

THE HEINZ SCHOOL REVIEW

The World Bank and the European Union's Cooperation on China

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Neither isolationism nor unilateralism is a credible response to globalization. In order to strengthen the world's economic, political, and social stability, the World Bank and the European Union must work together to promote common values such as democracy, freedom, respect for human rights and the rule of law. I think that cooperation regarding China between the World Bank (WB) and the European Union (EU) will be very useful in this regard.

Background

During the last two decades, China has experienced tremendous changes. These changes affect nearly all aspects of Chinese society, as well as China's relations with the outside world.¹ Since starting to open up and reform its economy in 1978, China has averaged 9.4 percent annual GDP growth, one of the highest growth rates in the world. China has also attracted hundreds of billions of dollars of foreign investment and more than a trillion dollars of domestic non-public investment. Foreign direct investment (FDI) in China has also increased dramatically, turning China into the second-most important recipient of FDI, after the United States.²

Despite China's economic success, the EU supports the argument that the Chinese government still has problems regarding the issues of human and political rights of many of its citizens.

EU's China Policy:

Current EU policy towards China is based on a policy paper of the European Commission entitled "A Maturing Partnership: Shared Interests and Challenges in EU-China Relations," which was endorsed by the European Council on October 13, 2003. The Commission first set out its long-term strategy for EU-China relations in the 1995 publication "A Long Term Policy for China Europe Relations." The EU's China policy³ is to:

- Engage China further, both bilaterally and on the world stage, through an upgraded political dialogue;
- Support China's transition to an open society based upon the rule of law and respect for human rights;
- Encourage the integration of China into the world economy by bringing it fully into the world trading system, and supporting the process of economic and social reform that is continuing in China; and
- Raise the EU's profile in China.

Economic and Trade Relations with China

China's rapid economic development in the past twenty years has had a significant impact upon EU-China trade and economic relations. Total two-way trade has increased more than forty-fold since reforms began in China in 1978, and was worth 174 billion (in euros) in 2004. In recent years, EU companies have invested considerably in China (new annual flows of utilized FDI averaged around \$4.2 billion in the last five years), bringing stocks of EU FDI to over \$35 billion. The trade figures are also illustrated in the tables below.

EU25 Merchandise Trade with China	2000	2001	2002	2003	2004	Average growth 2000–2004 (%)
Imports	74.369	81.619	89.606	105.397	126.737	+14.3

Exports	25.758	30.554	34.869	41.169	48.039	+16.9
Balance	-	-	-	-64.228	-78.698	
	48.610	51.065	54.737			

Table 1: EU-China Trade Statistics (Billions in euros) (Source: EUROSTAT)

Country	Total Trade	Chinese Exports	Chinese Imports	China's Trade Balance
EU	177.3	95.9	63.4	32.5
USA	169.7	125.0	44.7	80.3
Japan	167.9	73.5	94.4	-20.9
Hong Kong	112.7	100.9	11.8	89.1
ASEAN	105.9	42.9	63.0	-20.1

Table 2: China's Top Five Trading Partners, 2004 (\$ Billions) (Source: Official Chinese Trade data)

Political Dialogue and Human Rights Dialogue

Concern about human rights has been a major theme of EU-China relations. The European Commission supports the dialogue process through its human rights-related cooperation program. Since 1997, several cooperation projects (on village governance, legal co-operation, promotion of women's rights, network on Human Rights Covenants, etc.) have been carried out.

The economic relationships and dialogue between the EU and China have not hindered the EU from expressing publicly its misgivings about human rights violations in China, and in 2001 and 2002 the EU leadership expressed serious concerns about the human rights situation. The European Commission approved the Country Strategy Paper (CSP) for China in 2002, which sets out the framework for EU cooperation with China during the period of 2002 to 2006. The CSP proposes three priority areas for action: economic and social reform, sustainable development (such as environmental protection, social development and economic growth) and good governance (e.g. the rule of law, the fostering of grass-roots democracy and civil society, and the protection of economic, social, political and civil rights).

The WB-China Relations⁴

Since becoming a member of the World Bank in 1980, the Bank has supported more than 269 projects in China, with a total of \$40 billion in loans and credits. Ninety of these projects are ongoing, making China's portfolio the largest in the Bank. This is also illustrated in the table below.

Figure 1:

Sector	IBRD	IDA	Total US\$ million	% of Total	Project Number
Agriculture	5,105.87	5,288.60	10,394.47	26.06%	69
Industry	2,808.10	239.3	3,047.40	7.64%	20
Energy	6,860.23	37	6,897.23	17.29%	35
Transportation	9,653.00	569.6	10,222.60	25.63%	56
Education	285.3	1,442.10	1,727.40	4.33%	19
Health	136	786.6	922.6	2.31%	11
Water Supply	311	510	821	2.06%	7
Urban Development	2,499.40	411.8	2,911.20	7.30%	19
Environment	2,164.50	317	2,481.50	6.22%	18
Technical Assistance	70.4	246.31	316.71	0.79%	12
Other	40	98.4	138.4	0.35%	3
Total	29,933.80	9,946.71	39,880.51		269

Table 3: WB financed projects in China since 1980 (Source: WB)

Following the October 2005 visit to China of World Bank president Paul Wolfowitz, two non-economic factors were singled out as important for economic development: rule of law and participation of civil society. Both are issues with important human rights implications. The Bank expects to lend China between \$1 billion to \$1.5 billion per year for the next five years.

Conclusion:

The European Union supports the argument that the Chinese government still has problems ensuring the human and political rights issues of many of its citizens. The EU has supported economic and social reforms, sustainable development and good governance projects in China through its human rights-related cooperation program. The WB has supported more than 269 projects in China, with a total of \$40 billion in loans and credits, some of them related to social and human rights issues. The WB and EU need to cooperate to develop not only economic progress but also social progress, democracy, freedom, and respect for human rights and the rule of law in China. Since the WB and EU share the same concerns and want these projects to be successful, they have to cooperate to be more efficient and effective. I hope this cooperation will positively affect both China's socio-economic life and human rights record, and world stability at large.

¹ Kjeld Erik Brodsgaard and Bertel Heurlin, China's Place in Global Geopolitics, pp 1

² Zheng Bijian, China's "Peaceful Rise" to Great-Power Status, Foreign Affairs, September/October 2005.

³ "The EU's relations with China." Europa, The European Commission. http://europa.eu.int/comm/external_relations/china/intro/index.htm

⁴ "China Quick Facts." The World Bank. [China Quick Facts](#)