

# The EU, Russia and China

By Charles Grant

This article was submitted as evidence by the Centre for European Reform for the review of the balance of competences between the United Kingdom and the European Union (Foreign Policy)

Both Russia and China matter to the UK. Strategically, they are nuclear powers and P-5 countries, with diplomatic interests in many parts of the world. They are the only permanent members of the UNSC and the only BRICS countries that, being undemocratic, consistently oppose Western policies on democracy promotion, humanitarian intervention and human rights. They matter economically, too. Though British trade with these countries is less than that of some other large EU member-states, the UK could export more to both markets and is a major investor in them. One reason why Britain trades relatively little is that its chief strength is service exports, while Russia and China are relatively closed or unwelcoming to the foreign provision of services (for example China excludes foreign law firms).

The EU's policies towards Russia and China are stronger and more developed in areas where the EU has genuine competence (such as trade) and weaker in areas where it shares competence with member-states (energy) or has little authority (such as strategic foreign policy issues). With both Russia and China, the EU has the potential to add much value to what the member-states can achieve on their own. Although it fails to fulfil much of that potential value, the EU nevertheless delivers real benefits. The EU can add value because the fundamental interests of the European states in these two important countries are broadly similar.

In Russia, the 27 all hope that the economy modernises and rebalances away from natural-resource dependency, that the rule of law is better respected, that the judiciary becomes more independent, that foreign direct investment is encouraged, that the political system becomes more liberal (and less Kremlin controlled) and that the media becomes freer. They all want Russia to respect the independence and integrity of its neighbouring countries, and to work constructively with Western powers in dealing with global challenges such as Iran, Syria, climate change and terrorism.

In China, all the member-states want to see an economy in which private consumption – currently at very low levels vis-à-vis investment – plays a greater role and in which state-owned-enterprises are less dominant. They want China to be more open to foreign goods and investors, to respect better intellectual property rights and to give foreign firms the same treatment as domestic firms. They hope that the rule of law advances and that the political system becomes more liberal. They want

China to resolve disputes with its neighbours through peaceful means.

Of course, there are some divisions among the member-states on Russia and China. Some care more about human rights than others (the Nordics think human rights matter the most, the southern Europeans the least). On Russia, some have closer economic relationships that may discourage their governments from being critical: Germany, Italy, Hungary and Bulgaria are among those benefiting from current or future gas pipelines from Russia, while Cyprus gains from a heavy Russian involvement in its financial sector. On China, the differences of economic interest revolve more around trade policy: the southern Europeans are keener to protect EU markets from Chinese goods, and the northern Europeans less so.

With both Russia and China, there is a 'big three' problem: Britain, France and Germany each value their own bilateral relationship with Moscow and Beijing. They sometimes see each other as competitors – as they can be, when it comes to the awarding of contracts – and do not want the EU to intrude.

The problem of the EU's internal divisions is currently more acute with China, perhaps because in EU-China relations commerce dominates while the political framework for action is as yet underdeveloped. Germany is the country that is most insistent on having a strong bilateral relationship with China. According to German officials, 47 per cent of EU exports to China are German. This makes some German industrialists and officials think that other member-states, and the EU institutions, can

contribute very little to the German-Chinese economic relationship. Indeed, they sometimes complain that some other EU countries cannot understand the needs of a manufacturing-driven economy like Germany because they have so little manufacturing of their own. Nevertheless even the Germans expect the EU institutions to negotiate with Beijing to open up Chinese markets. And they expect those institutions to talk to the Chinese about human rights – which saves the Germans the embarrassment of doing so and potentially damaging their commercial interests.

EU governments have also learnt that China's threats of economic 'sanctions' against countries that are too outspoken on human rights do not usually bite. The Chinese threatened commercial consequences when Nicolas Sarkozy met the Dalai Lama in 2006 in Poland, and again when Angela Merkel met him in 2007 in Berlin, in this case in the official setting of her chancellery. There is no evidence that business interests in France or Germany suffered subsequently. David Cameron's meeting with the Dalai Lama in May 2012 led to the Chinese government cancelling meetings with British ministers and officials for many months afterwards, but not, so far as we are aware, to the loss of contracts. (However, Norway has suffered real commercial damage, including a ban in salmon exports, to punish it for 'awarding' the Nobel peace prize to Chinese dissident Liu Xiaobo in 2010; the lesson may be that small countries and/or those that are not part of the EU are likely to face stricter punishments.)

For all the difficulties and divisions, the 27 do reach common positions in their approach to China: on human rights, where they jointly condemned the imprisonment of Nobel peace prize winner Liu Xiaobo; on trade and investment, where they use EU trade policy and the EU chamber of commerce in Beijing to press China to open its markets and respect international rules; on denying China market economy status; and on maintaining an arms embargo on China (some governments want to lift the embargo, but they are in a minority and cannot on their own overturn it).

With regard to Russia, internal EU divisions are much less pronounced than they used to be. There are several reasons for this. First, those European leaders that most valued their close personal relationship with Vladimir Putin, namely Gerhard Schroeder and Jacques Chirac, have departed the political scene. Second, the replacement of Poland's nationalist Kaczynski government with one led by the more pragmatic Donald Tusk in 2007 helped to bridge the hitherto deep division between most old and new member-states on Russia. Third, EU countries have learnt the hard way that allowing Russia to 'divide and rule' harms their interests. And lastly, the EU's policy towards Russia has lost much of its ambition. While until about 2003, the EU's objective was to transfer much of its own standards on democracy

as well as economic rules to Russia, today the Union is glad to keep the relationship on an even keel.

So today, the EU states often have a common position vis-à-vis Russia. When Moscow behaves egregiously on human rights, for example by arresting dissidents, the EU does criticise it. They have a common position that Russia should enforce the WTO rules it has signed up to, and which it is currently failing to follow. They would welcome a trade and investment agreement with Russia, if and when Moscow seems serious about negotiating such a deal, rather than simply – as it has done recently – tell the EU to talk to the secretariat of the Eurasian Union. They all believe in helping the Russian government to reform its economy, through EU level or national 'modernisation partnerships'. And to Russia's great annoyance, even traditional allies such as Germany have not publicly objected to the Commission's current legal case against Gazprom: the Commission claims that Gazprom distorts energy market competition in the EU by sticking to so-called destination clauses in gas contracts, denying other energy companies access to the pipelines it controls and by maintaining a rigid link of its gas prices to the oil price, thus ignoring market signals.

The EU could achieve much more on behalf of its members in Russia and China if it was more strategic. The problem is not so much its divisions – though they matter – as a lack of ambition. The member-states, and the large ones especially, fail to see that if they worked through the EU it could act as a force multiplier for them in Russia and China. It would help if the EU and the member-states:

- Pushed common messages when officials and ministers go to China or Russia. Common policies are not always feasible. But if ministers and officials repeated similar messages when visiting Beijing – which at the moment they sometimes fail to do – the EU could have more impact. If member-states became more willing to work through the European External Action Service – talking to its officials, feeding in information and ideas, and listening to what the EEAS has to say – more common analysis could start to emerge. That would facilitate common messages in Beijing or Moscow.
- Focused on a small number of objectives, rather than pursue dozens of priorities (as the EU sometimes does with its strategic partners). With Russia, one priority could be a revived energy dialogue. (Despite the many EU-Russia disagreements on energy, there is scope for a dialogue on issues such as security for EU investments in Russia, and transfers of energy-efficiency technology from the EU to Russia.) Another could be a dialogue on the common neighbourhood. (Russia and the EU see each other as rivals in countries like Ukraine,

but have similar interests in promoting political stability and economic growth in eastern Europe, the South Caucasus and central Asia.) A third priority could be resolving the Iranian nuclear problem; Russia has close economic ties to, and potentially some influence with, Iran. As for China, the Iranian nuclear issue could also be a priority – China is a major purchaser of Iranian oil. A second could be issues of market access, investment protection and intellectual property, all of which are becoming more relevant to China as it expands its international reach. A third could be transferring environmental technologies to China.

- Were willing to bargain with Russia and China. Both countries have a strongly realist view of international relations. They respect strength and exploit weakness. But the EU cannot easily bargain with Russia or China, because that would require it to take a 'tough' approach, which some member-states would resist. There are some signs that the EU is starting to see the merits of bargaining. Two years ago Russia proposed a new EU-Russia council to talk about strategic issues. Angela Merkel said that if Russia was constructive in helping to resolve the Transnistria problem, she would support the creation of the new council. But Russia did not deliver on Transnistria so she did not deliver on the new council. The EU is currently passing new rules on public procurement which are implicitly aimed at China. These would allow the EU to propose excluding third countries from EU procurement markets, if those countries excluded EU firms from theirs. The EU could perhaps use the arms embargo as a lever to get China to improve its human rights record, and market economy status as a lever for

market opening. Both Russia and China hate such conditionality being applied to them. But they use it in their own dealings with other countries and would have to accept it if the EU was tough enough to use it with them.

The Russians and the Chinese see the UK for what it is – a quite important, middle-sized country that is very much part of the EU (though too close to the US for their taste). Both respect Britain's financial markets and its schools and universities, and some of its companies, such as its energy champions, which are major investors in Russia and, to a lesser degree, in China. But they do not regard the British economy as being in the same league as that of Germany, which has much closer economic ties to them than the UK does. Britain on its own does not have a lot of leverage with either Moscow or Beijing. The acrimonious disputes over the murder in London of Alexander Litvinenko or the ill-treatment of BP by its Russian business partners have shown this very clearly. The EU as a whole often finds it hard to influence Russia and China, but it sometimes has some influence. If any entity can persuade Russia and China to open their markets more widely to British services, it is the European Commission. Britain on its own would have much less influence. For example, Russia is very worried about the prospect of (British-based) Bill Browder persuading the European Parliament to follow the US Congress in passing a 'Magnitsky bill', which could ultimately lead to visa bans on senior Russia officials.

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March 2013

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## Additional information

These arguments are discussed in more detail in a CER report published in February 2012 by Charles Grant, 'Russia, China and global governance' – notably in chapter five, <http://www.cer.org.uk/publications/archive/report/2012/russia-china-and-global-governance>.

See also a CER insight of January 2013 by Charles Grant, 'How can the EU influence China?',

<http://www.cer.org.uk/insights/how-can-eu-influence-china>.

On the ups and downs of the EU-Russia relationship, see a CER policy brief from September 2011 by Katinka Barysch, 'The EU and Russia: All smiles and no action?', <http://www.cer.org.uk/publications/archive/policy-brief/2011/eu-and-russia-all-smiles-and-no-action>.

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