chartered, 'India in the Super-Cycle', 25 May 2011.

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What may be the consequences of all this for individual European countries and for Europe as a whole? The European Union is China and India's first trading partner and the importance of the European market for both countries has grown rapidly over the past years. Both have also entered into so-called 'strategic partnerships' with Europe, since 2003 in the case of China and 2004 for India. These comprise bilateral and global issues, though with differing degrees of breadth and depth. Numerous studies, of every conceivable kind, have been undertaken in recent years on the sino-european relationship and, to a lesser extent, also on the indo-european one. But by focusing just on the last three years, by seeking to present at the same time the views of representatives of the Chinese and Indian elites<sup>4</sup> and by contrasting the perspectives of the two rising Asian giants, this short paper is intended to provide a contribution to such debates. In particular, it aims to encourage a broader context for the analysis of Europe's current challenging economic and political situation.

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<sup>4</sup> The first studies in this series on *Contemporary Chinese views of Europe* and *Indian views of Europe* were published respectively in 2007 and in 2006.

# Executive Summary

The study aims to highlight that notably:

- Both Chinese and Indian commentators consider the current crisis as ‘one of the Western mature economic model’ although they are conscious of the relative challenges that their respective economies face to achieve their growth potential in the coming years.
- Europe’s pre-eminent economic weight for China and India has been sustained over the past few years, and in the case of sino-european trade has actually been somewhat reinforced.
- Both Chinese and Indian commentators when questioned about the crisis understandably focus first upon the future of the euro. This is because both have regarded the creation of the monetary union as ‘Europe’s most significant single achievement’ and ‘the core of its future development’.
- Opinions tend to differ, however, about Europe’s ability to recover rapidly and efficiently from the current economic situation. The Chinese feel Europe still has



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significant capabilities for creating a strengthened institutional framework and economic base to cope with its present problems. They consider that the political battleground in the coming years should be one of how Europeans achieve greater productivity and competitiveness. They believe that the euro's survival and it resuming its development as an international reserve currency is in China's interests and that the crisis provides an opportunity for necessary greater fiscal integration in the Eurozone.

- By contrast, many Indians primarily perceive a sense of latent weakness and stagnation across the European economies. They are more pessimistic than the Chinese, assessing Europe's economic foundations to be less solid than they anticipated before the crisis. They are closely watching what is happening in the Eurozone, not least because they feel the euro's continuation to be in India's interests, but this view is less strongly held than in China.
- Both China and India have reinforced their efforts to encourage trade bilaterally with individual member states, rather than engaging at EU level, as a result of the crisis. Nevertheless, both recognise this is not optimal, either economically nor, to a lesser degree, politically.
- This is particularly true with regards to some Chinese interviewees' expectations of a stronger economic co-ordination between China and the EU when considering

their respective mid-term strategy for growth, and which could make the partnership ‘unique’ reflecting the fact that both are in ‘profound transition.’

- Indians consider that the proposed Free-Trade Agreement between their country and the EU will significantly enhance bilateral economic ties. However, this does not equate to Europe constituting a new core priority for their trade. There is also some concern that India’s economic evolution might prove to be less compatible, in the medium term, with Europe than China’s.
- One further effect of the crisis has been the increase in Chinese investments into Europe. These tend to support their export efforts though some are portfolio placements, such as purchases of sovereign debt. For many European commentators, China should not be blamed for following its own economic interests but it is up to Europe to have a more united position around its common interests in this field.
- By contrast Indian investments into Europe have abated somewhat and have tended to be for portfolio purposes with a stronger focus on higher value-added businesses, a pattern that seems likely to continue.
- Many Chinese and Indians anticipate that the EU will become more inward-looking as it concentrates on solving internal economic tensions and that it still lacks a strategic vision in world affairs.

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- The Chinese consider the creation of the European External Action Service (EEAS) as an advance for Europe's global identity, though they expect that it will need time for a more coherent and integrated European foreign policy, which they would welcome, to emerge. Indians are more inclined to await specific results from the EEAS of direct significance to them.
- India's engagement with Europe is based on a case-by-case approach rather than clear strategic lines. Although they consider there is a dichotomy between their economic and political relationship with Europe, they expect a key policy area for further engagement to be in the field of security and defence.
- China does not see any long-term areas of significant contention with Europe in the political field compared in particular to its relationship with the United States.
- Some Chinese interviewed for the study consider that what they see 'as the European community method of competition alongside cooperation' encapsulates the sort of win-win interaction they favour for international affairs. Though it is ultimately in their profound cultural perspective that the roots of their optimism towards Europe's prospects lie.

# 1. Chinese and Indian economic views of Europe since the crisis

## **1. The European Union remains China and India's first trading partner**

‘The European Union, when taken as a whole, is the largest economic grouping in the world. It cannot be other than our principle economic partner’. So said a Chinese foreign policy official, reflecting on the EU’s total GDP of \$15.2 trillion<sup>5</sup>, that places it just above the United States. It is a sentiment shared by Indian experts. The crisis has not modified it. Indeed, if anything, for some Asians, the perception of a ‘relative Western decline’, that it has engendered, has focused somewhat more on America than on Europe. There are several reasons for this, which shall be explored later (see notably section 2 of this chapter). Suffice it to say now that Europe’s pre-eminent economic weight for China and India has been sustained over the past few years, and in the case of sino-european trade has actually been

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<sup>5</sup> Estimates from the International Monetary Fund (IMF) for 2010 at purchasing power parity.

## Chinese and Indian views of Europe since the crisis

somewhat reinforced. The following elements are particularly noteworthy:

- Bilateral trade in goods with China actually increased by 52% from €259 billion in 2006 before the crisis to €395 billion in 2010. This brought the relative EU share of China's total trade to 17% last year (up from 16.5% in 2006), with the United States second at 13.6%<sup>6</sup>. Over the past year, from 2009 to 2010, bilateral trade grew by almost €100 billion (see Appendix, Table 1).
- By contrast, the EU relative share of India's trade somewhat declined (though the EU is still its first trading partner) from 19.5% of India's external trade in 2006 to 15.6% in 2010 whilst China has become over the past few years India's second trading partner amounting to a 11.4% share in 2010<sup>7</sup>.
- For the European Union, China has remained its second largest trading partner in goods after the United States but its weight has also significantly grown from a 10.1% in 2006 up to 13.9% in 2010 of the European Union total trade (relative to 14.4% for the United States that

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<sup>6</sup> Eurostat and IMF. Chinese statistics are consistently lower than American and European ones on account of the exclusion of re-exports through Hong Kong.

<sup>7</sup> IMF statistics. Bilateral trade between India and China amounted to €47 billion in 2010 (70% of which from Indian imports from China).

year)<sup>8</sup>. China is the largest source of EU imports amounting to 18.8% of the EU total in 2010 (or €282 billion) up from 14.2% in 2006. At the same time exports to China have almost doubled from €63 billion in 2006 (then for the EU-25) to €113 billion in 2010.

- The European Union is becoming of even greater importance to China's external trade: Over the first months of 2011, the EU has become China's first import partner, overtaking Japan<sup>9</sup>.
- Bilateral trade in goods with India also grew significantly since 2006: by 45% from €47 billion that year to €68 billion in 2010 (see Appendix, Table 3). However in relative terms, it represents only a fraction of that with China, amounting to almost a fifth (17%) of the EU-China total in 2010.
- India has become the European Union's 8th trading partner, overtaking Brazil, Canada, and South Korea since 2006 and amounting to 2.4% of its external trade in 2010.
- The EU has a modest €1.7 billion trade in goods surplus with India whereas, despite growing Chinese imports,

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<sup>8</sup> Trade in goods between the EU and the United States amounted to €412 billion in 2010. EU-China trade in services was of €36.5 billion in 2010 far below that of the EU with the United States at €256.2 billion.

<sup>9</sup> According to Chinese statistics. This is partly following the impact of the tsunami in Japan.

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the European Union still runs a significant trade deficit with China of €169 billion in 2010, compared to €161 billion in 2007.

- EU-India bilateral trade in services has grown by 7% from a total of €16.8 billion in 2008 to €17.9 billion in 2010 and amounts to half (49%) of the comparable volumes between the EU and China.
- Foreign Direct Investment (FDI) outflows from the EU into China amounted to €4.9 billion in 2010 compared to €3.0 billion EU FDI into India the same year. The overall FDI stocks invested from the EU into China is twice as high as those going into India<sup>10</sup>.
- FDI stocks from China in the EU amounted to €5.7 billion by the end of 2009, compared to €5.5 billion from India.

## 2. Perceptions on Europe, the economic crisis and the euro

Europe, the United States and the resilience of the Chinese and Indian economies

Both Chinese and Indian commentators see the current crisis as ‘one of the Western mature economic model’. But

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<sup>10</sup> The EU FDI stocks amounted to €58.3 billion in China and €27.2 billion in India at the end of 2009 (Eurostat).

their perceptions diverge in a number of important respects. For some Chinese, the problem is more cultural and psychological, 'a lack of Western ambition, or the loss of traditional Western values', as technical. This is particularly so of the United States. As one expert observed: 'Americans seem to have ceased to believe in the American dream, whilst Europeans have not yet acquired a European dream.' Indian experts, ironically, tend to concentrate on 'India's policy towards financial services which was less exposed to toxic assets in particular than the United States', and 'more conservative towards substantial market risks'. One commented: 'The United States now have a larger deficit than Europe'<sup>11</sup>. Europe is still seen to have potential for competitive relative improvement, if only because of the 'glaring inadequacies' of the incomplete single market. On the other hand, the perceived burden of European welfare provision is encapsulated in several comments describing, negatively, Obama's health reforms as a 'Europeanisation of America.'<sup>12</sup> Kishore Mahbubani, dean of the Lee Kuan Yew University in Singapore observed: 'For many Asians the first concern is the incompetence of the West' in dealing

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<sup>11</sup> The deficit in the euro area was estimated at 6% of GDP and 8.9% in the United States in 2010. 'Provision of deficit and debt data for 2010', Eurostat, 26 April 2011.

<sup>12</sup> But such judgments seem scarcely compatible with a widely expressed ambition on the part of some Chinese commentators, matched to a somewhat lesser degree by their Indian counterparts, that their own long-term ambitions are indeed to have a 'balanced economy capable of the quality of life now prevalent in Europe.' Despite the crisis, therefore, Europe has not lost its capacity to be a benchmark of success.



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with its problems whilst ‘ten years ago, Americans and Europeans used to give advise to Asia on how to solve a financial crisis’<sup>13</sup>. This has led one Asian expert to suggest that ‘the “Washington consensus” has been discredited’. Although, the Chinese and Indian experts interviewed for this study would not go so far, there is nevertheless a certain feeling of ‘political inertia’.

Such sentiments are combined with Chinese and Indian confidence that their own systems, despite all their difficulties and blemishes, have proved more resilient in the crisis and seem likely to be more sustainable in securing economic success in the future. As one European commentator put it: ‘The more the West falters, the more China and India feel invigorated by their performance.’ He went on, perhaps more provocatively, to cite the example of corruption. ‘Chinese and Indians see the corruption in their societies as regrettable symptoms of dynamism and ambition, like 18th century England. Corruption in Europe, such as over Greek indebtedness, is seen as a symptom of decadence.’ Even more significant is the growing tendency for one Asian commentator ‘to regard European difficulties to master the euro’s problems, or the US to deal with the deficit as indicative of deficiencies of democratic structures in running modern mature economies’.

Yet, one should not underestimate the concern that this has triggered both in India and in China. There is surprise,

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<sup>13</sup> Speech delivered at the World Economic Forum on East Asia in Jakarta, 12-13 June 2011.

as well as relief in Beijing that they have come through the last few years so well, with a sustained 9.2% growth rate in 2009 up to 10.3% in 2010. Indeed, recent signs of overheating, notably in the property sector, have led some to wonder if the state stimulus plan launched in November 2008 of 4 trillion renminbi (equivalent to €400 billion) with significant investments in infrastructure and social welfare<sup>14</sup>, to minimize the negative impact of lower exports, was an excessive response to Western difficulties, and under-estimated the solidity of the domestic base of China's growth. Another factor has been the expansion of China's investments abroad: the national 'go global' strategy. The enormous accumulation of state reserves, just above \$3 trillion in March 2011, a majority of which are believed to be held in dollars<sup>15</sup>, has exposed China to currency losses and the deterioration of the prospects for the American economy, which they have sought to avoid by a diversification of investments into commodities and other instruments. One Chinese expert observed: 'A sense of vulnerability to Western failure has become acute.' By contrast, an Indian counterpart feels that his country's restrictive policy towards capital markets has been vindicated<sup>16</sup>. 'We have managed a 10.1% growth rate in

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<sup>14</sup> China's GDP growth in 2009 was down from 9.6% in 2008. See also Yu Yongding, 'China's stimulus shows the problem of success', *Financial Times*, 25 August 2009.

<sup>15</sup> This is generally thought to be nearly 70% of China's foreign exchange reserves.

<sup>16</sup> India's fiscal stimulus packages launched in 2008 and 2009, also helped contain lower international demand.

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the last year, comparable to that of China, and we don't have the same type of economic exposure.' Yet, they are worried about a 'fall in American and European imports' from India<sup>17</sup>.

## Chinese perceptions of the challenges facing the Eurozone and Europe's development

Opinions tend to differ, however, on Europe's ability to recover rapidly and efficiently from the current malaise. Chinese experts underline that their perceptions have not changed significantly with the current crisis, or in any event 'will not be fundamentally altered by some momentary developments'. As one Chinese diplomat put it: 'We still see the European Union as a great project of integration as it is an unprecedented experiment'. There is a sense that Europe should 'continue its path of coordination and of pulling together policies across so many countries'. Some Chinese commentators consider, however, that Europe is in 'a period of transition.' Current difficulties<sup>18</sup> are also seen as a consequence of 'a systemic and underlying lack of vigour in the European economy,' which could see 'an acceleration of the relative decline of Europe.'

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<sup>17</sup> India's growth prospects for 2011 have been recently downgraded to 7.8%, *World Economic Outlook*, IMF, September 2011.

<sup>18</sup> Government deficits for the EU-27 were 6.4% of GDP for 2010 (but down from 6.8% in 2009) and the average government debt to GDP ratio was 80%. The largest deficits were recorded in Ireland (-32.4%), Greece (-10.5%) and the United Kingdom (-10.4%). Eurostat, op.cit.

Whether this would promote, or hinder, European integration remains unclear. ‘The political battleground in the coming years should be one of how Europeans achieve greater productivity and competitiveness. Europe still has significant capabilities for creating a strengthened institutional framework and economic base to recover from its present problems well, along the lines indicated, for example, by the deepened Franco-German cooperation over an harmonization of French and German corporate tax base and rates.’ But there remains exasperation at ‘the sheer political complexity of Europe’s current architecture’ and the capacity of individual countries to derail what appear to outsiders to be commonly agreed plans. There is ‘a negative impression’ regarding the ‘absence of a long-term growth strategy for the Eurozone.’ It is also worth noting that some Chinese experts appear to positively relish their discussions with their European counterparts on the sheer complexity of the EU’s present problems because they feel ‘they may persuade Europeans to show a greater understanding of, and sympathy for, the challenges which we face in building up our own economy and internal market.’

Overall, China remains confident that Europe will get through its current difficulties and ‘resume, or even accelerate, its process of integration’ by ensuring the survival of the single currency. There is general agreement with Chancellor Angela Merkel and President Nicolas Sarkozy’s assertion that the future of the euro and European integration are inseparable and that this will entail a ‘more coherent fiscal and political core’ for

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the Eurozone. One Beijing official observed: 'The euro's continuation and development as an international reserve currency is greatly in China's interests.' Not just because of China's preference for 'a counter-balance to the global role of the dollar', which would 'allow an easier path for the renminbi achieving eventual reserve status'. At least as important is the Chinese perception that the euro 'is now essential for sustaining and deepening the single market,' which is 'the key to Europe maintaining its prosperity, and thus its interest to us as a customer and supplier.'

In some respects, therefore, the crisis has reinforced Chinese notions that 'the euro has been Europe's greatest institutional achievement', one which has had a 'far-reaching and fundamentally positive impact on the European Union economy as a whole'. Whilst sometimes brutal in their comments on particular aspects of the Eurozone's difficulties, whether with regard to individual national indebtedness or financial market regulation, Chinese financial experts sometimes seem to have a better perspective than some of their European counterparts of what might have happened without the euro. One observed: 'Things would have been far more severe both in Europe and world-wide'. They feel that far from being a significant factor in causing the imbalances that have led to present situation, 'the world's only supranational currency must be part of the solution.' The euro 'will prove to be an instrument of reform both within Europe and globally.' The weakening of the dollar 'has confirmed its significance as an

established alternative'. Thus, 'though one cannot minimize the nature of the challenges for the Eurozone at the present time, from an historical perspective, the development of any currency, especially one with a major international impact, is not free of difficulties'. Its success is 'certainly in China's interests'.

### Chinese purchases of European sovereign debt

One controversial aspect of this latter conviction has been, of course, the suggestion, in some quarters, that they should buy distressed sovereign debt. At present China owns 26% of all foreign-held US Treasury securities<sup>19</sup> (or 1.2 trillion dollars) amounting to an estimated 8.5% of the total American debt. Some consider that China has been looking to diversify its future reserve away from US treasury bonds into other investments including euros<sup>20</sup>. In 2010, for example, China bought some €400 million of Spanish government securities. Similar operations have also been undertaken in Greek, Portuguese and perhaps Irish paper. There were talks more recently between Chinese investors and the Italian government. It is not clear what scale such investments altogether have and may assume. One European foreign policy official points out that 'individual member states

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<sup>19</sup> United States Treasury as of end June 2011.

<sup>20</sup> 'Beijing tendering support to Europe helps itself', *The New York Times*, 6 January 2011.

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may have a view of what this might represent across Europe, through their own assessments, but there is no consolidated measure at a European level of public debt foreign holding, nor indeed more widely of European ones'<sup>21</sup>. Both European and Chinese experts have expressed doubts as to their significance in representing any shift of China's reserves<sup>22</sup>.

One European commentator pointed out that such investments in sovereign debt 'have contributed towards stabilizing the situation'<sup>23</sup>. What is beyond question is that the Chinese would strongly favour the creation of an integrated euro government debt market, through the issuance of new 'Eurobonds', and/or the conversion of a portion of outstanding Eurozone government debt into such instruments. As one Chinese expert said: 'the absence of the scale and depth of the US Treasury Market is the biggest single dis-incentive for us to undertake reserve diversification into euros. From our perspective this would be the most effective means of proclaiming the greater fiscal integration and centralised control which is now necessary to secure the credibility of the

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<sup>21</sup> Any concrete steps towards developing a 'Euro-bond instrument would de facto change this'.

<sup>22</sup> This is partly believed on account of the United States' recent re-evaluation upwards of the proportion of US Treasury bonds held by China. See François Godement, 'Europe's relations with China: Lost in flight', The Transatlantic Academy, April 2011, p. 7.

<sup>23</sup> Since the Eurozone altogether accounts for close to 70% of China's bilateral trade with the EU-27, it would be surprising if it did not also take the lion's share of Chinese investments into Europe in both public and private sector securities.

single currency'. 'Of course, we understand how difficult it is to put in place such institutional arrangements swiftly' and that 'the enhancement of the European Financial Stability Facility already expresses member states' acceptance of the logic of a much more powerful joint responsibility for government indebtedness across in the Eurozone.'

The clear Chinese expectation that the Eurozone will become more fiscally, and therefore politically, united does not seem to mean Britain 'no longer having a significant role to play.' Although they anticipate, as one leading Chinese expert on Europe observed, a 'difficult economic equation', the EU's future, its 'capacity to come out of the current crisis successfully', 'depends emphatically on the co-ordinated revival of the growth of France, Germany and Britain.' If 'the three countries which represent together almost 50% of the European Union GDP' can 'confirm their will to work together', then 'a European dream shall still have meaning.' This 'might eventually involve Britain re-thinking its attitude to the euro.' Another said: 'I regard our relationship with the EU as more promising, in the medium term, than our relationship with the United States,' as there are 'less obvious causes of friction and a greater perspective of progress.' This includes the prospect that 'Europe will not only continue to be China's largest customer, but that China should also soon become Europe's first customer in goods'. A journalist even stated: 'A failure of European integration would be a failure for China's present perception of the world and thus for the strategy for our own development.'



### Indian views of Europe's economic position and India's detachment from the strains of the Eurozone

A number of Indians interviewed for this study expressed a sense of 'latent weakness and stagnation' in Europe. For one Indian journalist, Europe primarily remains 'a group of countries which are in crisis and declining, when considered on their own', and with 'increasing doubts hanging over their having any capacity to be considered collectively.' Indians now, unlike before 2008, more rarely speak of Europe and India sharing the problems of building up and managing a huge multi-lingual, multi-cultural, continent-wide internal market. Those especially who have business interests in Britain, are much more sceptical of the euro's prospects than Chinese commentators, and far more relaxed about the impact of its possible failure upon Indian interests. For one Delhi-based expert: 'the deep patterns of History are re-asserting themselves. Asia is recovering its dominant position in the world economy, the essential decentralisation of Western polities is proving durable, as is the unity in scale of Asian polities.' Perhaps it is true, as one European commentator suggested, 'that the Chinese are better at hiding their feelings than the Indians, or we cannot see through them as well'? There seems to be, however, a difference in perceptions. Several Indian strategists do not 'generally see Europe as potentially playing a really core part' in their country's rise to prosperity and power. Indians have long been more sceptic about Europe's prospects in the mid-

term<sup>24</sup>, not least because they were more optimistic about the United States, and in their rapprochement with the administration of President George Bush, as one expert suggested, ‘perhaps came to share some of its well-publicised scepticism about the euro and the EU’.

For one European-based Indian commentator: ‘Indians have been less surprised than the Chinese that Europe’s economic foundations were less solid than advertised.’ The view that the Eurozone might fragment, or shrink, or merely condemn many of its members to prolonged stagnation without forcing more market integration, competitiveness and fiscal sobriety, has been sometimes mentioned. It is underpinned by a conviction that, particularly compared to China, India is less exposed, and has ‘less in the game because Indian investments in euros are very limited’. Such complacency might be changing with an increasing realisation that the euro’s problems are part of a general Western crisis which could threaten growth in the United States and thus American policy generally, to India’s disadvantage. The same Indian observer went on to say: ‘whatever ambition Europe might have, it will be crucial to defend the euro, if it wants to be a significant player’. Many Indians are ‘closely watching what is happening in the Eurozone because the assumption is that the euro has to survive. The consequences even of a partial failure would be very damaging also for us’. Their reasons for such an assessment constitute a curious

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<sup>24</sup> *Contemporary Indian views of Europe*, Fondation Robert Schuman and Chatham House, K. Lisbonne-de Vergeron, 2006.

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contradiction with Chinese perceptions: 'India is somewhat apprehensive about the imbalances in global currency markets' and envisages that 'China will move towards making the renminbi an international currency<sup>25</sup>.' This will happen 'more swiftly, and pose problems for our interests in eventually also moving the rupee in that direction, if the euro fails.' But he added: 'the euro might fail. Our own history shows that people do not always have the will to unity, when faced with a changing world, or the perception to comprehend where their long-term interests truly lie.'

## India's views of Britain's place in Europe

Even more curious, given the history, is that some Indians experts, unlike their Chinese counterparts, seem to have a marked tendency to see Britain as marginal to European developments in contrast to the 'close partnership between Germany and France'. A European observer notes: 'from Beijing, a Europe without Britain would be incomplete. This is not necessarily how it is seen in Delhi.' Britain's capacity to influence 'whether the Eurozone succeeds or not, and thus whether European integration continues or not,' is seen as 'almost non-existent.' Again,

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<sup>25</sup> Many Chinese experts feel, however, that the internationalization of their currency will be 'a long-term process'. Some anticipate that the Chinese currency might become the third major trade settlement currency, overtaking Sterling, in 2011. *Trade Confidence Monitor*, Global report, HSBC, May 2011.

this might reflect the influence of those most closely tied to Britain. There are any number of reasons why a perspective of Europe as a counterpoint to a more Commonwealth or globally orientated destiny might arise<sup>26</sup>. As one Indian journalist observed: ‘if the Eurozone does become more coherent and closely integrated, as a result of the current crisis, this will move Britain further away from the European mainstream, into a position of semi, or even perhaps total, detachment, if it were not to re-consider joining the single currency.’ This would ‘certainly not be the Anglosphere’ that has been promoted in some quarters, though ‘Britain might wish to try to be a bridge between Europe and India, as it has sought to be a bridge between Europe and the United States.’

### **3. EU-China and EU-India strategic economic ties**

#### **Bilateral trade with individual member states**

Such considerations naturally raise the issue of the degree to which China and India deal with the EU as a whole, rather than bilaterally with the individual member states. Here there seems to be a certain divergence between hopes and realities. For one European diplomat, ‘the Chinese

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<sup>26</sup> The almost total absence of Europe from the British debate over multi-culturalism is striking, and sharply different, for example, to similar, though obviously not directly comparable, controversies in France or Germany.

## Chinese and Indian views of Europe since the crisis

seem to have more faith in, and clear understanding of, the notion of Europe as a unified bloc' than do the Indians, but are also 'rather dealing with specific member states individually for most practical economic purposes.' This was already apparent in 2007<sup>27</sup>, but 'has been somewhat reinforced by the crisis'. He added: 'this has also been encouraged by some European member states'. Several European commentators see a great danger in this. For one British entrepreneur in China, 'the increased tendency to shift towards bilateral relations with national member states is worrying given our increasing weakness. Without a more united approach our competitive position will suffer even more.' He then cited with approval the former UK Foreign Secretary David Miliband's recent speech, that 'the world needs a strong Europe more than ever' but that 'this is only possible if we are economically strong as a collection of states.'<sup>28</sup>

### Bilateral engagement with individual member states

There is no doubting the intensity of China's direct engagement with individual 'leading European states'. A Chinese commentator highlighted 'the importance of the government to government consultation between China

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<sup>27</sup> *Contemporary Chinese views of Europe*, Fondation Robert Schuman and Chatham House, K. Lisbonne-de Vergeron, 2007.

<sup>28</sup> See David Miliband, 'Europe between America and China', Chatham House transcript, 12 May 2011, p.12.

and Germany' which took place in June 2011.<sup>29</sup> Of the member states of the European Union, Germany remains by far China's most important trading partner amounting to 30% of the EU-China total trade in 2010, almost a similar share as in 2006. Over the past four years since 2006, bilateral trade has increased by 68%. Comparatively, Britain ranks third with a share of 10%, behind the Netherlands and France fifth, at 9% of the EU-China total trade in 2010<sup>30</sup>. For one expert, 'perhaps on account of uncertainty over the future shape of the euro' and 'assessments of Europe's technological competitiveness'<sup>31</sup>, from an economic standpoint, 'some in China see two Europe, the Northern part, including Germany, France, but also Northern Italy, which are a high technology pool whereas other areas are primarily perceived as a market and a base for public procurement contracts', however 'not always successfully'<sup>32</sup>.

Some Indians, by contrast, rather downplay their country's engagement with the EU. As one Indian expert said: 'Europe is seen more for its individual markets and

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<sup>29</sup> Germany also held its first inter-governmental consultation with India in May 2011.

<sup>30</sup> Chinese customs trade statistics.

<sup>31</sup> According to Chinese sources, the European Union remains China's biggest supplier of technology. It amounted to 30% of Chinese total technology imports in 2009. China is also increasing its technological edge and is now ranked third worldwide in total patent applications behind Japan and the United States. See 'Patented in China II', Thomson Reuters report, October 2010.

<sup>32</sup> The China Overseas Engineering Group for example was granted a building contract for highway infrastructure in 2009 in Poland but financial difficulties led to a cancellation of the contract in 2011.

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ultimately there are 27 European commercial strategies towards India'. He explained this as resulting from Europe's 'consistent preference for talking with Beijing, because the EU's economic relations with China are simply much stronger than those with India. There is a difference of scale'. Since 2006, Germany has become India's first trading partner. According to Indian statistics, bilateral trade grew by 15% since 2008 to reach a €15 billion mark in 2010 partly driven by an increase in Indian imports. As one Indian expert put it, the main shift since the crisis has been 'the upgrade in our relationship with Germany, with a bilateral level of investment which is not just economic but also comprises important initiatives in research'<sup>33</sup>. Germany accounted for 3% of India's total trade and 20% of the Indo-European bilateral trade in 2010<sup>34</sup>. The United Kingdom ranks third with a 14% share of EU-India trade over the same period, behind Belgium (with 16%)<sup>35</sup>. Britain remains the largest European investor in India with a 5% share of the total cumulative flows into India since 2000, but second behind the Netherlands in 2010 in terms of FDI inflows that year. France ranks fifth with a 10% share of the EU-India trade and it is anticipated that bilateral trade will

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<sup>33</sup> Such as the establishment of the Indo-German Max Planck Centre for Computer Sciences in Delhi in 2010.

<sup>34</sup> Statistics from the Indian Ministry of Commerce from April 2010 to March 2011.

<sup>35</sup> Although it is diversifying, gems and jewellery account for a large part of Indo-Belgian trade.

be above €10 billion in 2012<sup>36</sup>. From 2005 to 2010, French companies operating in India have grown fourth fold in terms of job creation.

However, some Indians do express the view that their opportunities in European markets would be enhanced, notably relative to China, if the crucial negotiating level was indeed the EU rather than the individual member states. As one Indian expert said: 'It is unfortunate that the CEOs of major European companies do not necessarily come to the annual business summit between India and the European Union, but do attend bilateral consultations with individual member states'. He added: 'Perhaps the conclusion of the free trade agreement' (see last section of this chapter) 'might change this and help increase business level interactions?' Indian businesses do see 'the European single market as a whole and have been especially interested in countries, like Poland, which have performed relatively well through the crisis.' Indo-Polish trade has almost doubled over the past four years accounting for 1% of EU-India trade in 2010. An Indian official commented: 'the question for Europe, overall, is whether it can become more strategic'. It benefits 'from so many technologies, across its member states, but these are sometimes competing against each other'. For Europe 'to keep its industry alive', it is said, 'for example in defence, more thinking about a broader European framework will be essential.'

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<sup>36</sup> Recent notable successes include in the aerospace sector the order for 180 Airbus A320 by the private airline Indigo in 2011.



### Chinese investments into Europe

Aside from growing bilateral trade, an important aspect of the crisis has been the expansion of China's economic presence in Europe. Alongside the buying of national sovereign debt in some European countries, Chinese interests have expanded to taking stakes in some European companies. Amongst the more prominent cases are the leasing in November 2008, by the China Ocean Shipping Company (Cosco) for €3.4 billion of the container port of Piraeus in Greece for a thirty-five years period<sup>37</sup>, and the acquisitions, in 2010, by Geely of Volvo cars in Sweden for €1.3 billion, in 2011, of the chemical company Borsodchem by Wanhua Industrial Group in Hungary for €1.2 billion. Other investments, though smaller, of particular note since 2007 are participations in dedicated business sectors such as the acquisition of agricultural machinery manufacturer Mc Cormick in France, carbon-fibre producer Fibres Worldwide in the UK and the consumer electronics company Medion in Germany.

Such developments have raised some concerns amongst a part of European public opinion<sup>38</sup> especially when the investor is a state-owned enterprise against which private

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<sup>37</sup> For a Chinese specialist 'this could provide a hub for Chinese exports to European markets'.

<sup>38</sup> A recent poll suggested rising concerns over China's increasing economic power, notably in Germany, Italy and France, similarly as in the United States or Canada in 2011 ('Chinese investment in Europe', *The Economist*, 30 June 2011). Though the effects of the economic downturn are also believed to be a factor.

companies could find it difficult to compete at a time of austerity and market stress. Controversy and sensitivities have tended to exaggerate the scale of what is underway. One European businessman based in China, insists that ‘so far, altogether, Chinese investments remain very limited, especially when compared to European FDI into their market.’ In 2010, Chinese FDI into the European Union accounted for 1.7 % of total FDI in Europe that year. When considering cumulative FDI stocks from China and Hong Kong, it only amounted to 1.2% of extra-EU 27 FDI stocks in Europe in 2009<sup>39</sup>. However, the rate of increase has accelerated. Between 2009 and 2010 FDI flows from China have more than tripled<sup>40</sup>. According to a Chinese diplomat, ‘non-financial direct investments have further grown by 99.2% year-on-year in the first half of 2011’. This contrasts with equivalent Indian investments, which appear to have shown markedly less growth<sup>41</sup>.

Are we seeing a change of strategic emphasis in Beijing to encourage more diversified capital exports,

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<sup>39</sup> The share of investment is however difficult to fully determine: According to Chinese statistics, almost 80% of Chinese FDI stocks would be invested in Hong Kong (67%) and in offshore financial centres. The EU accounts for 3.5% and North America 2.1% (Eurostat and ‘Bulletin économique Chine’, n°36, French Treasury General Directorate, May 2011).

<sup>40</sup> From €0.3billion to €0.9billion. There has also been a sharp increase in FDI from Hong Kong from €1.3 billion to €11.3 billion. Provisional data from Eurostat in ‘Foreign direct investment flows still influenced by the crisis’, Issue 25/2011.

<sup>41</sup> See F. Hay, C. Milelli and Y. Shi, *La présence des firmes chinoises et indiennes en Europe: les effets de la crise*, French Ministry for the Economy, July 2010, p. 8 and 9.

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with a special focus on Europe? Or merely one, as a London analyst put it: ‘due to the superior opportunities afforded by the crisis’? However, although the exact scale of Chinese investments including assets acquired remains unclear<sup>42</sup>, large operations seem to have been ‘marginal’, with investments mostly supporting Chinese exports to Europe<sup>43</sup> and acquiring specific skills in dedicated technological sectors. At the same time, there are instances where the focus has been on developing the activity of major Chinese companies, through the setting up of European headquarters. Altogether, in 2010, Chinese investments amounted to some 115 FDI projects into Europe, 3% of all FDI projects in the European Union that year, and represented an estimated 5,200 job creations.<sup>44</sup>

A leading European diplomat expects that: ‘there will be further investments from China into Europe, and it will be significant over the years. After all, China is set to become a major FDI contributor internationally and this is positive. It is also an important link in bilateral ties and reflects the intensity of our trade relationship’. At present China only

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<sup>42</sup> Indian and Chinese investments, which are financed from funds raised abroad, would not generally be recorded in their respective balances of payments (F. Hay, C. Milelli and Y. Shi, *Présence et stratégie des firmes chinoises et indiennes en Europe*, French Ministry for the Economy, January 2008, p. 15).

<sup>43</sup> A significant proportion of Chinese investments in Europe is made of small structures, mostly sales centre and representative offices. ‘Bulletin économique Chine’, n°36, op. cit., p. 3.

<sup>44</sup> By contrast, India accounted for 94 FDI projects (‘Restart: European attractiveness survey’, Ernst & Young, 2011)

ranks 16th worldwide in terms of outward FDI stocks which represents 3% of that of the European Union<sup>45</sup>. Other European commentators observe that ‘Chinese investment into Europe is mutually beneficial and should be encouraged’ but ‘companies investing should not have unjustified advantages (including possible coordination through State related sources of funding) compared to European private companies’. There was also ‘ensuring that European standards on labour conditions are not undermined.’ Nevertheless, this meant overall that ‘China’s investments should be considered in the same way as any other foreign investors for the EU’<sup>46</sup>.

Perhaps unsurprisingly, some Chinese interviewed for the study felt that their ‘main concern regarding investing in the EU was not at the moment official or popular attitudes, but whether Europe’s attractiveness as a single market of 500 million customers is maintained and fostered through a more competitive approach’. One banker observed: ‘the future of the single currency and its role in making a stable and integrated market across many countries is what really facilitates our operations. We are confident that a favourable policy environment will follow a favourable outcome of the crisis.’ This does not mean, however, that they are slow to list the ‘obstacles’,

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<sup>45</sup> CIA Factbook ranking at country level and UNCTAD statistical measures in 2010 (though it amounts to 14% of EU FDI outward stocks when including Hong Kong).

<sup>46</sup> One commentator recalled the European Commission rejection of the merger between General Electric and Honeywell in 2001 under the market dominance test.

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which they feel ‘still impede Chinese investments’, notably, of course, ‘the issuance of visas for Chinese business people.’ Some are concerned about ‘pressures for measures which could make investments into Europe more difficult’ especially if Europe faces, as many expect, a prolonged period of relatively low growth and sub-optimal job creation. ‘Difficult times should make a mutually beneficial co-operation a core component of the EU-China relationship’ and this would require ‘active management’ allowing both sides to ‘work towards an increasingly more strategic appreciation of our respective interests and the identification of common goals.’

Several commentators emphasised the importance of the integration of investment policy into the European Union’s common trade competence since the Lisbon Treaty took effect for ‘fostering new opportunities to strengthen policy coordination and promote bilateral ties between China and Europe as a whole’. One Chinese expert confirmed his country’s interest in ‘exploring a comprehensive approach to investment flows between us and Europe’<sup>47</sup>, for example through a ‘mutual pact’. He went on to speculate if Europeans’ difficulties in ‘thinking as one’ in this regard constitute a ‘barrier to progress’? One prominent European foreign policy analyst pointed out ‘there are assets which in some member states are regarded as strategic and for which there are mechanisms in place to limit foreign holdings’. China should not ‘be blamed for following its

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<sup>47</sup> A joint EU-China Investment Task Force was launched in 2010 to explore the scope for further cooperation.

own economic rationale' but 'it is up to Europe to have a more united position around core common interests.'

## European interests in China

There is general agreement that European investments in China do not yet fully reflect the scale of sino-european commercial ties. For one European businessman, it is 'worrying to compare how little we are putting into China, especially when compared to Switzerland, for example'<sup>48</sup>. The conclusions of a recent report from the European Chamber of Commerce in China highlighted remaining constraints to market access and EU sourced FDI in sectors such as insurance, construction and telecommunications. For one European expert 'a level playing field is an important step towards achieving mutual interests between China and Europe, both with regard to Chinese investment in Europe but also conversely European interests in China, and thus realise the full potential of the bilateral cooperation'. This is especially so 'with regards to the country's legal infrastructure development and reform' with regards to which despite 'significant progress having been made' in the past few years, 'sources of concern persist'<sup>49</sup>.

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<sup>48</sup> 2% of European outward FDI were invested in China against 15% in Switzerland in 2009.

<sup>49</sup> One commentator cited: 'the progress in the legal system and implementation of intellectual property rights for example', but admitted 'difficulties for European businesses persist'.

## Chinese and Indian views of Europe since the crisis

Indeed, there are suggestions that the crisis has caused 'some aspects of the regulatory environment' for European businesses in China 'to become less fair recently'<sup>50</sup>. A Chinese expert reacted to such criticism by saying that 'naturally, in times of stress, long term interests are sometimes clouded by immediate concerns.' But he also insisted Europeans 'should be in no doubt we want to play by the book and the WTO rules.' He added: 'we would welcome the negotiation of a EU-China mutual investment agreement' to 'improve legal and institutional provisions in both ways'. A European businessman operating in China also observed that 'some of our current difficulties are as much our fault as theirs. The crisis has 'made Europeans think more nationally,' and thus has translated into 'a much more fragmented approach, rather than favouring a coordinated position.'<sup>51</sup>

### Europe and China's economic cooperation: "a Unique Partnership"?

The overall context for these considerations regarding investments is, of course, China's general economic

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<sup>50</sup> This is especially so with regards to 'indigenous innovation' policies. See also 'European Business Confidence Survey 2011', European Chamber of Commerce in China.

<sup>51</sup> One European expert observed: 'For Europe's links with China to be further developed, Europe would have to consider recognizing China's market economy status in order to make its strategy more coherent'

development. Here, it is a commonplace that there will be an ever-increasing focus on developing the domestic market. As Robert Zoellick, President of the World Bank, wrote recently: ‘it is hard to see how expansion can be accommodated within an export and investment-led growth model’.<sup>52</sup> One Chinese expert feels that ‘China’s rise has perhaps been somewhat exaggerated: our economic strength needs to be more comprehensive and balanced.’ Despite their country’s impressive economic achievement and a growth rate that has been a ‘stabilizing factor globally’ over the past two years, Chinese experts are ‘realistic’ about the fundamental challenges that they face in achieving their goals in the coming years. The stimulus, which allowed to partly offset the reduction from international demand, has created serious issues like property speculation and a poor allocation of infrastructure investments. The resulting bad loans of real estate developers and construction companies with regional lenders and local government authorities may currently amount to between 22% to 34% of GDP<sup>53</sup>. One Chinese expert observed: ‘There is no doubt that these deficits can be easily managed given significant financial resources from central government,’ but this might constitute ‘a modest brake on growth in the short term.’ There is more generally the risk scenario of being ‘caught

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<sup>52</sup> ‘The big questions China still has to answer’, *The Financial Times*, 1st September 2011.

<sup>53</sup> See P. Artus, J. Mistral and V. Pagnol, *L’émergence de la Chine: impact économique et implications de politique économique*, French Council of Economic Analysis, 20 June 2011, p. 165.



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in a middle-income trap' in which the wage inequality that is typical of a low labour cost exporting economy chokes off the emergence of a broad, prosperous middle class<sup>54</sup> essential for a domestic consumer economy. Under the Chinese government's five-year plan for 2011-2016, which calls for a faster change in the pattern of economic development, the average person's income is targeted to rise above 7% annually with an urbanisation growth from 47.5% to 51.5%<sup>55</sup>. For one Chinese expert: 'accelerating the development of a full social security safety net' (thereby discouraging excessive savings) is also a 'priority' though a significant challenge in the face of increasing demographic pressures<sup>56</sup>.

One Chinese economist pointed out: 'Perhaps even more in this context, and in a world where regional trading patterns are rapidly gaining in importance at a time of swift and radical change, there is a natural convergence of interests between China and Europe', albeit one which is

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<sup>54</sup> According to estimates by the United Nation Development Programme for 2000-2010, China's GINI coefficient, which measures income disparities, was estimated to be at 0.41.

<sup>55</sup> It is generally estimated that domestic consumption could reach 45% of GDP by 2025 with specific measures stimulating household domestic consumption (including social policies), but would 'only grow above a 50% ratio if wider general reforms such as privatization or allocation of credit were to be implemented' ('Bulletin économique Chine', n°31, French Treasury General Directorate, December 2010, p.5).

<sup>56</sup> The objective is to attain universal coverage by 2020 for health and pension. The challenge seems more important with regards to pensions (it is thought that less than half of the population had one in 2010).

‘fragile’ and which ‘will need European understanding to achieve the best mutual benefits.’ Europe will have to ‘grow its way out of its problems through more exports’, whilst China ‘must import more from Europe in a way which will enhance domestic consumption.’ This ‘should not be left too much to chance’. Just as in the field of FDI policy, most Chinese ‘strongly favour a proper strategic co-ordination with the Europeans as necessary to ensure we both get what we want’. One example of this approach, as outlined by an experienced Chinese observer of the European Union, is that China’s 12th five-year Plan and Europe’s 2020 Strategy ‘provides a platform for further expansion of cooperation.’ This overall could make the economic relationship between Europe and China ‘unique in the world’ reflecting the fact that Europeans, unlike, for example, the Americans, ‘are sharing with the Chinese the experience of being in profound transition.’

## **Indian investments in Europe**

Indian commentators do not see Europe’s struggles over integration as in any way comparable to their own difficulties with development. There are several reasons why this is so, which are covered below, but one aspect is certainly the different status of their investments into the EU, which are seen far more as operations in their own right, than as part of a general plan to promote Indian exports, or to achieve other strategic national objectives. As one analyst put it: ‘Indians have had a much stronger

## Chinese and Indian views of Europe since the crisis

focus on higher value-added business activities with a clear view to yield and capital appreciation when compared to their Chinese counterparts, a pattern that seems likely to continue'. Perhaps for this reason, they have attracted much less attention and concern. Nevertheless, the EU is a primary destination for Indian FDI<sup>57</sup>. Prominent acquisitions have been recently the Anglo-Dutch steelmaker Corus in 2007 and of the Jaguar and Land Rover plants in 2008 by Tata. One Indian business specialist points out 'the United Kingdom has been traditionally the main destination of Indian investments in Europe. Tata is now the largest single manufacturing company in the UK and in this, is probably as important to Britain as it is to India.'<sup>58</sup> But Indian investments across the rest of Europe have become increasingly significant. For example, in Germany, with the purchase of Betapharm (a generic drug manufacturer) in 2006 and of RE power systems (a wind turbine company) through an initial majority stake holding in 2007 subsequently increased through to 2011.

European attention may increase if a pattern were to emerge which confirmed, what some observers have long

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<sup>57</sup> Europe was estimated to amount to around 30% of Indian outward FDI flows from 2002 to 2009 (See P. Satyanand and P. Raghavendran, 'Outward FDI from India and its policy context', Vale Columbia Center, 22 September 2010, p.11).

<sup>58</sup> Tata employs around 45,000 workers in the UK. Altogether in 2010, Indian companies emerged as the second-largest new jobs creator in Britain, 'UK Inward Investment Report 2010/11' from the United Kingdom Trade and Investment office.

suggested, that India's export priorities both to Europe and globally, will be much more orientated towards services than those of China. Revenues from the IT and business process outsourcing sector in India are estimated to amount to 6.4% of GDP for 2011 and 26% of Indian total exports<sup>59</sup>. This involves a number of activities, such as for example knowledge based research, which are integrated across an increasing range of business sectors<sup>60</sup>. Europe currently amounts to 30% of Indian knowledge outsourcing services' exports and the United States just above 60%. Overall, as one European expert observes, 'total trade in services between India and the European Union translates into a relative imbalance'. The EU exports 1.9% of its services to India whereas it accounts for 11.6% of Indian services exports. One European analyst considered: 'It is still far too early to tell the significance of these trends, but there seems little doubt that structurally the large-scale outsourcing or external operation of back-office functions, legal and medical services and the like will represent an increasing challenge to the European service sector.'<sup>61</sup>

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<sup>59</sup> 'The IT-BPO sector in India: Strategic Review 2011', NASSCOM, <http://www.nasscom.in/it-bpo-sector-indiastrategic-review-2011>

<sup>60</sup> For example, in retail the UK company Tesco with the Tesco Hindustan Centre Service in Bangalore which provides IT, financial, accounting and commercial services for its operations worldwide.

<sup>61</sup> In IT services, European companies have significantly increased their 'offshore' presence and capacities by setting up production centres in India, for example Cap Gemini. See François Pitti, *Chine et Inde: vers une stratégie de marque*, En Temps Réel, April 2009, p. 9.

### European investments in India

Such fears can be partly explained by the fact that India is generally recognised as affording a ‘more mercantalist’ environment for European business even than China. According to the World Bank estimates on the ease of doing business, India was in the 134th place in 2011, whilst China was ranked 79th. The main reason for this, according to one analyst was a conception of India’s home market upon a form of ‘Friedrich Listian protectionism with remaining substantial tariff barriers’<sup>62</sup>, but also ‘the general pattern of India’s economic development.’ In contrast to China, there has been a significant focus on the tertiary rather than the industrial sector and the reliance upon exports has also been less. Services amounted to 55% of Indian GDP, against 26% for the industry sector in 2010. (The comparable Chinese numbers were 43% against 47%). India’s exports constituted 20% of GDP in 2009. (It was 27% in China). Although European services exports into India have grown by 13% from 2008 to 2010, ‘services are also obviously more difficult to penetrate and engage with than industries’.

Most Indian commentators insist that this will change as ‘industrial development becomes more important

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<sup>62</sup> According to European Commission’s estimates and although they have decreased, India’s average applied tariff remained at 14.5% (compared to 10% in China) in 2008. One commentator noted for example, that tariffs imposed on wines and spirits (under negotiation as part of the free trade agreement) ‘are currently at 150% for imported products’.

domestically over the coming years and as we increase our export performance.’ However there is some scepticism in European business circles over the extent to which this will make their relationship with India easier. One said: ‘Unlike China, India appears to have no very clear picture of where Europe fits into its own plans for growth.’ Another observed: ‘Whereas China seems to be moving towards fostering a strong middle class which will eventually create a consumer economy compatible with long-term European interests, India, principally for demographic reasons over the next few years or so comparatively, may be heading in the other direction with a greater dependence on exports.’ Indian experts discount such fears, pointing out that domestic consumption is a primary contributor to GDP<sup>63</sup> and that their middle-class could reach above 550 million people by 2025<sup>64</sup>, which will not be far short of the projected numbers for middle class Chinese. India’s still growing rural population certainly present serious problems, but it will not suffer the ageing trap which faces China.<sup>65</sup> Yet, India’s human development index is still only at 119<sup>66</sup> suggesting ‘the very significant challenges’ than the country faces. This is

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<sup>63</sup> India’s ratio of private domestic consumption to GDP was at 57% in 2008.

<sup>64</sup> See McKinsey Global Institute, ‘The bird of gold: The rise of India’s consumer market’, May 2007.

<sup>65</sup> A leading Indian economist cited poor land records as the ‘biggest single issue’ hampering industrialisation. He quantified it as a loss of more than 1% of GDP annually.

<sup>66</sup> Out of 169 countries in 2010. China comparatively has an index at 89.

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‘especially the case’ in education (access to higher education for a class age remains below 10% and although it has improved over the past few years the literacy rate is only at 74%<sup>67</sup>), or for example infrastructure, (a significant proportion of the population does not have access to electricity<sup>68</sup> and power cuts constantly restrain industrial output). But one Indian expert notes: ‘As India’s global competitiveness develops, this will bring significant opportunities’ and ‘if you look at what we need to raise our performance, Europe must have a major role to play.’

## The EU-India Free Trade Agreement

Of course, the immediate test of the significance of these various elements in Europe-India relations will be the forthcoming Free Trade Agreement (FTA), which could perhaps be finalised by the end of the year. A prominent European business and policy maker noted that: ‘For the European Union, the free trade agreement is a relatively new form of negotiation, which takes us beyond the usual issues that we have faced with most emerging Asian countries, the question of manufactured goods entering the European market, towards new and more complex questions of trade in services and the flow of investment’ and that this ‘could mean it will take some time to realise

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<sup>67</sup> Provisional data from the Indian census 2011.

<sup>68</sup> According to estimates from the International Energy Agency, access to electricity was only at 66% in 2009.

its full potential'. Indians regard the FTA generally as 'the fruit of our increasing self-confidence over the past few years'. There are good reasons for this: Many expect India's growth rates to remain high in the long-run perhaps retaining levels at around 9% through to 2030<sup>69</sup>. It is further anticipated that India will grow from a 2% share of world economy in 2010 to an indicative share of 12% by 2050<sup>70</sup>. Total bilateral trade between the EU and India increased by 11% from 2008 to 2010. The fact that, over the same period, EU-China trade grew by 21% is seen 'as the strongest evidence our commercial relations remain well below potential and the agreement should allow us to change this. It will bring good times for us,' not least because it will demonstrate 'how compatible our entrepreneurial and legal culture is with that of Europe'.

But it does not suggest Europe, notwithstanding the FTA, is a 'new core priority'. India has already entered into a range of free trade agreements: with ASEAN<sup>71</sup> and with South Korea, since 2009, and with Japan since February 2011, whilst formal negotiations were launched with Canada in 2010. For one Delhi-based commentator, this takes place 'in the context of the stagnation of the Doha Round' and 'therefore a greater emphasis on regional rather than global trade liberalisation', such as 'for example the importance afforded by the United States to the expansion

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<sup>69</sup> Projections from Standard Chartered, *op.cit.*, p. 2.

<sup>70</sup> Estimates from the CEPII for 2050 based on GDP, 'The global economy in 2050', 15 December 2010.

<sup>71</sup> The ASEAN group comprises: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.



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of the Trans-Pacific partnership'<sup>72</sup>. Perhaps 'this reflects a greater scepticism in India over the prospects for the Doha Round of the WTO than is found in Brussels'.

Another Indian expert expanded on this analysis with the further comment that 'the American market does seem to offer a better long-term fit for Indian interests with regard to exports than does the European one.' Of course, talk of a new 'strategic relationship' between India and the United States was widespread before the crisis, though more in the political sphere (see section 2.2 below). Perhaps this will now be pursued in the economic field as well? A European journalist observed however that 'India does not yet seem to have a general strategy for how it sees itself in the context of the world economy' and has 'tended to make policy reactively, rather than proactively.' One clue may lie in the fact that for one Delhi-based expert 'the EU-Indian agreement will also enhance the Union's free trade agreement with South Korea, concluded in 2010' and will perhaps ease its recently initiated negotiations with Singapore and Malaysia. Does India, therefore, see herself as a 'bridge between Europe and Asia'? It would be difficult to imagine a greater difference between this and the vision of Europe as the 'unique partner' of China. Though not, perhaps, as difficult as working out the extent to which these two approaches would be mutually incompatible.

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<sup>72</sup> The Trans-Pacific Partnership is a multilateral free-trade agreement currently being negotiated including Australia, Brunei, Chile, Malaysia, Peru, Singapore, the United States, Vietnam and New Zealand.

## 2. Chinese and Indian political views of Europe since the crisis

### **1. The European Union's evolving partnerships with China and India**

A process of increasing intensity

Both China and India have had longstanding diplomatic ties with the European Union, since 1961 in the case of India, one of the first countries to establish such a relationship with the then EEC, followed by China in 1975. The first summits which marked the beginning of a true bilateral relationship between the EU and each of the two countries were held in 1998 with China and in 2000 with India, further enhanced with the agreement to enter into a so-called 'strategic partnership' a few years later: in 2003 with China and in 2004 with India. Since then, the relationships have diversified and expanded into a number of areas with each of the two countries at a sectoral level, including the environment, science and technology and

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international security cooperation<sup>73</sup>. There have been some variations in scope over the past few years, somewhat reinforced in the case of the sino-european relationship by the creation of the European External Action Service, following the coming into force of the Lisbon Treaty in December 2009. Of particular note are:

1. Since 2007, the EU-China partnership was expanded with two additional mechanisms: a high level economic and trade dialogue agreed upon in November 2007 with the aim of covering multilateral trading system and strategic bilateral trade-related issues<sup>74</sup>. A high level strategic dialogue co-chaired by the EU High Representative for foreign affairs and security policy and China's State Councillor since September 2010 to systematically address global issues of shared importance for both parties. For one European expert on China, 'until then, the bilateral relationship was mainly that of a bottom-up approach based on sectoral cooperation but this framework is aimed at providing a complementary top down strategic perspective'. The

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<sup>73</sup> A dialogue on human rights was first set up in 1995 with China and has continued to be held regularly although China has yet to ratify the International Covenant on Civil and Political Rights, which it signed in 1998. There are suggestions however that China has recently amended some laws to prepare the ground for such ratification. The initial 1994 Cooperation Agreement between the then EEC and India provided for 'the respect of human rights and democratic principles as the basis for bilateral cooperation'.

<sup>74</sup> Including trade and investments, innovation and intellectual property rights and cooperation in technology.

second strategic dialogue of the kind was held in May 2011 to discuss notably international developments in North Africa and global trade issues. This was shortly followed by the first visit of the full-time President of the European Council to China.

2. There are now some fifty specific areas of sino-european co-operation. Recent developments over the past three years have included agreements on the environment (with a bilateral coordination mechanism on forest law enforcement, signed in 2009, to contribute to the reduction of illegal logging), customs cooperation (with an agreement to prevent the traffic of drug precursors in 2009), employment and social affairs (with a memorandum of understanding on health and safety at work in 2009), cooperation initiatives such as in energy (with notably the creation of the Europe-China clean energy centre in Beijing launched in 2010) and further exchanges in international and security cooperation (for example the setting up of a dialogue on small arms and light weapons with a first session held in June 2010).
3. The EU-India relationship saw the opening of the negotiations on the Free Trade Agreement in 2007 and the revision in 2008 of the Joint Action Plan (that was drawn up originally in 2005 to underpin the bilateral strategic partnership). This included a joint work programme to further cooperation on energy (including for example an agreement between Euratom and the Indian government in the field of fusion research in

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2009, which complements joint activities on the International Thermonuclear Experimental Reactor program<sup>75</sup>), clean development and climate change, and the signing of a civil aviation horizontal agreement in 2008<sup>76</sup>. It also involved further negotiations on 'enhanced cooperation to support peace and security'. This led to a joint declaration on international terrorism in December 2010.

4. The EU High Representative for foreign affairs made an initial visit to India in June 2010 to bolster the strategic partnership but one European commentator suggests that 'a more frequent engagement would be necessary to increase the EU visibility in India'.
5. The Asia-Europe meetings (ASEM) provide a further format for dialogues with China since its inception in 1996, and with India, which became a formal member in 2008. The EU was also granted an observer status in the South Asian Association for Regional Cooperation in 2006<sup>77</sup>.

How do the Chinese and the Indians evaluate these various initiatives and fora? Both reasonably positively it

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<sup>75</sup> Both China and India are members of the ITER organization.

<sup>76</sup> Until then India had a bilateral cooperation in this field with 26 of the EU member states.

<sup>77</sup> SAARC comprehends Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri-Lanka. China, Japan and the United States also have an observer status.

seems. For one Beijing official, ‘China and the EU now enjoy frequent high-level visits and the mechanisms for a constant in-depth dialogue across all areas of policy and mutual benefit’. This, it is said, provides ‘a sound political trust which has increasingly become a driving force for the bilateral relationship’ and is of ‘world significance.’ A Delhi-based commentator observed that ‘there is a growing awareness of the political, geostrategic interests that we share with Europe, not just in general terms but in the details of issues such as counter-terrorism and energy security.’

## **The European External Action Service**

The creation of the European External Action Service (EEAS) and the full-time Presidency of the European Council, both of which steps have, in part, been promoted as allowing a ‘greater coherence of European policy-making and improved engagement notably with the rising Asian giants’, has been greeted by them with somewhat mixed reactions. One Chinese foreign policy expert regarded both new institutions as ‘a very significant advance for Europe’s global identity.’ However, another observed: ‘We are under no illusions that recently the primacy of policy leadership by the principle member states has become much more pronounced.’ He added: ‘The European External Action Service will need time to prove itself by identifying where it can make a positive impact, relative to the diplomatic resources of France, Britain and Germany in particular.’

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Some expect ‘a period of transition’ but would ‘definitely welcome a more coherent and integrated European policy on international affairs.’

A few experts are ready to make more specific suggestions, such as ‘ensuring that more time is spent on EU relations with China in the European Council’ and ‘identifying the really core interests of the EU’ so that a collective approach ‘is not the lowest common denominator, but which may reflect a clear long-term strategy.’ To develop this ‘a common analysis at a European level of China’ would be ‘highly desirable’. In part this is because there are ‘such wide variations in knowledge about China across the member states.’<sup>78</sup> But ‘a greater co-ordination of research and analysis’ might also ‘assist China’s understanding of European interests and priorities.’ Others prefer to judge the EEAS by results. A Chinese official welcomed Catherine Ashton’s suggestion that the arms embargo ‘could be reviewed’. When considering any wider issues that the EEAS should address as a priority one commentator suggested ‘perhaps Europe’s approach to Russia.’

Indian views are much coloured by their perception of their continuing technical diplomatic weakness (Delhi only deploys around 700 diplomats across the world) so ‘anything that streamlines our relationships is greatly to be welcomed.’ One official noted ‘the positive effect of it acting as a

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<sup>78</sup> One prominent European foreign policy maker also pointed out more generally the ‘limited number of think tanks in Europe which have the capacity to follow China or India’ and therefore the ‘lack of manpower and knowledge in dedicated sectors’.

facilitator on wider sectoral cooperations.’ But several Indians too are looking for results ‘in particular in arranging an EU-wide deal on visas for Indian business people and students.’ One Delhi-based expert considers that ‘the logic of the EEAS should make it easier for the Europeans to grant India a permanent seat on the United Nations Security Council.’ There is a feeling that the new institution ‘will need to show it can break through the log-jam of separate national interests on such matters’ if it is ‘to be taken seriously.’ Indian experts are, if anything, more ready than their Chinese counterparts to enumerate the areas where they believe Europeans should ‘speak increasingly with one voice.’ The issues most frequently mentioned are Afghanistan, Iran and ‘the Middle East generally’. One expert included Russia and ‘perhaps also Central Asia.’ However, a few Indians are pessimistic on whether the EEAS ‘will really be able to modify the weight of the national member states in determining European foreign policy.’ One Indian journalist added: ‘So far it looks like an additional institutional layer though we are aware it takes significant time to build a fully effective diplomatic apparatus.’

## **2. Europe’s place in India’s conception of the world**

Prior to 2008, Indian foreign policy appeared to comprise three separate themes. First there was India as one of the two great Asian powers leading the revival of the East in the face of the West, associated with the notion



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of 'Chindia'<sup>79</sup>. This had a strong cultural<sup>80</sup>, as well as economic element even though it underpinned some striking political achievements: notably the marginalisation of the Europeans at the Copenhagen Summit on climate change in 2009.<sup>81</sup> It was also a core part of India's so-called *Look East* policy, which involved closer relationship with, for example, the members of ASEAN and Japan. Second there was India as increasingly part of a 'wider West', the 'world's largest democracy.' American Republican foreign policy analysts were particularly keen on this, but their enthusiasm was reciprocated by Indians' perceptions of the United States 'retaining its leading global position.' Its most signal achievement was the acceptance

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<sup>79</sup> Jairam Ramesh, *Making Sense of Chindia*, India Research Press, New Delhi, 2005.

<sup>80</sup> It has notably been much favoured by Buddhists.

<sup>81</sup> Both Indian and Chinese interviewees considered the controversial outcome of the Copenhagen Summit on Climate Change in 2009 as 'proof that Europe was losing its leading role in a policy area where it has been at the forefront internationally.' As a Chinese expert put it: 'Europe has much to contribute to the climate debate' but 'should focus more on its strength in new energy technologies.' Or for an Indian official: 'Europeans need to understand, like the United States, that our energy requirements are ones which still address basic needs'. He added: 'the dialogue currently underway between Brussels and Delhi should further address energy efficiency improvements, renewable energies and smart grid management'. Both countries are making great efforts in renewable energies. China is widely seen as a global leader in wind power accounting for more than 20% of world capacity. But dependence on coal remains very significant. One expert noted: 'Europe is four times ahead in terms of energy efficiency'; whilst in India only 11% of energy capacity is renewable, though up from 8% in 2007 and with further plan to increase solar power.

by America of India's status as a nuclear weapons state (the strategic accord of 2006 followed by the waiver granted by the Nuclear Suppliers Group in 2008<sup>82</sup>). For some, this meant India becoming 'the new Asian special partner' of the United States<sup>83</sup>. Finally, there was the notion of 'Indian particularism', a modernised version of the 'non-aligned' policy<sup>84</sup> of the post-independence era and the Cold War. This has recently expressed itself in the increasingly close relationships, for example, with Brazil and the Republic of South Africa.

The principal effect of the crisis in this context appears to have been, in the words of one Delhi foreign policy analyst: 'to confirm a sense of Indian anxiety and inferiority with regard to China's rise.' Although trade between India and China has continued to increase since 2008 and is projected to have risen by some 60% by 2015, following the establishment of a strategic bilateral economic dialogue the first meeting of which was held on 26 September 2011<sup>85</sup>, Indian commentators are quick to

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<sup>82</sup> The actual implementation remains stalled by India's nuclear liability law.

<sup>83</sup> The Indian diaspora in the United States was of 2.8 million in 2010 and around 1.5 million in Britain.

<sup>84</sup> This is perhaps best explained by India's approach to multipolarity and multilateralism: In the WTO or on climate change in the wake of the Copenhagen Summit India has privileged South-South convergences but South-North ones in its interest to reform the UN Security Council. Jean-Luc Racine, 'L'Inde: émergence ou renaissance?', in *La Renaissance de l'Inde*, p.15-16, Société de Stratégie, Agir n°44, December 2010.

<sup>85</sup> China is now India's second trading partner, though accounts for only 2% of China's total trade.

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point out ‘the political complexities we face in this relationship’. For one expert: this is ‘not just a sense of how far India is behind China with regard to development’<sup>86</sup> economically but also ‘of China challenging Indian interests.’ The more public examples of this are Indian criticism of recent Chinese investments in Bangladesh and Sri Lanka<sup>87</sup> and, above all, in Pakistan, notably in the port of Gwadar in Baluchistan and in the Chashma civil nuclear power plants<sup>88</sup>. Tensions remain over the borders

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<sup>86</sup> One interesting insight into this frame of mind is afforded by the debate about the scale of European aid to India in the so-called ‘country strategy paper’, which covers EU funding for the bilateral cooperation for the period 2007-2013 and how this relates to India’s own ambitions to provide development assistance to third countries. One commentator observed: ‘the funding amount to a total of €470 million with around 70% dedicated to social supports (health and education)’ partly to help India meet the Millennium Development Goals. This means a ‘rather limited part is attributed to the implementation of the EU-India joint action plan’. India also has partnerships with specific member states such as the United Kingdom, Germany and France aside from the EU. One European expert cites ‘the focus on environment and energy’ for example in Germany or in France’s cooperation programs with India. India presently provides aid assistance to, notably, Nepal, Bhutan and Afghanistan. See also Gareth Price, *For the global good: India’s developing international role*, Chatham House report, May 2011.

<sup>87</sup> China bilateral trade with Bangladesh has increased significantly over the past few years. Recent projects include the proposed development of a deep-sea port in the Bay of Bengal. Sri Lanka approved of cross-border transactions to be done in renminbi to facilitate further trade and investments with China in June 2011.

<sup>88</sup> Though the port (operated by Singapore Port Authority) is still in phased construction. Traffic has remained limited since opening in December 2008 (See Mathieu Duchâtel and Jean-Luc Racine, ‘La politique pakistanaise de la Chine: déterminants, permanences, inflexions’, Asia Center, March 2010, p.53).

in the Himalaya<sup>89</sup>. So despite a continuing growth in Sino-Indian trade, and, the fact that several experts promptly underlined ‘that India and China are making their voice increasingly felt globally, the appeal of the Chindia idea has been greatly reduced’. One commentator felt that this would lead India to be ‘drawn towards a closer rapprochement with the United States’. But at the same time ‘there is a recognition that America’s new economic weakness may lead it to be more isolationist.’ Another Indian commentator observed that ‘we are acutely aware that China’s economic inter-dependence with the United States, in particular her continuing support for America’s debt, now more apparent than ever since the crisis, makes it very difficult for us to have influence.’ By far the most common view is that ‘India’s relationship with the United States should not be based on seeking to counterbalance other powers’.

Might this make Europe more important for the Indians? Overall, most see ‘a deep-seated dichotomy between Europe’s economic and political relationship with our country’. In fact ‘India’s engagement geopolitically with Europe is very much on a case by case basis rather than having any major strategic lines’. One area though where they feel this should increasingly be the case is in security and defence. One Indian military analyst observed that ‘Europe too must come to terms with an America that is less willing to carry the lion’s share of the burden of Western

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<sup>89</sup> India reportedly recently deployed additional troops nearby the disputed state of Arunachal Pradesh.

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defence.’ India is very interested in ‘working more closely with France, Germany and Britain in all fields appertaining to defence.’ The country’s enormous unsatisfied demand, especially for aerospace equipment in the process of modernizing its defence industry, was demonstrated in April 2011 when it shortlisted Dassault’s Rafale and the European consortium Eurofighter Typhoon for the Medium Multi-Role Combat Aircraft program out of six initial bidders<sup>90</sup>. Other areas of interest are cyber security and electronic warfare. But several Indian commentators underlined that their ‘confidence in Europe becoming a reliable defence partner’ would be enhanced ‘if they demonstrated, at a time when the United States are stepping back from protecting them, that they themselves were ready to consolidate their capabilities further to retain their effectiveness.’ In this regard, the strategic accord on defence concluded between France and the United Kingdom in November 2010<sup>91</sup> was regarded ‘with a strong interest and as a very significant development,’ which ‘it would be good if other European nations were to join.’

Or might it encourage a more isolationist or ‘withdrawn’ India, concentrating merely on its economic interests and

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<sup>90</sup> India also approved in July 2011 the upgrade of its Mirage 2000 fleet, under a proposal by Thales, Dassault and MBDA (with an initial upgrade of the first two aircrafts in France and subsequent ones in India by Hindustan Aeronautics Limited).

<sup>91</sup> The two countries signed a Treaty on defence and security cooperation and agreed to collaborate in the technology ‘associated with nuclear stockpile stewardship’, including nuclear warheads, which some see as pre-figuring deeper integration of strategic forces.

internal development, and not aspiring to ‘exercising real influence over the new shape of the world’? Something like, for one commentator, ‘the policy Germany, France or Britain would be constrained to follow, if European co-operation were to fail.’ Such an option is generally rejected, not just because of ‘India’s scale and prospects’, which make ‘a greater global role as inevitable as it is for China.’ For one prominent editor: That India ‘still has some way to go economically and politically,’ to reach a ‘proper position in global councils of decision making – be it the United Nations Security Council or the International Monetary Fund – or in security regimes like the Nuclear Non Proliferation Treaty’, does not mean it should ‘give in to the temptation to either seek positions of power before it is ready to deal with them or to accept such positions as concessions from the powerful’<sup>92</sup>.

It is also rejected by some Indians on account of immediate problems ‘notably the instability in the Islamic world.’ They seem to feel that ‘Europeans do not sufficiently understand our vital interests in this regard’. One interviewee complained that ‘some Europeans were not too sensitive to India’s concerns in the wake of the 2008 Mumbai attacks’ and ‘have a tendency to accept too much Washington’s analysis and priorities with regard to Pakistan.’ Nevertheless, here again India does see Europe as ‘sharing many of our concerns’ and as ‘potentially a

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<sup>92</sup> Sanjaya Baru, ‘West, Rest and China: Even as China pursues power in IMF sweepstakes, India is right to keep a low profile’, *Business Standard*, 30 May 2011.

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partner of great importance.’ The Middle East amounts to nearly 70% of India’s crude oil imports (compared to around 40% for China) and India has a large diaspora in the Gulf with around 5 millions workers<sup>93</sup>. One Indian expert said: ‘India was not happy and we were very cautious about the Anglo-French intervention in Libya, partly on account of our investments’ (India’s trade with Libya increased from \$115 millions in 2005 to \$845 millions in 2009 and involved over 15,000 nationals working there at the start of the revolution) but also ‘because of the possibility of political unrest spreading to the Gulf’. Though one added: ‘but we now believe it may help Europe to influence the process of change now affecting the Arab world.’

The possibility of Europe’s dialogue with India ‘including regular consultations on the Middle East’ was suggested by several commentators. Another area of co-operation is anti-piracy operations in the North East Indian Ocean. India has been active with a naval presence there since the end of 2008, but ‘would favour more joint efforts specifically with European forces.’ But by far the most important subject of current common concern is, of course, Afghanistan. The recent decision by India to take over the training of part of the Afghan police is the latest in a series of interventions which has made Delhi

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<sup>93</sup> Overall India has the second largest Muslim population in the world (more than 150 millions) after Indonesia – The legacy of India having been the seat of perhaps the greatest of all Islamic polities: the Moghul empire.

probably the most important non-NATO partner of the Kabul government<sup>94</sup>. For some, these are ‘sometimes not enough known about in Europe’ and ‘will become more important as the 2015 deadline for the withdrawal of major allied forces approaches.’ India ‘would welcome more discussion with Germany, France and Britain, on long-term non-military approaches’ to the country. However, Afghanistan is also illustrative of ‘the weakness and disunity of Europe, and the inadequacies of European capabilities.’ As one military expert said: ‘I do not see Europe today in the operations in Helmand or Kapisa or Kunduz.’ He went on: ‘I think I would welcome a militarily powerful Europe. But India is not expecting, nor asking for it.’

### **3. Europe’s place in China’s conception of the world**

Before the crisis, some Chinese commentators tended to see Europe as ‘coming for us some way behind the United States in geopolitical significance.’ American global pre-eminence was ‘not anticipated to change any time soon.’ Such judgements appear now to be rather more nuanced. Some profess they are ‘surprised at the present pace of change’ which has ‘in different ways made both the

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<sup>94</sup> India is the fifth largest aid donor in Afghanistan (support also focused notably on building a new parliament in Kabul). See ‘Charity begins abroad’, *The Economist*, 13 August 2011.



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United States and Europe more important in our thinking.’ The question is: ‘how long will this period of change last?’ They feel the world is ‘becoming more diversified’, and countries ‘will increasingly realise that they stand at a crossroad of cooperation, peace and development whereby the issues require diplomatic solutions rather than established alliances.’ America’s ‘very significant economic problems’ need not lead to it ‘losing its geopolitical status’ any more than the European Union’s ‘difficult current challenges’ alter ‘our assessment of its geopolitical potential.’

China is seeking a ‘world of harmonious balance between East and West’. Its leadership of the East ‘is not in question’. However ‘the leadership of the West is uncertain as Europe’s and America’s respective situations evolve.’ This is important to China because ‘we feel there are generally fewer areas of friction between ourselves and Europe, compared to our relationship with the United States.’ For example, ‘Europe does not have expectations in the Pacific region’ which is ‘naturally China’s neighbourhood.’ Moreover, where there have been ‘perceived difficulties in co-ordinating Chinese-European interests’, say ‘in Africa or the Middle East’, one Chinese expert felt that these can be ‘readily accommodated by negotiation and ‘understanding our respective ambitions.’ Recent example of this includes China’s recognition of South Sudan’s independence, or the Chinese involvement in the Gulf of Aden since 2009, where the European Union is conducting the Atalanta maritime operation to fight against piracy as part of an

international effort.<sup>95</sup> Even ‘despite China’s strong reservations over the military intervention’<sup>96</sup> in Libya, and ‘our significant commitments there, including some 36,000 of our citizens employed in various projects’<sup>97</sup> the Anglo-French led operation was ‘a strong expression of natural European strategic interests.’

One European journalist observed: ‘Libya, Sudan and more recently developments in Zambia have caused some Chinese to reflect that working more together with Europe might better suit their long term approach to the continent.’ He went on to speculate that some Chinese ‘may be moving towards a conception of the world as falling into spheres of influence in which the United States, the EU and China focus on developing more intense trading and other links with respectively Latin America, Russia and

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<sup>95</sup> The European Council welcomed the Chinese decision to cooperate more closely with other naval forces in taking active responsibility on a rotating basis for the coordination of naval assets in the Gulf of Aden as part of the SHADE mechanism in which the European Union plays a leading role. <http://www.consilium.europa.eu/eeas/security-defence/eu-operations/eunavfor-somalia.aspx?lang=en>

<sup>96</sup> China however voted in favour of the first resolution in the United Nations Security Council which put sanctions on Colonel Gaddafi, and which led some to suggest ‘a potential shift in China’s traditional non-interference policy’. China abstained on the second U.N. resolution which authorized a military intervention. Some Chinese experts underlined: ‘that we wanted to support humanitarian relief in Libya and therefore did not veto the second resolution’. China has significant commercial interests in the country with bilateral trade amounting to nearly €5 billion in 2010.

<sup>97</sup> One commentator also underlined ‘the positive interaction’ with some European countries notably for flight coordination of the evacuation of Chinese citizens from Libya.

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the Middle East, and Asia.’ Several Chinese foreign policy experts do claim to see parallels between the regional integration model of the EU and the sort of structure they might hope to see emerge in East Asia with Korea or Japan not least because it has provided ‘a way of securing peace and reconciliation between nations by economic means.’ They also sometimes say that what they call the ‘European Community method of competition alongside cooperation’ as encapsulating the sort of ‘win-win interaction’ they favour for international affairs. One Chinese commentator added: ‘although European powers are not as powerful on their own, Europe as a whole is in a position to promote Europe’s conception of governance’.

So is the ‘unique partnership’ with Europe that the Chinese believed to be possible in the economic sphere, also possible politically? Is there, for instance, an equivalent of the prospects for further engagement in defence and security promoted by several experts for Europe’s relationship with India<sup>98</sup>? Some interviewees, both Chinese and European mentioned ‘the enormous potential of cultural and educational exchanges.’<sup>99</sup> These would be, as one Beijing academic said: ‘not only of immense benefit to both parties, but also to the world’,

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<sup>98</sup> A number of European experts expressed concern as to whether Europe’s broader interest would be served by developing substantial arm sales to India in the absence of some relaxation of the arms embargo to China.

<sup>99</sup> One expert recalled that ‘the traditional security issues are also plainly important such as discussions on anti-terrorism’ or ‘prospects to deepen cooperation in food security’.

because Europe and China are ‘the two poles of high cultural diversity, complexity and continuity.’ Thus ‘although American culture continues to attract Chinese youth, only Europe shares with China the experience of being an old civilisation.’ There is furthermore a ‘cultural counterpoint between Europe and China that perhaps does not exist for example between Europe and India.’ This consists of the ‘balance between the spiritual and the rational that makes our very different cultural forms nevertheless mutually comprehensible’. One example of this has been in the long appreciation in Europe of Chinese porcelain. Another is China’s openness to European music, which dates back to baroque chamber works introduced by Jesuits missionaries in the seventeenth century. Expanding upon a discussion on the importance of symphonic music for Europe’s identity, he pointed out that China now has more than twenty orchestras (whereas India only has one). He went on to underline the growing interest in both China and Europe for each other’s modern art (again something for which there is no equivalent, as yet, with India).

Central to achieving this must be ‘a significant increase in the mutual interaction of our education systems’, since ‘it is also through the strengthening of the mutual understanding of our young people that significant developments in the cultural field will be possible.’ 2011 is, in fact, the EU-China Year of the Youth, crowning a history of co-operation at university level going back to the setting up of the China-Europe International Business School in Shanghai in the mid 1990s and more recently

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the China-EU School of Law in 2008. There are now over 120,000 Chinese students in the European Union (in descending order of importance mostly in the United Kingdom, France and Germany), a six-fold increase since 2000, and comparable to the numbers in the United States<sup>100</sup>. There are, however, only some 20,000 European students in China, and most of them are engaged in relatively short-term programmes. The potential for expansion would therefore seem to be considerable. Several interviewees expressed the hope that the EU-China High Level Cultural Forum, which was first held in October 2010<sup>101</sup>, in the margins of the annual bilateral summit, could be expanded and given greater institutional form, 'perhaps by integrating leading national specialist institutions or departments of universities, museums and other relevant entities.'

There is little doubt that it is in this cultural perspective that the real roots of China's optimism about Europe's prospects lie. Though some Chinese experts are often acute and critical analysts of, for example, the errors which have brought on the crisis in the Eurozone, or of 'the barriers to developing a coherent common foreign policy, or of the sustainability of a competitive social market economy, or of the inadequacies of European defence capabilities', for them, there is no sense 'that Europeans

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<sup>100</sup> 'EU-China student and academic staff mobility: present situation and future developments', joint study between the European Commission and the Chinese Ministry of Education, April 2011.

<sup>101</sup> This followed a first initial forum on EU-China cultural industries held in 2009.

have lost the capacity to rise to these challenges', or 'to continue to hold the attention of the world by their creativity.' One academic observation concerning Sun Yat Sen, in the anniversary year of the revolution he instigated, that ended two millennia of Chinese Imperial monarchy, is 'perhaps apt: great peoples often employ unwise means, but rarely pursue unwise ends.'



# Conclusions and Recommendations

A number of key issues and strategic themes for Europe emerge from the analysis. Especially:

1. The crisis has made it all the more vital for Europeans to recognise that their only prospect for engaging in the long run with the rising Asian giants is by being more united, either through the institutions of the European Union, or through a closer co-operation of several member states in those areas, such as the Eurozone<sup>102</sup>, or in defence, where smaller groupings prevail.
2. This more united approach should focus on:
  - a. Creating a sustainable future for the euro including giving it all the necessary institutions to be a global reserve currency equal to the dollar, including an integrated European government bond market and full competences for the European Central Bank.
  - b. Re-doubling the structural reforms necessary to make the single market more complete and competitive, to

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<sup>102</sup> See also Jean-Dominique Giuliani, 'Comment sauver l'euro?', *Le Figaro*, 9 October 2011.



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- maximize European employment and growth.
- c. Creating a robust perspective for defence co-operation so that European capabilities remain internationally credible.
3. The Europeans' analysis of the future patterns of international trade, and the significance of regional integration and liberalisation relative to global agreements, will increasingly be an important factor in determining the long term commercial importance, for them, of China and India. This is matched by some Chinese apparently more ambitious expectations of 'a unique partnership' with Europe, compared to some Indians' notions of being a 'bridge between Europe and Asia.'
  4. In the political field, the co-ordination and further dissemination of part of the member states' research and analysis on both China and India at the EEAS level. This is because a unity of analysis at a European level is indeed a necessary step towards unified actions and a more coherent, long-term, strategic vision. This would not entail any additional resources but further coordination between the member states' foreign ministries and embassies and the EEAS, including the European Union delegations in the dedicated countries. This would, of course, be of particular benefit to those member states with limited resource and knowledge and would allow them, in turn, to engage more fully in joint initiatives especially in areas where inter-governmental co-operation is paramount.

5. Two task groups could be set as part of the EEAS, one to co-ordinate European cultural engagement with China and a second to support a more coherent security and defence engagement with India. Again, this should not require new resources, only a greater focus for existing initiatives and structures. In the cultural field, the inclusion of a wide range of national museums, orchestras, publishers and media enterprises, along with initiatives from the European Commission would be a priority. Just as in the field of security and defence, ensuring, for example, that European contractors are not competing unnecessarily with each other in third markets, could be an opportunity for the EEAS to further prove its particular capability of gathering sometimes disparate national interests into a single effort, to maximize the common gain.
  
6. Any European study of outside views of Europe also invites a process of self-awareness. This is especially so because the rise of the Asian giants constrains us to think in terms that breaks the bonds of the immediate or of the short-term. One very significant effect of the crisis has been that the profound changes this entails is now increasingly understood at a popular level amongst Europe's citizens. Chancellor Angela Merkel was right in her speech to the German Parliament on 7 September

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2011<sup>103</sup> to place the imperative of reforming the Eurozone in this new global context in which even a fully united Europe would only represent less than 10% of the world's population and some 20% of its GDP<sup>104</sup>. It would seem important therefore in considering a more common democratic vision for Europe, to reflect on a longer-term perspective of where Europe will want to be (in fifty years time or so) and what this means, not just for its prosperity and power, but also, for its particular, unique, perception of humanity, for its values and culture. How urgent it is, therefore, that Europeans find more unity of purpose, and more confidence in their own capacities.

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<sup>103</sup> See 'Rede von Bundeskanzlerin Dr. Angela Merkel vor dem Deutschen Bundestag', Berlin, 7 September 2011. <http://www.bundesregierung.de/Content/DE/Bulletin/2011/09/86-2-bk-bt-haushalt.html>

<sup>104</sup> On a purchasing power parity basis.

# Appendix

## 1. EU – China bilateral trade

Year	Exports (billion €)	% of change	Imports (billion €)	% of change	Total bilateral trade (billion €)	EU balance with China (billion €)
2006	63.8		194.9		258.7	-131.1
2007	71.8	12.5	232.6	19.3	304.4	-160.8
2008	78.4	9.2	247.9	6.6	326.3	-169.5
2009	82.4	5.1	214.1	-13.7	296.5	-131.7
2010	113.1	37.2	282.0	31.7	395.1	-168.9

Source: Eurostat and European Commission.

## 2. China's trade with major partners

China customs statistics (January-September 2011)					IMF statistics	
Largest trading partners	Imports (billion \$)	Exports (billion \$)	Total trade % growth (year on year)	% of total trade	% of total trade 2010	
EU 27	157.2	265.3	21	16	17	
United States	90.3	235.7	17	12	14	
Japan	145.7	107.7	18	10	11	
ASEAN 10	143.0	124.1	26	10	10	
Hong Kong	11.6	194.8	28	8	8	
Republic of Korea	119.8	62.1	20	7	7	

Source: China Customs ETCN (October 2011) and IMF.

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### 3. EU – India bilateral trade

Year	Exports (billion €)	% of change	Imports (billion €)	% of change	Total bilateral trade (billion €)	EU balance with India (billion €)
2006	24.4		22.6		47.0	1.8
2007	29.2	19.6	26.6	17.6	55.8	2.6
2008	31.6	8.3	29.5	11.1	61.1	2.1
2009	27.6	-12.7	25.5	-13.9	53.1	2.1
2010	34.8	26.1	33.1	30.3	67.9	1.7

Source: Eurostat and European Commission.

### 4. India's trade with major partners

Indian customs trade statistics (April 2010-March 2011)					IMF statistics	
Largest trading partners	Imports (billion \$)	Exports (billion \$)	Total trade % growth (year on year)	% of total trade	% of total trade 2010	
EU 27	44.5	46.8	23	15	16	
China	43.5	19.6	49	10	11	
ASEAN 10	30.6	27.3	32	9	10	
United States	20.1	25.5	25	7	9	
United Arab Emirates	32.8	34.3	54	11	9	
Saudi Arabia	20.4	5.2	22	4	4	

Source: Indian Ministry of Commerce and Industry (October 2011) and IMF.

**5. EU Foreign Direct Investments flows with China and India**

FDI partners	Outwards flows from the EU (billion €)				Inward flows into the EU (billion €)			
	2007	2008	2009	2010*	2007	2008	2009	2010*
China	7.2	5.2	5.8	4.9	0.8	-0.2	0.3	0.9
Hong Kong	7.2	5.6	2.0	3.0	5.9	2.7	1.3	11.3
India	4.6	3.7	3.4	3.0	1.2	3.6	0.9	0.6
Total EU extra 27	550.7	387.3	280.6	106.7	423.8	170.7	215.7	54.2

\*Preliminary data for 2010.

Source: Eurostat (June 2011).

