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| Moral in European TradeAn Investigation of the EU-China trade relationship 20-12-2010Michael UssingMaster ThesisEuropean StudiesAalborg University |

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# Introduction

The purpose of this paper is to investigate how the trade policies of the European Union (EU), towards China, are influenced by China’s economic development. Enable to achieve this, certain aspects must be examined and a new tool must be crafted.

The foreign trade policy of the EU is influential not only on the European continent, but to foreign countries it deals with as well. Access to the European Union’s internal market is access to millions of consumers in the largest economy in the World. The effect of this desirable market access to any foreign country is not to be undermined. The EU is aware that it poses a power in the internal market, if used correctly. The EU uses this opportunity to demand e.g. the respect of human rights in the foreign country, in exchange for lower tariffs.

The Chinese economic development has set new standards in annual average growth. China is one of the last remaining communist countries and has managed to open its economy to the world, leaving plan economy.

The power being used to demand e.g. the respect of human rights in the country it is trading with, has created a situation without a proper term to apply. A new term will therefore have to be constructed, enable to get to the core of the issue this paper deals with. This new creation will have to be well documented before being useful.

## Introducing a Union

The EU is a political and economic union of 27 member states, located primarily in Europe. It was established by the Treaty in Maastricht in 1993 upon the foundations of the pre-existing European Economic Community. With almost 500 million citizens, the EU combined generations and estimated 30 percent share of the world’s nominal gross domestic product (GDP).[[1]](#footnote-1)

The EU has developed a single market through a standardised system of laws which apply in all member states, guaranteeing the freedom of movement of people, goods, services and capital. It maintains a common trade policy, agricultural and fisheries policies, and a regional development policy. Sixteen member states have adopted a common currency, the euro.[[2]](#footnote-2) It has developed a role in foreign policy, representing its members in the World Trade Organisation (WTO), at G8 summits and the United Nations. Twenty-one EU countries are members of the North Atlantic Treaty Organization (NATO).[[3]](#footnote-3)It has developed a role in justice and home affairs, including the abolition of passport control between many member states under the Schengen Agreement.

The EU operates through a hybrid system of intergovernmentalism and supranationalism. In certain area it depends upon agreement between the member states. However, it also has supranational bodies, able to make decisions without unanimity between all national governments. Important institutions and bodies of the EU include the European Commission, the European Parliament, the Council of the European Union, the European Council, the European Court of Justice and the European Central Bank. EU Citizens elect the Parliament every five years.[[4]](#footnote-4)

The EU traces its origin to the European Coal and Steel Community formed among six Countries in 1951 and the treaty of Rome in 1957. These founding members were: Germany, France, the Netherlands, Italy, Belgium and Luxemburg.[[5]](#footnote-5) Since then the EU has grown in size through the accession of new member states and has increased its powers by addition of new policy areas to its remit.[[6]](#footnote-6)

The EU is the world’s largest trader, responsible for 20 percent of the world’s exports and imports. Free trade was one of the motivational elements among its founding members, and the EU focuses on the liberalisation of world trade. To help developing countries, the EU sometime grants access to its internal market, without the developing country being able to reciprocate. The liberalistic ideal of free trade benefitting everyone, is one the key elements in the EU’s trade policy. The increase of options and price competition is favourised by the EU. The EU’s trade policy is closely linked to its development policy. The Union has granted duty-free or cut-rate access to its market for most of the imports from developing countries under its generalized system of preferences (GSP). The 49 poorest countries of the world enjoy duty free exports, with the exception of arms, to the EU.[[7]](#footnote-7)

## Introducing China

China is one the oldest countries in the world. For nearly 5000 years China has existed in one form or another. Much of Chinese ancient history is filled dynasties and various kingdoms fighting for power. The first time China was gathered under one ruler, was in 246 b.c.[[8]](#footnote-8) China remained largely isolated from the rest of the world's civilizations, closely restricting foreign activities. By the end of the 18th century only Canton (location of modern-day Hong Kong) and the Portuguese port of Macao were open to European merchants. The Anglo-Chinese war in 1839–1842 resulted in Great Britain obtaining Hong Kong as a colony. In 1928 the Kuomintang regime was set into place, with help from the military, following years of civil unrest and civil war. The Kuomintang regime was consulted by communist experts, whom they later broke with. After the Japanese invasion in 1931 and the following Second World War, civil war broke out again in China. This time is was the remnants of the Kuomintang regime and the Communist led by Mao Zedong who was at the centre of the conflict. The civil war ended on 1st of October 1949 with the Mao regime proclaiming the People’s Republic of China, with Beijing as the new capital.[[9]](#footnote-9)

In an attempt to restructure China's primarily agrarian economy, Mao undertook the “Great Leap Forward” campaign in 1958, a disastrous program that aimed to combine the establishment of rural communes with a crash program of village industrialization. The Great Leap forced the abandonment of farming activities, leading to widespread famine in which more than 20 million people died of malnutrition.[[10]](#footnote-10) The Chinese regime have been criticised for its treatment of Tibet from 1959, when an uprising failed in Tibet against the Chinese, and for the cultural cleaning programs initiated by the Mao regime in the middle of the 1960s.[[11]](#footnote-11)

In 1997 there was a generation change in Chinese politics, leading to further liberalisation of Chinese economy and China saw the introduction of a sweeping program to privatize state-run businesses. In 1997 Hong Kong was given back to the Chinese by Great Britain and Macao was given back two years later by the Portuguese. China was admitted to the World Trade Organization in Nov. 2001. Its entry ended a 15-year debate over whether China is entitled to the full trading rights of capitalist countries.[[12]](#footnote-12)

## Human rights in a Union

The EU’s charter for fundamental human rights consists of seven chapters. They cover everything from the right to live, right to liberty and security and the right equality before the law.[[13]](#footnote-13)

Human rights, democracy and the rule of law are values imbedded in the first treaty of the EU and have always played a central part of the Union. No country can hope to join the EU of they do not live up to the standards of the Unions charter on fundamental rights.[[14]](#footnote-14)

The European Union is a strong force fighting human rights on the agenda in developing countries. All trade agreements with developing countries contain a clause stipulating that human rights are an essential element in the relationship between the parties. 120 countries are now bound by such an agreement with the EU.[[15]](#footnote-15) The Cotonou Agreement is the most comprehensive of the agreements. It binds 78 countries from Africa, the Caribbean and the Pacific (the ACP group). The Contonou lets the EU suspend any trade and aid for any country that violates human rights.[[16]](#footnote-16)

## Moral in Trade

The term ‘moral in trade’ is an original term developed for this paper, by its author.

Moral in trade: A term to be used in international relations. Referring to the respect of values, standards or requirements set by one actor, to be respected by another, enable to enter into a trade agreement. Example: State A requires state B to insure certain conditions, linked to a trade agreement, in state B’s own territory. Failing to insure these requirements, will cause state A to dissolve the agreement. State A, therefore show a set of moral guidelines, that need to be respected by the trading partner. The requirements for moral in trade will often come from domestic demands inside state A. Moral in trade will often be used by a stronger state towards a weaker or less developed one.

A claim that the European Union has introduced moral in trade can naturally only be done with clear evidence. We will therefore need to look, not only upon the trade policy of the EU, but also a case where the EU has acted as result of its policy, thereby making it clear, that a term such as ‘moral in trade’ is real and can be influential towards the actions of the Union.

The case used as empirical evidence is a ruling made by the European Parliament (EP) in the autumn of 2009. The EP’s Fisheries Committee (PECH) was to cast the final votes on a fisheries agreement with Guinea.

## Moral with Guinea

The West African country of Guinea has had a tough history with violent changes of government. Since the country gained independence from France in 1958 there have many changes of government. Socialist inspiration from the Soviet Union started a 26 year long reign where thousands of people were killed and thousand others disappeared. In 1984 several officers with Lansana Conte in the lead took control of the country. They did not change the poverty situation in the country. In a bloodless coup Moussa Dadis Camara took control in 2008 and is now in control of the government in Guinea.[[17]](#footnote-17)

The 22nd of September 2009 several thousands of protesters demonstrated in football stadium in the capital city of Guinea; Conakry. They were taking part of a pro-democracy demonstration.[[18]](#footnote-18) The authorities responded with military forces. The military forces shoot into the crowd with live fire to stop the demonstration. The military forces failed to use non-lethal force before resolving to live fire. Reports of rapes and other physical abuse have been made[[19]](#footnote-19). The death toll is hard to establish but is believed to be somewhere 150 and 200 leaving more than 1.200 wounded.[[20]](#footnote-20) The exact number of dead is hard to estimate since there have been several reports of military forces removing bodies from both the stadium and the city morgue after the incident.[[21]](#footnote-21)

The majority of the military forces were from the elite Presidential Guard. They were reported to have arrived at the same time to the location. Here they fired into the crowd spreading people from the stadium. In the surrounding streets people are reported to have been beaten, raped and killed by the Presidential Guard.

The 20th of December 2008 the Commission started the negotiations with the Republic of Guinea, on a mandate given to it be the Council. The agreement was to be the extension of an already existing agreement that had been affecting since the 27th of April 1983.[[22]](#footnote-22) The agreement was to strengthen the cooperation between the European Union and the Republic of Guinea. It was to insure sustainable fisheries policy and responsible exploitation of fisheries recourses in Guinea’s fishing zone.

The Republic of Guinea was to receive financial contribution as a part of the four year long agreement starting the day the agreement was to be passed by the institutions of the European Union.[[23]](#footnote-23) The agreement was to be renegotiated every four years. The funding was to primarily go to the development of the local fishing industry.[[24]](#footnote-24)

Every year € 450.000 was to be given corresponding to fishing in the highly migratory species category. This would primarily be tuna. In additional to that amount, the Republic of Guinea was to receive € 600.000 the first year, € 400.000 the second and € 300.000 the last two years. In total the Republic of Guinea would receive € 3.600.000 during the four years. [[25]](#footnote-25)

In return the EU would be giving access to the fishing waters belonging to the Republic of Guinea. 28 seiners and 12 pole-and-line vessels would be allowed to fish in the area.[[26]](#footnote-26) The European countries benefiting from the agreement would be Spain with 15 tuna sieners and 8 pole-and-line vessels, France with 11 tuna seiners and 4 pole-and-line vessels and Italy with 2 tuna seiners.[[27]](#footnote-27) They would apply the decisions and recommendations made by the International Commission for the Conservation of Atlantic Tunas (ICCAT).

Fishing authorisations would be sold by the national competent authorities at € 4.025 per tuna seiner for the amount of 115 tonnes per year. € 500 would paid per pole-and-line vessels for 20 tonnes per year. Exceeding the authorized amount would be punished by a fine. EUR 35 per tonnes for the tuna seiners and EUR 25 for pole-and-line vessels.[[28]](#footnote-28)

The Fisheries Committee (PECH) in the European Parliament had scheduled the vote on the fisheries agreement for the 30th of September 2009.[[29]](#footnote-29) The vote was not carried out due to discussions on whether or not the agreement where sustainable and if it was in line with EU policy to cooperate with governments reacting to demonstrations with violence. On the 1st of October the Committee voted no on the fisheries agreement with the Republic of Guinea.[[30]](#footnote-30)

## Relevance

The external trade policy practised in Europe today, have helped shape the world as we know it. Since European countries colonised countries around the world, they have influenced the development of these foreign places. The size of the effect, of this influence on the foreign countries today, can be discussed, but little doubt can be made to the fact, that an influence has been made.

The modern Europe, set in the scene of the European Union, continues to affect the states which the EU trades with. The EU seems today to be very aware of the footprint generated by international trade. It can be said that the European Union is introducing moral in trade. This ‘moral in trade’ rest on the power position of the EU versus its trade partners.

This paper deals with two of the largest economies in the world. How these two economies interact, can influence the global economy. It is therefore relevant to investigate how the policies of the one might change facing the others development.

China has been developing at an astonishing rate the past two decades. With an annual average growth rate resting near ten percent, China has shown the ability to evolve from a closed economy to an open one.

The European Union have in many years been trading with China, either as a Union or as the individual member countries on their own. Policy changes towards China during this period might have been influenced by the development in China. It is however interesting to see, to what extent does events in China, or the economic development in China influence policy changes in the EU. If China can influence or cause changes in the EU by simply ignoring or possibly even refusing to respect requirements set by the EU in the trade agreements. This will show the ineffectiveness of the policy conducted by the EU. In the event of this investigation ending with the result, that a non-compliance with the requirements in trade agreements with the EU seldom has any consequences, it might lead other developing countries to follow in China’s example. Will this investigation however show that the EU’s foreign trade policy leads to better conditions for human rights; it will be a further incitement to continue this policy.

## Problem

As a part of the trade agreements the European Union makes with countries around the world, there are different standards and different sets of requirement for the parties involved to endorse. These standards are different depending on the industrial evolution of the partnership country. If the country is an underdeveloped country, the human rights have to be respected. If the country is more developed, conventions from the International Labour Organisation have to be respected. China’s economic situation has change a great deal since the initial trade agreements with the EU or members of the European community. This change may have affected how the EU choose to classify China and thus what requirements China have to live up to. Enable to focus on the actions, of the EU towards China, the term ‘moral in trade’ have been introduced. The level of ‘moral in trade’ will help determine the policy of the EU.

The working problem of this paper is:

“*How is the EU’s ‘moral in trade’, in the trade relationship with China, affected by the change in the economic power of China?”*

# Methodology

In the following section the method of investigating will be outlined. In any scientific investigation it is important to contemplate the choices made, not only to ensure the possibility of repeating the investigation, but also enable to explain some material involved.

## Theory first

The topic this paper seeks to analyse is vast one. There is a mountain of data available on the economic interactions between the EU and China, and millions of written pages on the policy enforced. To endeavour into a nearly endless job of analysing this enormous amount of material, without a preset plan of action, would not be possible for a paper of this size. For this paper, an approach often used by quantitative researchers, has been adopted. This approach is called the deductive approach. With the deductive approach, theory is chosen before the empirical data. The theory is then tested empirically. This allows the researcher to know, when choosing empirical data, what the theories need to be tested. This is beneficial to this paper by narrowing the field of empirical data.[[31]](#footnote-31)

Practically speaking this means, that the empirical data collected, will be dividable into three categories. There will be strictly economic quantitative date, incidents in China where the violation of human rights is in question and, trade policies of the EU. With this empirical data the theories chosen, might be able to give an explanation to the working problem in this paper.

## Choosing the right tools

Choosing theories in international relations is like choosing the right tool for any other job. The tool chosen affect the outcome or result of the job at hand. For this paper realism, liberalism and the interdependence theory has been chosen.

Realism can be presented in more than a few different forms. Relevant to this paper are two scholars. The first form that could be relevant is realism as presented by Kenneth Waltz. Realism as by Waltz focuses on the world as a system in which countries are actors. Waltz makes the argument that the world is dominated by anarchy. There is no effective international law and this leads to logic of self-help in which states seek to maximize their security. Structural realism, in the form of Waltz might be too far away from the influential issues in this paper.[[32]](#footnote-32)

A more appropriate form of realism is the classical realism as presented by Hans J. Morgenthau. Here the focus is not on the system as a whole, as seen with Waltz, but on the individual state. With Morgenthau the main focus is on power and the interest of the state.[[33]](#footnote-33) In Morgenthau’s book from 1948, *Politics Among Nations*, Morgenthau defines how a state will act in international politics. While realism has difficulties involving economics into its considerations, Morgenthau’s angle and interpretation might give the opportunity to explain some of the events, this paper will attempt to analyse. The interest of the actors in this paper might be clarified by Morgenthau’s realism. Alliances play an important part of Morgenthau’s theory. This might turn out to be a helpful tool while analysing the EU.

The interdependence theory by Keohane and Nye was chosen for this paper because of its complexity. It forms a framework where military power becomes less important in international relations, without leaving it out. In the interdependence theory connections between two actors are numerous and diverse. Many of these connections are related to the economic relationship between the two actors. The interaction between what occurs on the domestic and the foreign scene is both considered in the interdependence theory. Keohane and Nye have created a tool with the interdependence theory that might be able to explain some of the actions preformed by the actors in this paper. Combining the dynamics of economics with the international relations is not an easy one. The interdependence theory was chosen for this paper due to the qualities of the theory. The ability to link economic connections with policy changes, might be able to give an explanation is this paper.

Alternatives to Keohane and Nye’s Interdependence theory could have been a theory found within the Marxist school; the world-system theory by Immanuel Wallerstien. Wallerstien theory can be presented as a circular model with three categories. Closest to the centre the core countries would be positioned. These are the developed countries, primarily found in the western society. Following the core countries would be the semi-periphery countries. These would be less developed than the core countries, but more developed than those in the periphery. Here you would find the least develop countries. The core countries focuses on higher skill, capital-intensive production, and the rest of the world focus on labour intensive, low skilled production and extraction of raw materials. This difference in countries will then constantly be maintained and reinforced. In Wallerstein’s theory it is extremely difficult for countries in the periphery and semi-periphery to move into the core, due to the gap between the two categories.[[34]](#footnote-34)

The world system theory can be a very good tool in analysing the difference between strong western economies and their trading partners in the developing world. The strength in the world system theory, the rigid framework it divide the world into, is the same reason it has not been chosen for this paper. The world system theory is less appropriate when analysing shift in the economic power between members of two different categories. This paper seeks to analysis the power shift between China and The EU. While the world system theory would be able to categorise the two actors, explaining any movement or shift in power, would be more difficult. The interdependence theory will likely be a more appropriate tool in analysing this movement, and has therefore been chosen instead.

Liberalism covers today a wide range of theories. Choosing one, in any case, can be a tricky affair. Fukuyama’s article *The End of History* has been chosen for this paper because of its focus on historical development. The other theories in this have their own strengths. Morgenthau’s realism gives a classical power-politics point of view and Keohane and Nye’s interdependence give a complex image of the interaction between actors in international relations. For this paper to cover a broader spectrum of analysis, a more historical oriented theory is needed. Liberalism is a timely challenger to realism. While realism sees the more selfish sides of government liberalism is able to see another side. This is evident in the way the two view rules in international politics. Realism does not believe in the effectiveness of rules among nations, liberalism do.

Fukuyama is able, in his article, to link the development in the ideological struggle in 1989, with a development through the twentieth century. The development of western liberalism, he describes, might be relevant to a development in this paper. It might be possible to provide evidence, that the development or progress in China is linked with the ideological development described in Fukuyama’s article.

## Affecting the numbers

In 2007 the housing market in the USA started to show some serious problems. It quickly became clear, that these problems were to influence much more than the individual home owner. In short too many people, without sufficient means, had been granted loans that they could not afford. The loose loan tactics of bank was caused by a historically low interest rate and an increase in the prices of real estate that seemed to be endless. When the housing-bubble burst, prices on houses collapsed and people with loans they barely could afford, now owned a house worth a lot less, than what they had paid. What this meant for the market is that a large amount of value simple had disappeared. The effect was global. Banks now had no possibility of reclaiming their loans. Investment companies, which had invested in these banks, now lost value and investment companies as banks closed.[[35]](#footnote-35)

Since, the global economy has had less progress than the years before the crisis. In fact many countries and regions have seen economic recession since 2007. In Europe, the German economy contracted by 10 percent the last three months of 2008.[[36]](#footnote-36)

The beginning of a recession has without a doubt affected global trade. This paper will relay on the data to provide a clear picture of how the economic power of the EU and China has changed. This paper aims to provide a historical view, which clarifies the development of both the EU and China. The financial crisis might distort, and possibly even hide, tendencies. Therefore enable to secure the overall picture, empirical data will be collected until 2007. The financial crisis could possibly provide another aspect to this papers area of investigation. It will however not be included in this paper, since it seeks to investigate a longer developing process. A second investigation of how the financial crisis affected the situation can then later be coupled with this paper.

## Empirical data choice

The theories used in this paper guides in the search for relevant empirical data. However, the amount of relevant data is still vast. Enable to get a clear image of the trade between the EU and China and, the conditions set in the trade agreements and how they are received, will have to be examined.

Enable to create a clear view of the issue in this paper the EU and China will be presented separately. Both will be presented with the relevant economical data. With EU the requirements in the trade agreements will be presented, while the state of these requirements in China will be presented together with the rest of China’s economic data. This should allow for a clear analysis of the interaction between the two.

The economical data from the EU will focus on the development in trade with China. A historical perspective will be presented. Both exports and import are relevant in providing this development. Requirements in the trade agreements will be made clear. Both human rights and labour standards will be relevant here. The EU’s ‘moral in trade’-policy will be made clear in these requirements and actions. It will be possible to see when and how the EU acted toward China. The Economical data together with data regarding the ‘moral in trade’-policy, will reduce the EU to a manageable size, in this context.

The data on the EU’s gross domestic product (GDP) development will be provided by the International Monetary Fund (IMF). Due to the enlargement in the EU, and the division between the euro-zone countries and the EU members in general, the usual statistics office in the EU Eurostat, have not been able to provide the necessary data. Annual growth in GDP will be presented as growth in percentage. This should still be able to give some image of the economical development the EU has gone through since 1980, when the data begins.

China will be presented in much the same way. A historical perspective, regarding the economic development, will be presented. This will give the necessary data in understanding the development and policy changes that have been made in China, in recent history. Major events, regarding human rights, will be presented. This should make the status of human rights in China evident. Together with this data on the development in labour standards will be presented. This coupled with the status if human rights, will be seen opposed to the policy changes in the EU, to see if there is any connection.

Similar data information, as presented on the EU, will be presented on the Chinese economical development. China has not enlarged the same way the EU has. It will therefore be easier to find the relevant data on Chinese development. These data will date back before the economical reforms in the country in 1979. The data on the Chinese development will most likely play a more relevant role in this paper, since the economical development of China have been more drastic than that of the EU. A comparison of the two data sheets will however be useful.

## Clean data

The data on the economical development in China will be provided from Chinese official sources. This presents an issue of trust. The movement towards an open economy may not be complete. Therefore it might be in the interest of the Chinese government to alter the data released into public. This might not be the case; however, it should however be a consideration. Hopefully the data will still be able to provide an image of the economical development the country has gone through.

The official statistics office of the EU will be able to provide some information on the trade between China and the EU. This data will a long side, that provided by the IMF and the United Nations (UN), be seen as valid. It is the assumption of this paper that the EU, the IMF and the UN will not attempt to alter the data due to political motivation.

# Power, History and Interdependence

The complex relationship between the EU and its trade partners is very complicated. It is so due to the EU’s requirements to the partners the EU trade with. In the trade agreements there are more than just paragraphs concerning economical details. There are paragraphs concerning human rights and labour standards. This second side to the trade agreements poses a challenge when analysing the international economic power of the EU and, in this case, China.

Change in global economy has resulted in a situation where one theory in international relations might not be able to explain the situation in a satisfactory manner. We will therefore have to use more than just one theory. In fact we will have to use two classical schools and one new theory. We will see how classical realism and liberalism will explain our problem. Finally we will use Keohane and Nye’s interdependence theory to see, if they can bring an explanation.

Classical realism will be represented by Hans J. Morgenthau. It is due to the link between classical realism, as Morgenthau explains it, and Keohane and Nye’s interdependence theory. This linkage is not so strong that the two theories cannot be separated, thereby insuring Morgenthau’s dictation over the interdependence theory. But still leaves the two theories separated.

We will use liberalism in this paper, not just because it is the classical opponent to realism, but because it might bring some insight to the EU’s ‘moral in trade’.

## Power

Morgenthau’s theory can roughly be divided into two. One is focused on the state and the other on how the state operates on the international political scene.

In Morgenthau’s section about the state, he starts off by expressing his thoughts on the people of the nation and its support to the nation’s foreign policy. The power of a nation will always lay with a small group in the society; a distribution that heavily affects the individual’s possibilities of obtaining power. That individual, whom cannot get their lust for power fulfilled within the nation, turns to the international stage and identifies with the nations success, thus fulfilling its need to fell powerful. [[37]](#footnote-37)

A very important factor for power is according to Morgenthau the geographical conditions a country have. Geography is the most stabile factor for power a nation can experience, in Morgenthau’s theory. For example the USA’s geographical location with the Atlantic on one side and the Pacific on the other, is a permanent factor for the power of the USA.[[38]](#footnote-38) The remote location of the USA insures that the country is less vulnerable to an attack from the outside. Modern technology has undoubtedly made this variable less powerful; however it is still a factor important enough to influence the foreign policy of the USA. A foreign policy that might be different if the USA was located closer to Asia or Europe.[[39]](#footnote-39) A similar importance Great Britain experiences from the English Channel; the importance of which, Julius Caesar, Napoleon nor Hitler could afford to ignore.[[40]](#footnote-40) Mountain ranges can similarly be beneficial to a nation’s security policy. On the European continent Spain has enjoyed protection from the rest of Europe, due to the Pyrenees.[[41]](#footnote-41)

The natural resources of a nation are also very important in determining its national power. It is here considered how much of the national consumption of food are produced within the nation itself and how much must be imported, are very important factors. A nation that produce enough or nearly enough to feed its people has a great advantage to nations that must import most of the food it needs. Before the Second World War, only around 30 percent of the food consummated in Great Britain was produced on the British Isles, therefore during the war, the nation was very reliant on trade routes and the import of food.[[42]](#footnote-42) For the same reason Germany had to keep to three strategies during the War, either separate or combined; although Germany was not reliant on import to the same degree as the UK. Germany could avoid a lengthy war, so that it would not use up all of its food storages; or Germany could try and conquer the great food producing areas of Eastern Europe; or finally try and defeat the allies’ maritime forces so it could import food via the sea.[[43]](#footnote-43)

The factor Morgenthau views as being most important, in determining a nation’s power, is the quality of its diplomacy. All other factors only determine how the nation is built, but diplomacy combines these elements and brings them together. Morgenthau writes:

*“The quality of a nation’s diplomacy combines those different factors into an integrated whole, gives them direction and weight and awakens their slumbering potentials by giving them the breath of actual power”[[44]](#footnote-44)*

The way a nation conducts its foreign policy in peace and in war, is very important to maximise the potential of the nation. Morgenthau describes it as an art, to try and combine the national elements so the maximal output is gained in any situation. In Morgenthau’s view, the diplomacy is the nation’s mind, while the nation’s moral is its soul. A nation with good elements, such as plenty of corn for food, raw material in the ground to create arms and plenty of men to carry them, can still fail, if the standard of its diplomacy is not at an sufficient high standard.[[45]](#footnote-45)

### Cooperation with Other Nations

According to Morgenthau alliances are a necessity in a multi-state system. When two states are competing, they can try and do one of three things. They can either try to strengthen their own power, or they can try and supplement their own power with the power of other nations or their can try to keep other nation from being added to the power of the enemy. If the state attempts the first solution, it will and in an arms race; if it attempts the second and third solution, the result is alliances. To Morgenthau it is not a matter of principles, whether or not the state should enter into a policy of alliances, but a matter of expectation.[[46]](#footnote-46) A nation should therefore only avoid entering an alliance if the nation is strong enough to uphold its power without entering alliances or if the losses are greater than the gains.[[47]](#footnote-47)

An alliance are not necessarily always created to defeat or oppose an enemy, it could also be like the Anglo-American alliance, just ne to protect against anyone who wishes to alter the status quo. In most cases though, an alliances is created by two nations whom have a common enemy.[[48]](#footnote-48) Typically an alliance is formed by state B whom fells threatened by state A. State B therefore enters an alliance with the states C, D and E, whom also feels threatened by state A. The way the policy of alliances often is used, is with alliances and counter-alliances. This way State A will now enter a counter-alliance with the states F and G in an attempt to counter the combined power of the state’s B, C, D and E and their alliance. Alliances are often used to protect the sovereignty of its members, and to protect against the imperialistic plans of the counter alliance; even if both alliances may have imperialistic plans.[[49]](#footnote-49) The collective security an alliance offers is according to Morgenthau flawless, since of state A attacks state B, States C, D and E will act as if state A was attacking them.[[50]](#footnote-50)

An important point for Morgenthau to get across is however; that a strong state which is allied with a weaker state, never should let its weaker allied determine its foreign policy. The weaker allied, who has found a strong state to enter alliances with, can as a result pursue larger goals that used to be out of reach. Here it is important for the stronger allied not to join, if it is contradictory to its own interest, or if the strong state can find itself in a situation where it is pursuing the interest of the weaker allied, with negative consequences to itself.[[51]](#footnote-51)

### Morgenthau’s conclusion

Morgenthau concludes that the one of the best qualities a state can have, is good diplomatic qualities. He describes how diplomacy often has prevented armed conflict, with agreements in times of peace. The example he gives is from the Berlin Congress in1878, where Great Britain and Russia came to an agreement, so that an armed conflict was avoided. Great Britain and Russia had many conflicts at the time that was getting close to escalating into war, but the British Prime Minister was proud when he came home, and could announce, that he was bringing home peace... with honour. Morgenthau holds this type of diplomacy high, in his conclusion.

In Morgenthau’s conclusion, he mentions a world state, as the only way to illuminate wars. Only by handing over all its sovereignty, can the states be free from conflicts. He realizes that this world state would be close to impossible to imagine functioning in praxis, but if the consisted of one state, it would be possible to uphold the peace in the world, as it is done in one state. Until this world state would be created, Morgenthau’s trust lies with diplomacy.[[52]](#footnote-52)

## History

Francis Fukuyama published his article called “The End of History” in 1989 in *The National Interest*. The title referred to, what in his opinion, was the victory of western liberalism over all other ideologies.[[53]](#footnote-53) The article was released months prior to the fall of the Berlin wall and predicted the end of the Cold War. Fukuyama explains in the article, that many has seen the same signs, but lacks the overall picture, when explaining the events.

Before diving into Fukuyama’s article, a clarification of the term western liberalism is needed. There are some key elements in liberalism, which if understood, will help provide a clearer picture of liberalism in detail.

Individualism; is the core principle of liberal ideology. As opposed to any social group or collective body, the individual is seen as extremely important. Human beings are seen, first and foremost, as individuals. This implies both that they are equalled moral worth and that they have separate and unique identities. The goal of the liberalist society is therefore to construct society in such a what, that the individual can pursue the ‘good’ that he or she defines it, and the route in life the individual chooses.[[54]](#footnote-54)

Freedom as individual freedom, or liberty, is the core element of liberalism and is more important than any other idea or element. If the individual is not free, all else is lost and pointless. The notion of freedom under law is however accepted by liberalist; or else the freedom of one could compromise the freedom of others. Reason and equality are two important elements as well. The idea is that the world has a rational structure and man can by reason and critical enquiry find the best solution. Equality means to the liberalist that all are born equal. This is especially important in front of the law and in politics. The notion that all are equal under the law and one man one vote; are essential ideas for the liberalist.[[55]](#footnote-55)

These essential liberalistic trades, within a democratic state, are the liberalism Fukuyama refers to. Because Fukuyama’s *The End of History* is an article, he does not have the option of letting the reader know his exact definition of the western liberalisation. It can therefore be concluded that the western liberalisation in question, is the most commonly used, which the democratic state with values such as freedom, equality and fairness at the heart.

Fukuyama notices a more peaceful world. War is less frequent. This is one of the indicators he feels is leading to the end of the Cold War. Other indicators are the spread of the consumerist Western culture in peasants’ markets around the world; colour television is more present in China, the cooperative restaurants and clothing stores in Moscow and rock music being played in Prague, Rangoon, and Tehran. To Fukuyama all this did not only mean the end of the Cold War, but an end to the conflict between ideologies. Western liberalisation had in the twentieth century battles everything from bolshevism and fascism, to updated Marxism. Therefore Fukuyama claims that the battle between ideologies is over. The victory is primarily in the realm of ideas or consciousness and is as yet incomplete in the real material world. To Fukuyama this means; that the material world will eventually follow in the long run. The material world will take inspiration from the prevailing ideas, in this case western liberalism.[[56]](#footnote-56)

The term ‘the end of history’ was not an original one, when Fukuyama wrote his article. Fukuyama explains the origin of the term in his article, as dating back to the German philosopher Friedrich Hegel. Hegel proclaim in his work *Phenomenology of Mind* in 1806, that Napoleons defeat of the Prussian monarchy, meant ‘the end of history’ and the victory of French revolutionary ideas. Hegel saw an evolution of man and linked it with the evolution of government. This evolution would eventually lead to the victory of one ideal. Hegel saw this in the victory of Napoleon and the French revolutionary ideas. Marxism adopted Hegel’s ideas and saw their ideas as the final result of the evolution in government. Fukuyama does not view Hegel’s work as a part of Marxism. He makes the clear distinction between the two.[[57]](#footnote-57)

Fukuyama is very clear in his article about what part of Hegel’s work, he is excited about. The complex interaction between the realm of ideas and the material world is where he finds most of his inspiration. The material world might not correspond to the prevailing ideals but it indicates in which direction, evolution might be headed. Fukuyama explains through Hegel, that the victory of western liberalism in the form of the homogenous state has existed in the ideal world for some time.[[58]](#footnote-58)

The remaining challenges to western liberalism are religion and nationalism. These are the only two remaining challenging ideologies Fukuyama can think of. Religion is however only truly relevant in the Middle East. Fukuyama does not see any realistic way of non-Muslims accepting the form of religion-based government found in the Middle East. The other challenging ideology is nationalism. Third World countries still tend towards nationalism, according to Fukuyama. However the link with in the western world between nationalism and the social nationalism found in Germany leading up to the Second World War, and the defeat of Germany, eliminates any realistic return of nationalism in the West.[[59]](#footnote-59)

Fukuyama uses China as an example a few times in his article. It is not only the presence of colour television sets in China that is important to Fukuyama. A slight change in government is also mentioned. Fukuyama claims that a new technocratic elite has taken over and no longer views Marxism and ideological principal with any relevance regarding guides to policy. The high number of Chinese citizens studying in western countries top universities, most of which children of the political elite, will eventually return and most likely be unsatisfied with China. This is to Fukuyama another sign of development. China’s cease in supporting activity to Maoist in African countries is also a sign of China’s movement away from traditional Maoist ideology.[[60]](#footnote-60)

## Interdependence

Enable to understand the rather complex theory of interdependence, that Keohane and Nye describes, we have to understand the world they ‘live in’.

Keohane and Nye’s “era of interdependence” as they are quick to describe it. They state that old international patterns are crumbling and the world has become interdependent in economics, communications and human aspirations.[[61]](#footnote-61)

It is not the goal for Keohane and Nye to argue in favour of either traditionalist or modernist. They find that both of these are lacking important dimensions. Traditionalists lack the means to see beyond military power. Modernist often finds that advances in technology and increases in social and economic transactions will result in States being obsolete. Keohane and Nye is operating with both traditionalist and modernist terms. For the era of interdependence is one, with both continuity and change.[[62]](#footnote-62)

The term ‘interdependence’ with which Keohane and Nye operates, is a complicated term. Interdependence is not to be confused with interconnectedness. The effects of transactions on interdependence will depend in the costs, or constraints associated with them. An oil importing country is more likely to be dependent on its imports of oil than a country on its imports of fur or jewellery. The product being traded is very important in interdependence. Even though the equivalent monetary value is being traded, a country is more likely to be dependent on products such as oil, than any luxury products. The term interdependence is not limited to situations of mutual benefit. This would leave out relations between industrialised countries and less developed countries.[[63]](#footnote-63)

An interdependent situation does not rule out the possibility for conflict. Even though, both of the involved parties in the interdependence are gaining from the situation, they will still attempt to increase the share that they are given. This increases the dynamic capabilities of the interdependence theory. This aspect is noticeable in military and security aspects. If all involved would like to maintain a status quo and create a state of interdependence to obtain this. Smaller states can use this to their advantage. They can attempt to increase their share be otherwise refusing cooperation. Thus, threatening the status quo. [[64]](#footnote-64)

Power is a term important for Keohane and Nye’s interdependence theory. Their definition of this term is a familiar one. In realization that power can no longer be thought as military power alone. Keohane and Nye have taken inspiration from Hans J. Morgenthau’s definition of power. They define power in this way:

“*Power can be thought of as the ability of an actor to get others to do something they otherwise would not do (and at an acceptable cost to the actor).”[[65]](#footnote-65)*

Role of power in interdependence can be distinguished between two dimensions, sensitivity and vulnerability. Sensitivity is how fast one part is affected by the other partner’s action. The lack of ability to create and implement new policies quickly is often the cause for this sensibility. This sensitivity relationship can be found between an oil exporting country and the oil importing country. If the exporter decreases the flow of oil and the importer will be sensitive to this change. Here the Vulnerability dimension becomes relevant. The access to other energy alternatives determines the vulnerability of the country. Can the oil importer merely alternatives, thus replacing its need, it will sensitive to the changes but not as vulnerable. An oil importer unable to makes these changes in its import policy, will be extremely vulnerable in the interdependence relationship with the oil exporter.[[66]](#footnote-66)

The characteristics of complex interdependence need to be well defined. Keohane and Nye therefore states three conditions for the states of complex interdependence. The three conditions have been named: Multiple channels, Absence of hierarchy among issues and Minor role of military force.

Multiple channels connect societies and governments on different level. The multiple channels are not only the international airports, which connect the countries but also telecommunication and the internet. The channels allow for contact between governmental elites to conduct everyday business more easily. It also allows international cooperation’s and NGO’s to gain access to the governmental elites. The tie between government and multinational firms and NGO’s are common, and the presence of these nongovernmental actors vary greatly from country to country, but is a normal part of foreign as well as domestic policies. These actors are not only affecting their own interest but the interest of the states involved. They act as transmission belts between the states, making the states more influential on one another by affecting interstate policies with domestic policies. [[67]](#footnote-67)

Keohane and Nye choose to describe absence of hierarchy among issues by referring to a statement by Secretary of State Henry Kissinger, made in 1975:

*“Progress in dealing with the traditional agenda is no longer enough. A new and unprecedented kind of issue has emerged. The problems of energy, recourses, environment, population, the uses of space and the seas now rank with questions of military security, ideology and territorial rivalry which have traditionally made up the diplomatic agenda”[[68]](#footnote-68)*

Kissinger is stating that variety of topics being discussed between states has expanded. The list could be expanded since Kissinger stated this in 1975 and this helps to blur the lines between domestic and foreign policies. One of the characteristics of the new issues are, that they might not threaten the very existence of the state, but a large number of areas now has to be coordinated between the domestic level and the interstate level.[[69]](#footnote-69)

The minor role of military power becomes clear as the domestic and interstate policy areas merged. International relations are no longer dominated by military force, national security and traditional military power. Military power has not completely disappeared and become an indifferent topic. It has merely stepped into the background. Military power is always a central component of national power. The number of other topics, that need to be coordinated at an interstate level, has merely pushed the role of military power from its dominant position. This is evident in the relationship between Great Britain and Germany, who no longer feel threatened by each other. Military force has become a less important instrument in international relations. It is often not an appropriate way of achieving ones goals. It is, however, not impossible to imagine dramatic conflict or revolutionary change in which the use or threat of military force over an economic issue is possible. In such an event, realist assumptions would again be a reliable to events.[[70]](#footnote-70)

### Regime change

Keohane and Nye operate a great deal with regimes. They define these regimes as sets of governing arrangements that affect relationships of interdependence as international regimes.[[71]](#footnote-71) These international regimes assist in providing a political framework within which international economic processes occur. A central part of understanding the politics of interdependence, is understanding how these international regimes develop and breakdown. Keohane and Nye use different four models in explaining change in international regime change. They are: economic progress, the overall power structure in the world, the power structure within issue areas and finally, power capabilities as affected by international organization.[[72]](#footnote-72)

### Economic progress

Economic progress is not described well enough; or at least that is the position Keohane and Nye states. They find that traditional economic theory is too little interested in political power and how it affects trade and other economic subjects. The same way traditional political theories lack economic considerations in their attempt to describe and analyse political power. A thing normally categorised as non-political is transactions carried on through a competitive prize system, does not leave political power unimportant. The effect of politics can be indirect; it may determine the relationship within which day-to-day economic processes take place. In an economic progress model of regime change, technological change and increases in economic interdependence will make existing international regimes obsolete. They will become inadequate to cope with increased volume of transactions or new forms of organizations represented, for instance, by transnational corporations. The change would make the old regimes ineffective or make them collapse. The second premise is that governments are highly responsive to domestic demands. The demand for high living standards will drive the domestic policies in favouring a rising gross national product. The third premise of this model is that great aggregate economic benefits provided by economic movements of capital, goods, and in some cases labour will give governments strong incentives to modify or create new international regimes to restore their effectiveness. Domestic demands will often lead governments into accepting a higher level of economic interdependence than normal. Governments will complain about the loss of autonomy due to the high level of interdependence, but will accept interdependence enable to satisfy the domestic scene. One should expect, on the basis of the economic progress model, that international regimes would from time to time, be undermined by economic and technological progress. This is however not entirely true. They will not completely disintegrate, at least not for long. They will quickly be reconstructed to adapt to economic and technological conditions.[[73]](#footnote-73)

### Overall Power Structure

Change in the global overall power structure is often seen by traditionalist to occur only by the use of military force. The end of the Second World War is an example of how military actions can change the power structure of the world. Keohane and Nye do not attempt to argue with the classical realist about this traditional form of change in interstate power. They even acknowledge the importance of military force in interdependence. This, they claim, have been evident since the days of Athens and Sparta of ancient Greece. Here, two states thrived with interdependence, where military force and the states security issues, was the very reason for their cooperation.[[74]](#footnote-74) Powerful states and hegemonial powers do only succumb to war and major shifts in the overall power balance. But these systems may also be undermined by the very economic processes they encourage. The economic transactions of a hegemonic state are not always destructive to its trading partners. Often secondary countries benefit from the economic policy of the powerful state. This is in part due to the domestic demands and expectations of the hegemonic state. In time, however, the secondary state can grow so strong, due to its economic transactions, that its economic power can pressure the hegemonic state. The secondary state will no longer have to abide all demands and requirements. Dependency can force the hegemonic state to accept these new changes, due to among others issues, the recurring domestic demands.[[75]](#footnote-75)

### Issue Structure

The overall structure explanation assumes that power, like water, will find a common level: discrepancies between states are dominant on one issue and which predominate on others will be eliminated in important cases by linkages drawn by powerful states through the use or threat of force.[[76]](#footnote-76) In the issue structure power in one area are not necessarily transferable to another area. Military power may not be an option in economic areas, and one economic area may function completely independent from others. A clear example of how military power, and the use of this, is irrelevant was the 1973 oil crisis. The United States of America was a far superior military power to the Arabic members of the Organization of the Petroleum Exporting Countries, which launched an oil embargo as a reaction to the USA’s resupply of Israel’s army.[[77]](#footnote-77) In this case, Keohane and Nye, argues that the USA’s strong military power was nearly useless. The USA could not use its military power because it would be too costly. Therefore the issue structure is similar to the overall structure model, in that the most powerful state in one area will control the agenda. The issue structure differs in the way, that even though a state might be powerful in one area, this is hard to transfer to another area. It will most likely be ineffective. The USA’s military power could was useless in the petroleum related issue in the 1973 oil crisis. Keohane and Nye argue that analyzes of politics will have to be conducted by issue area. Within each issue area one posits that states will pursue their relatively coherent self-interests and that stronger states on the issue system will dominate weaker ones and determines the rules of the game.[[78]](#footnote-78)

### International Organization Model

The international organization model assumes that a set of networks, norms, and institutions, once established, will be difficult either to eradicate or drastically rearrange. Even governments with superior capabilities (overall or within the issue area) will find it hard to work their will when it conflicts with established patterns of behaviour within existing networks and institutions. Under these conditions the predictions of overall structure or issue structure theories will be incorrect; regimes will not become congruent with underlying patterns of state capabilities, because international organizations as defined above will stand in the way.[[79]](#footnote-79) Failures, of the basic structural models of regime change, will be accounted for with from the international organization model. Regimes are established and organized in conformity with distributions of capabilities, but subsequently the relevant networks, norms, and institutions themselves influence the actors’ abilities to use these capabilities. The strength of the state will be tamed. As time progresses, the underlying capabilities of states will become increasingly poor predictors of the characteristics of international regimes. Power over outcomes will be conferred by organizationally dependent capabilities, such as voting power, ability to form coalitions, and control of elite networks: that is, by capabilities that are affected by the norms, networks, and institutions associated with international organization as we have defined it. Such, the government do not initially hand over the strength of the state, but in time lose some control over it.[[80]](#footnote-80)

Keohane and Nye accept the need to combine these models. A situation is rarely so simple that one simple analytical model is sufficient.[[81]](#footnote-81)

# The Union and the regime

The empirical data in this paper is a combination of economic statistical numbers, history and policies. The following section will provide some of the necessary information needed to answer the working question of this paper.

## The Union

The EU is an international co-operation unlike any other. It is a very comprehensive organization that infiltrates nearly all policy areas of its member states. The EU also gathers and combines some of the power of its members. The internal market is an example of this.

The internal market was finally set into place in 1993 after seven years work. Several hundred pieces of new legislation regarding technical standards, regulatory instruments and legal and bureaucratic barriers were removed. The idea behind the internal market is, that the removal of custom barriers will open the national market to the other members, giving access to a larger number of companies, all competing, thus lowering the prizes for the consumers.[[82]](#footnote-82) This has also meant that access to the EU’s internal market, is a great possibility to non-EU members.

### Economical development EU

The EU has over the last two centuries expanded a few times. This prevents the manufacturing of a clear figure of the development of the Union. Eurostat itself can only provide GDP data from 1996 on onwards. The enlargement in 2007 ensured Romania and Bulgaria’s membership into the EU, thus bringing the Union up to 27 members.[[83]](#footnote-83) The following data is therefore found in IMF’s database, and represent the European Union’ GDP annual growth.[[84]](#footnote-84) The IMF was able to provide data as far back as 1980.

Figure 1: The annual average development in these countries was 2.2 in the period 1980 to 2007.

Source: IMF[[85]](#footnote-85)

In 2007 the total GDP for the combined EU members were $16,830.100 billion making it the largest economy in the world. In 2007 the combined GDP of the world was $54,311.608.[[86]](#footnote-86) This shows that the GDP of the EU was 31 percent of the combined global GDP.[[87]](#footnote-87) The fact that the EU is responsible for nearly a third of the global GDP, exemplifies the size of the Union’s economy.

### Foreign trade policy

Trade policy has always been important to the EU. It began with the Coal and Steel industry in 1951 with the signing of the first treaty in Paris. The first member of the Union was France, Germany, Belgium, Italy, Netherlands and Luxemburg. They signed the treaty tying their recourses so closely together that they would never go to war with each other again.[[88]](#footnote-88) Since then the expansion of the internal market has grown with new members of the Union but also in areas affected. Today the Union has 27 members and the internal market is a reality.

The notion that trade can be used politically was thereby imbedded in the EU from the beginning. It has influenced the foreign trade policy conducted today. The EU’s trade and foreign policies are inextricably linked. On the one hand, trade policy provides essential instruments for foreign trade policy, including sanctions, embargoes and support measures. On the other hand, the EU’s trade and agricultural policies can undermine foreign and development policy objectives, including poverty reduction. Trade is not just an external policy. The type of trade policy conducted by the EU, both in multilateral fora and specific third countries, can affect their economies and, indirectly, their political systems, societies and the welfare of individuals. This impact, may it be positive or negative in human security terms, societal security and political stability, also determines the international security context in which the EU is embedded and in which it operate as foreign policy actor.[[89]](#footnote-89)

As a part of the trade agreement with China, the EU engages in political dialog with China concerning development of the human rights and the transition to the global economy. The focal points of this dialog are:

* Engage China further, 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 in the world economy through bringing it fully into the world trading system, and supporting the process of economic and social reform
* Raise the EU's profile in China.

The EU and China meet annually to discuss these objectives. Human rights are discussed as part of regular political dialogue as well as during specific Human Rights dialogues held biannually since 1995.[[90]](#footnote-90)

The EU is the largest donor of trade-related financial assistance globally. However, in order for trade to produce the development needed for every developing country is different, the EU has different policies for each country, reflecting the needs of the different countries. Through these policies the EU is committed to ensure that “the jobs that are created are good jobs”, as stated on the website of the Commissions Director General for Trade.[[91]](#footnote-91) Through its trade policy, the EU is promoting the core labour standards set out by the ILO.

First of all are the draft trade agreement examined for their potential effects in social development, including labour standards – the so-called sustainable impact Assessments (SIA)[[92]](#footnote-92) These assessments, first launched in 1999, are carried out by independent external consultants, who work on areas such as income, environment, capital investment, equity and poverty, health and education, gender inequality, environmental quality of air, water and land, biological diversity and natural recourses. This way policy-makers and negotiators can take it into their account when shaping the trade agreements.[[93]](#footnote-93)

Secondly, since 2005 developing countries having ratified and implemented the core labour standards of the ILO can receive special tariff rate cats when they export to the EU. There are three different levels of the Generalized System of Preferences (GSP)[[94]](#footnote-94):

1. Standard GSP – an autonomous trade agreement, which gives tariff preferences on the EU market to developing countries. Ever since 1971 developing countries, including China, have received trade preferences to the European Market[[95]](#footnote-95)
2. The GSP+ - a special incentive arrangement for sustainable development and good governance, which offers additional tariff reductions to vulnerable developing countries that have ratified and implemented international conventions[[96]](#footnote-96)
3. The Everything but Arms – which provides Duty-Free and Quota-Free access for all products from the 50 least developed countries.

The EU can only demand the respect for core labour standards through trade agreements with the Special Incentive Agreement for Sustainable Development and Good Governance (GSP+). China however, cannot be classified as a vulnerable country. First all the largest sections of its GSP-covered imports into the EU is only at 73,8% and do therefore not meet the criteria that the five largest sections most represent more than 75% in value of its total GSP-covered imports.[[97]](#footnote-97) Secondly, in order for a country to be sustainable for the GSP+, the value of its GSP-covered imports must not exceed 1% in value of the total GSP-covered imports into the EU. Here China is highly exceeding the limit, as the country accounts for almost 50% of the total GSP covered imports[[98]](#footnote-98)

# Labour Standards

How do you measure the level of labour standards in a country? Especially in a country as big and diversified as China. As Rob Gifford expressed it “For every fact that is true about China, the opposite is almost true as well, somewhere in the country” (2007:17)[[99]](#footnote-99). If for example using the development in wage levels as a central indicator of the labour market situation in China, it would have to be an average of wages between the urban and the rural areas. However, this would not provide a clear cut picture of the wage situation, as there are great economic differences between the two parts of the country. When China first decided to pursue an open export strategy in 1986, it was only introduced in Special Economic Zones (SEZs) in the coastal regions in which exemption from duties on imported goods was established. In the rest of the country ordinary trade applied (Naughton, 2007:3869)[[100]](#footnote-100). This has resulted in different growth rates in the two parts of the country, which is indicated in the figure below.

Figure 2: Chinese income



Source: UNDP report, China 2007/08:14[[101]](#footnote-101)

A large number of the current EU member countries have had diplomatic and commercial connections with China for many years.[[102]](#footnote-102) Not until 1975, as a result of the EEC’s common commercial policy[[103]](#footnote-103) and China’s economic reforms[[104]](#footnote-104), that diplomatic relation was established. The relations between The EU and China have developed rapidly since then. With the Maastricht-treaty in 1992 and China’s accession into the WTO in 2001, which the EU strongly supported, the relationship has had strong incitements to grow even stronger.[[105]](#footnote-105) The relationship between the two parties today involves economic, political, social and cultural areas. The early agreement however exclusively trade agreements; many of these were concerning the textile industry.[[106]](#footnote-106)

The first trade agreement was concluded in 1978 and expressed that the parties were to create favorable conditions for trade, improve the structure of their trade and to examine suggestions by the other party for the purpose of facilitating trade. In 1985 this agreement was replaced with a more general and broader agreement. The 1985 Agreement on Trade and Economic Cooperation included both trade and economic cooperation within the areas of industry and mining, agriculture, science and technology, energy, transport and communication, environmental protection and cooperation in third countries. The agreement was also to encourage investments that would be beneficial to both parties.[[107]](#footnote-107) Along with a series of agreements on trade in textiles, the trade agreements adopted in 1978 and 1985 respectively provided the legal normative framework for the EEC/EU-China trade relations between the late 1970’s and 2001. A new legal framework was created in 2001 when China became a member of the WTO.[[108]](#footnote-108) A new Partnership and Cooperation agreement are under negotiation. It will update the 1985 agreement and will go beyond the WTO commitments. The new negotiations were launched in January 2007 and will concern better protection of intellectual property rights.[[109]](#footnote-109)

The level of trade resulted from the agreements has made China Europe’s fastest growing export market. Between 2004 and 2008 the export from the EU to China grew by 65%.[[110]](#footnote-110)

Figure 3: Trade with China as a percentage of all EU trade



Source: Eurostat and Intra-European trade, Statistical yearbook 1958-2007[[111]](#footnote-111)

As seen in Figure 3 trade levels were relatively low before they expanded in the mid 1990s.

Two different events can be seen in relation to this:

1. In 1997 the EU ended its annual resolution, at the United Nations High Commission for Human Rights (UNHCR), critical of China’s human rights record. It was the events on the Tiananmen Square a year earlier that led to the introduction of the first resolution in 1990 by the EU-member states at the UNHCR meeting.[[112]](#footnote-112) These draft resolutions did not create a concrete action against China and by the late 1990s a group of member states, led by France, Germany, Spain and Italy, announced that they would no longer support the EU’s annual draft resolution against China and thereby blocking the formulation of a common position. There has not been a draft resolution critical of China’s human rights records initiated by the EU at the UNHCR, nor by member states since 1997.[[113]](#footnote-113)
2. In 1995 the first comprehensive policy document on China was published by the European Commission – “Long Term Policy for China-Europe Relations”[[114]](#footnote-114) The aim of this communication was to create a constructive engagement with China with focus on: committing to human rights, ensuring the future of Hong Kong and Macao, supporting China’s economic reforms, supporting China’s admission to the WTO and closer cooperation.

Figure 4: EU27 trade in goods with China by product, 2008



Source: Eurostat, 2009[[115]](#footnote-115)

Regarding the composition of the trade between the EU and China it is worth noticing the high level of imported manufactured goods, with a high number of machinery and textile goods.

# China

The economical development in China is one of the focus points of this paper. An in depth explanation of this is therefore in order, before moving on to other areas.

## Economic Development in China

Prior to 1979, China maintained a centrally planned, or command, economy. A large share of the country’s economic output was directed and controlled by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. During the 1950s, all of China’s individual household farms were collectivized into large communes. To support rapid industrialization, the central government undertook large-scale investments in physical and human capital during the 1960s and 1970s. As a result, by 1978 nearly three-fourths of industrial production was produced by centrally controlled state-owned enterprises according to centrally planned output targets. Private enterprises and foreign-invested firms were nearly nonexistent. A central goal of the Chinese government was to make China’s economy relatively self-sufficient. Foreign trade was generally limited to obtaining only those goods that could not be made or obtained in China.[[116]](#footnote-116)

China launched in the beginning of 1979 several economic reforms. The central government initiated price and ownership incentives for farmers. This enabled them to sell a portion of their crops on the free market. Four special economic zones were created along the coast line. This should attract foreign investment, boost exports, and the imports of high technological products into China. In stages, additional reforms followed. These sought to decentralize economic policymaking in several sectors, especially trade. Economic control of various enterprises was given to provincial and local governments, which were generally allowed to operate and compete on free market principles, rather than under the direction and guidance of state planning. Additional coastal regions and cities were designated as open cities and development zones, which allowed them to experiment with free market reforms and to offer tax and trade incentives to attract foreign investment. In addition, state price controls on a wide range of products were gradually eliminated.[[117]](#footnote-117)

Since the initiation of economic reforms in 1979, China has become one of the world’s fastest-growing economies. From 1979 to 2005 China’s real GDP grew at an average annual rate of 9.6 percent. Many economist speculate that China could become the world’s largest economy at some point in the near future, providing that the government is able to continue and deepen economic reforms, particularly in regard to its inefficient state-owned enterprises (SOEs) and the state banking system.[[118]](#footnote-118)

Trade continues to play a major role in China’s booming economy. In 2005, exports rose by 28.4 percent to $762 billion, while imports grew by 17.6 percent to $660 billion, producing a $102 billion trade surplus. China’s trade boom is largely the result of large inflows on foreign direct investment (FDI) into China, which totalled $61 billion in 2004 and an estimated $58 billion in 2005. Over half of China’s trade is accounted for by foreign-invested firms in China.[[119]](#footnote-119)

Since China’s introduction of reform the annual GDP growth has had a high average. The figure below shows how the annual GDP growth has been since the introduction of the economic reform in 1979.

Figure 5: Chinese average annual growth rate

Source: <http://www.chinability.com/GDP.htm>

In 2007 the estimated GDP of China was $3,960.900 billion. Of the $54,311.608 combined global GDP, China was responsible for 7.2 percent. [[120]](#footnote-120) China is the second largest beneficiary out of 180 of the EU’s GSP scheme, under which the EU grants autonomous trade preferences to imports from developing countries. It has a share of more than 11 percent of all effective preferential imports under GSP.[[121]](#footnote-121)

## Human rights violated

There have been examples of human right being violated in China. A few of these will be presented in the following section. Most human rights violations in China are not known to the outside world, they are held secret.[[122]](#footnote-122)

### Tiananmen Square

In 1989 democratic protesters gathered in Beijing’s Tiananmen Square. What was to become known about this protest was not the fact, that people protested for democracy, but how they were treated. The protest was lead mainly by students. The protest had been started by students wanting democratic reforms. Soon many others gathered as well. Refusing to leave the square without result, the protesters spent seven weeks in the Tiananmen Square. On the third of June 1989 tanks rolled into the Capital. The Chinese government had ordered the armed forces to clear the situation. The result was several hundred killed and even more wounded.

It was reported that not only the protesters were caught in the line of fire; civilians not attending the protest was as well. After clearing the Tiananmen Square, the military searched Beijing University for the responsible co-ordinators of the protest. Here they allegedly killed the people they suspected.[[123]](#footnote-123)

Human rights in China suffer not only under the ‘one child policy. A policy that states, that only one child is permitted per couple. The policy has been in effect since 1979 to stop the population increase.[[124]](#footnote-124)

An example of the consequences of this policy is a woman named Mao Hengfeng. A victim of forced abortion whose ongoing attempts to receive justice have resulted in her sentencing to 18 months of hard labor during which she has been tortured, denied vitally-needed medicine.[[125]](#footnote-125) Her example takes place in the beginning of the 1990’s. She was confined to psychological treatment the following years. Since, she has attempted to get a court ruling. These attempts ended in 2004 when she received her sentenced to 18 months of hard labor.

There are still today many examples of human rights violations in China. These are sometimes hard to find, due to the closed nature of China, and many are never known. It is however commonly know, that human rights are being violated. One example could be the number of political imprisonments, carried out by the Chinese government.[[126]](#footnote-126)

## Labour conditions

During the period of Mao’s command economy there were no labour markets in China. Each worker was a lifetime member of one of the two systems of public employment, urban or rural. This system of government-controlled employment has dissolved today, and active labour markets have developed – although, to some extent still segregated into rural and urban areas (Naughton, 2007: 179). However, China’s labour force is still in the middle of a transformation: from being dominated by low-skill, hard physical labour to a middle-income economy where education and individual skills changes the nature of work (Naughton, 2007: 180). For example is it still common to use human labour for tasks that could, just as well, be done by machines. Labour is cheap and with a total working age population of app. 920 million the business sector has little incentive to substitute human labour with machine power.

In the Chinese Constitution from 1982 it is stated in article 14 that “The state continuously raises labour productivity, improves economic results and develops the productive forces by enhancing the enthusiasm of the working people”[[127]](#footnote-127). The enthusiasm of the working people is to be enhanced “[…] on the basis of expanded production […]”. Furthermore the state advocates for “the civic virtues of love for the motherland, for the people, for labour […]” (Art. 24). In article 42 the protection of labour is secured as well as the right to rest (Art. 43).

Since 1995, China has had a “Labour Law”. In this it is stated in article 5 that the state shall take various measures to “[…] gradually raise the living standards of labourers”[[128]](#footnote-128).

Regarding China and the core labour standards set out by the ILO, some of the core conventions have not yet been ratified by China, while other have been ratified but breaches have been detected.

China has not ratified the convention on the Right to Organise and Collective Bargaining, or the convention on Freedom of Association and Protection of the Right to Organise. China’s Trade Union Law was adopted in 1950 and amended in 1992 and 2001. According to article 10 in the revised version of the law, only one trade union is recognised by law – the All China Federation of Trade Unions (ACFTU). Furthermore, according to article 4 the trade unions in China must “observe and safeguard the Constitution, take it as the fundamental criterion for their activities, take economic development as the central task, uphold the socialist road, the people’s democratic dictatorship, leadership by the Communist Party of China, and Marxist-Leninism, Mao Zedong Though and Deng Xiaoping Thought (…) and conduct their work independently in accordance with the Constitution of trade unions”[[129]](#footnote-129). There is no law or general system of collective bargaining in China.

China has not ratified the Abolition of Forced Labour Convention or the Forced Labour Convention. Organizers of worker groups or protesters are often arrested and assigned to “re-education through labour”. This form of “administrative detention” is given by the police (without trial) for what is considered minor offences (ICFTU report, 2006: 6)[[130]](#footnote-130)

China has ratified the convention on the Worst Forms of Child Labour and the convention on Minimum Age. Child labour is prohibited by the Labour Law of 1995 under Art. 15 (“The employer shall be banned from recruiting juveniles under the age of 16”), but it remains a problem in China. Particular in rural areas where regulations are not supervised (ICFTU report, 2006:13).

China has ratified the convention on Equal Remuneration and the convention on discrimination. Several aspects can be considered here. First of all gender equality, which is considered a priority for the Chinese government and in article 48 of the Chinese Constitution it states that “women enjoy equal rights with men in all spheres of life”[[131]](#footnote-131). However, in article 13 of the Labour Law of 995 it states that “sex shall not be used as a pretext for excluding women from employment […] unless the types of work or posts for which the workers are being recruited are not suitable for women according to state regulations”. Women still encounter gender-based discrimination. For example do the regulations of the SOEs allow forced retirement of women at the age of 40 or to take two- year maternity leave without pay (ICFTU report, 2006: 9). Secondly, ethnic minorities, the majority of the Han culture often receive favourable treatment with regard to employment – for example Han workers were brought in to work on created jobs in the province of Xinjiang instead of using local workers (ICFTU report, 2006:10). And thirdly, a discrimination against rural migrants working in the urban area is taking place. These workers are restricted through the Hukou system.[[132]](#footnote-132) Rural workers residing illegally in an urban area cannot receive education, access to medical care, housing or other public services. They have to obtain a temporary residency or a work permit in order to get the better-paid job opportunities (ICFTU report, 2006: 11).

# Analysis

Building a clear and useful analysis starts at the most basic level possible. The analysis must have a solid base enable to advance from the initial comparative stages. This analysis will, as a result, start off by analysing the economic qualities of the EU and China. These will then be compared before the search for ‘moral in trade’ will uncover of any actions in China have influenced policy changes in the EU. Finally the search for theoretical explanations can begin, thus ending this analysis.

## Comparing the two

The EU’s economical development has been fairly stable since its formation. The economic history has been dominated by the development of the internal market and the distinction of members and non-members. This has been possible, as a part, due to the economical strength of the members. The trade policies of the Union, in all its former forms, have been closely linked with other policy areas. The fact that the Coal and Steel Union was formed to stop the returning conflict between France and Germany, only confirms this notion. The continuations of this idea, within the EU, have led this paper to the ‘moral in trade’ principle. Moral in trade have been evident in the Guinea fisheries agreement example and the trade policy conducted by the EU since 1971, where developing countries, including China, have been receiving trade preferences to the European Market.

China’s economical developmental history is dominated by the opening of the Chinese market to foreign investors in 1979. China has since then had had a nearly 10 percent growth in annual GDP. The 28 years, spanning from the opening of the Chinese market until 2007 where this paper takes its focus, has left China responsible for 7.2 percent of the combined global GDP, at $3,960,900billion. Compared to the EU’s $16,830,100billion, or 31 percent globally, of the EU; China still has some way to go. What is interesting in this comparison, to this paper, is the relationship in strength between the two. The economic strength of the EU four times that of China, if you only focus on the GDP. However the rates, at which the EU and China develop, give a different aspect to this calculation.

Figure 6: EU and Chinese annual average growth

From this figure it clear that China’s annual average growth is substantially higher than the EU’s. The fact that the Chinese economy is developing at a higher rate than the EU’s, is hardly a discovery. Putting the two rates in the same figure provides a possibility to see the two developmental histories in comparison to the other.

Both the EU’s and the Chinese development rate decreases in 1989. China goes from an 11.3 percent annual growth in 1988, to a 4.1 in 1989. The EU’s annual growth rate goes from 3.4 in 1989, to 2.3 in 1990 and resting for two years at 0.7. In 1993 the annual growth for the EU is down to -0.2 percent. The common decrease indicates a reaction in both the EU and China.

The fact that this change in annual growth rate both place started in 1989 could lead the conclusion, that both were affected by the incident in Tiananmen Square in the summer of 1989. These events, where civilians were killed in a democratic protest, shocked the world. This is however only evident to be the case, for China. The EU did object to the event in Tiananmen Square. It was done by putting forward an annual resolution, at the UNHCR in 1990, but the imports and exports annual growth rate remained nearly unaffected, as seen in figure 3. Here it is evident that the growth rate in imports and exports increased the years following 1989.

It is however very likely that the decrease in Chinese annual average growth was affected by the Tiananmen Square incident. The decrease is likely to be caused by the hesitation of foreign investors after the media focus on the lack of human rights in China. This could have caused the violent decrease seen in 1989 and the following years. The impression, that the EU has little influence on the Chinese annual average growth, is strengthened by the fact that by 1992, China has an annual average growth of 14.2 percent, the second highest in history, next to the 15.4 percent in 1984.

Besides the annual resolution to the UNHCR, the EU published the “Long Term policy for China-Europe relations” in 1995 to focus in human rights in China. This was aimed at creating a constructive agreement with China. China should be more committed to human rights. It is evident that this document has not had any negative effect on the EU-China trade relations. It however showed how important the admission of China to the WTO, is to the EU. In fact when China did become a member of WTO in 2001, it was with great support from the EU.

The good nature towards China can be seen in the GSP policy of the EU. China is currently being treated as a GSP country, even though China does not meet the requirements. The Chinese economy is simply to strong and independent of the European market, to do so. Chinese imports from the EU are at 73.8 percent, and the GSP requirement is 75 percent.

The actions made by the EU towards China, in an effort to battle human rights violations and improve labour standards, are the annual meetings between EU have with China. However these are only dialogs and can seem to have little effect or consequence. The fact that this dialog is still ongoing indicates that the EU is aware of the continuation of the violations of human rights and the need for improvements to labour standards.

The improvement of labour standards in China is a part of the EU’s trade policy. Jobs created by trade should be trade reflecting the minimum international standard, and are thereby be ‘good’ jobs. Some of the core ILO conventions have yet to be ratified. The lack of labour unions is one of these key elements. Only one labour union is legal in China. Furthermore child labour remains a problem in rural areas, of which China has many. Lastly the discrimination against ethnic minorities violates accepted conditions. In these violations, China violates the agreements with the EU even more. It is not only human rights, which are not being respected in China; it is also within labour standards.

It appears that the EU is not enforcing its ‘moral in trade’ policy towards China. In fact the evidence points to the opposite. If the EU treated China like any other trade partner, actions should have been made. China is treated as a GSP country by the EU. This gives China favourable access to the internal market, depending on China meet the requirements, such respecting human rights. It is however evident that China is violating human rights, and has been all the time the EU-China trade relations have been in operation. The EU should, according to its own policy, stop the current trade relations with China.

## Analysing with theories

The next step for this paper is to see if any of the chosen theories can help explain why the EU is not enforcing its usual ‘moral in trade’ policy towards China.

### Power

The realist school have a very clear set of priorities. Focus on the state and its interest is often seen in the connection with military power and dominance. In this case there are very little to indicate the presence of military actions or consequences. That is not, however, to say that the realist school may offer no explanation to the deviation in European trade policy.

When explaining the situation from Morgenthau perspective, a power comparison must first be made of the EU and China. The first thing Morgenthau might focus on is the geography of the EU and China. They both cover a large geographical area and are in this way very similar. China is a little bigger and has a bit more citizens, but other than that, they have many of the same qualities. Both have vast costal stretches and large inland fields. This allows both the EU and China, to grow crops and ship product for imports and exports. EU and China are not at the same developmental stage however, so they are not competing for the same resources. This eliminates the possibility for conflict in this topic.

One area where the EU is China dominant is in the area of diplomacy. Diplomacy is with Morgenthau used for international communication between states, first of all, and here the EU simply has more experience and success. The EU was founded using diplomatic skills and has always been filled with intergovernmental communication. To this day the EU has high diplomatic quality. China on the other hand, has very little experience with international diplomacy. The communist regime in China has been more closed than the EU, and therefore has restricted the contact and interaction with other states. It has not been needed to the same degree as in Europe. This is partly due to China geographical size.

Morgenthau is very interested in alliances in international politics. Alliances are an important part of the multi-state system for Morgenthau. The EU is an alliance. It is an advanced alliance unlike anything ever seen. By combining the European countries power, the EU has not only secured peace among its members, and to some extend peace on the European continent.[[133]](#footnote-133) China has been in a situation where alliances have not been necessary. According to Morgenthau, a country should only implement a policy of alliances of the country cannot stand alone. So far China has been able to stand alone. Granted it has done so while implementing a rather closed international political agenda.

The power balance between the EU and China is therefore a close one. The EU is more developed than China, but can only be compared to the geographical power of China as an alliance. China’s slightly bigger size than the EU may seem more powerful; however the lack of diplomatic quality in China hinders it in international politics.

One realist explanation Morgenthau might give in this case is that the EU simply does not hold enough power over China; enable to enforce the ‘moral in trade’ principle.

If the EU enforced the ‘moral in trade’ principle with China, the same way it did with Guinea; it would simply damage the EU as much as it would China. The products being produced in China and imported to the EU is largely manufactured goods, mostly textiles. These products are being produced far cheaper than possible in the EU. The European economy is therefore dependent on cheap imported products.

However, it is possible to view this in a different angle. Morgenthau might argue that the EU realised China’s power, as nearly as strong as itself, leaving only one other opportunity to enforce the ‘moral in trade’ principle. The EU must ensure the acceptance of China into the WTO, where similar policies where conducted. The EU borrowed some of its strongest aspects to China, when the EU helped China to become a member of the WTO. It can be argued, that the EU in this way, ensured more backing for its policy to develop human rights and labour standards in China, by letting China into the WTO. As a member of the WTO China is not only obligated to the EU-China trade agreement, but also the WTO charters.

China is being treated as a GSP country by the EU. This gives China access to the internal market at a lower cost than it otherwise would receive. This too points to an action beneficial to China. In realism the strong state always act according to its own interest. The actions made by the EU, whom in this case is the more powerful economic state, should therefore be in the EU’s own interest. It is however hard to explain, from Morgenthau’s perspective, why the EU would aid China in gaining economic power, when it seems that the EU is not developing any faster. From the year 1999-2007 the import of Chinese products increased dramatically, from just over 4 percent till just over 16 percentages annual increase, in the EU. During the same time period, Chinese annual average growth rose from 7 percent till nearly 12 percent. In that time the EU’s annual average growth increased as well, from just 1 percent till just over 3 percent. Morgenthau would have a hard time explaining why the EU would aid Chinese growth in reaching nearly 12 percent annual growths while only reaching 3 percent itself. In the realist mindset, this might seem as a bad move. The EU is aiding another state in obtaining power, while getting very little in return. The EU has no guaranty that the power obtained by China, one day might be used against the EU.

Only one aspect of the situation might help the realist explanation, in this situation. Morgenthau states, that preventing your enemy from gaining the strength of other nations, is almost as good as having it yourself. At the moment China’s gain, in the good relationship with the EU, is hardly worth risking. Thereby the EU has secured peace with one of the world’s last communist states. Something that might prove useful if the situation on the Korean peninsula turns violent. If approached from this angle, realism and Morgenthau could explain some of the actions made by the EU. Morgenthau might inquire in the same breath of air, to the usefulness of the ‘moral in trade’ principle towards China, if this truly is the strategy of the EU.

### History

Like the realist school liberalism has a set of fundamental views that define how everything else conceived. These fundamental views like individuality and freedom are not something associated with China. Fukuyama’s article does however shed a light on some possibilities in this case. Fukuyama’s idea that western liberalism has defeated all other ideologies might be the answer to the EU’s action, or lack thereof.

The individualism that is so important to liberalism is more or less not present in China. Individual rights in China suffer under the system with only one labour union. If the individual was more in focus in China, it is highly likely that more than one labour union was allowed. The ‘one child policy’ is also a violation of the individual’s rights. The amount of children allowed, is not something that is in western liberalism, considered an affair of the state. The actions which follows any violation of the ‘one child policy’, is also a clear violation of the individual’s rights. Forced abortion can only be viewed as a violation of both the individual’s rights as well as the human rights in general. The western liberalistic ideal that all are born equal is also being violated in China. The discrimination of ethnic minorities violates this principle.

It is clear that there are more things in contrast to Western liberalism in China, than there are in common. How then can Fukuyama’s idea from *The End of the World* be used in this case. It is possible by following his mindset.

One of Fukuyama’s observations was the appearance of Western commercial items on markets around the world, among these television sets in China. China made the first policy changes within foreign trade in 1979, since then China has been open to trade on the free market. The EU, and its member states, was among the first to trade with China. Since the initial agreements, the volume trade have increased dramatically.

The EU has been helpful to China in their trade relations. China is enjoying circumstances, which they do not qualify for any more. China is treated as a GSP country when it is not. Trade agreements still exist when they should, according to the EU’s ‘moral in trade’ policy, have been cancelled. Despite these facts, the EU has played an active role in China acceptance in WTO. The answer to all these circumstances could be the same.

If one were to follow Fukuyama’s mindset, as the EU can have been doing, Western liberalism really has won the battle against other ideologies. Chinese communism could be slowly but surely dissolving. This would explain why the EU has assisted the development of some core ideas of western liberalism, such as human rights and fair labour standards.

In Fukuyama’s mindset, progress has already happened in China. The development of ideologies leads to western liberalism and communism in China has been showing the initial signs of decay since the market reforms of 1979. In Fukuyama’s terms it would only be a matter of time before the Chinese communism would be replaced by liberalism. This idea could be shared by the EU, whom in cooperating with China to such a large extent, attempts to push forward the development in China.

The annual increase in trade between the EU and China is still rising. Annual imports are increasing with over 16 percent, exports with just fewer than 6 percent. This continuing increase in trade shows not only the free market, but also that the EU is not attempting to distort the market. By not acting, the EU is accepting the continuation of economic growth in China. Fukuyama might interpret this as an active decision in the EU; a decision to keep supporting the development in China. If the EU was to pursue the usual ‘moral in trade’ policy, it might result in an alienating China. The EU’s goal is to export values within human right and labour standards, and to promote western liberalism. By demanding change, in a strong country such as China, it is unlikely that the EU would be successful. By enforcing a policy of cooperation and dialog, the EU is aiding the development of ideologies in China, or at least that is how Fukuyama might see it.

There are indications that the EU is following some of the same policies, which have helped shape the EU as we know it. The EU was founded on the idea that cooperation and would bring countries closer to one another. The same idea could be motivating European policies in this case. The EU could be motivated by the idea, that more cooperation and trade the West has with China, the closer China would become to Western ideas. It could be an example of how Western idealism has triumphed in the ideological world, but has yet to fully materialise itself.

### Interdependence

The fairly complicated theory by Keohane and Nye is based on the relationship between actors in international politics and trade. The difference between interconnectedness and interdependence is the first consideration this paper must deal with. Can the trade relations between the EU and China be the cause of interdependence between the two, or is it merely interconnectedness. The large amount of products being traded, between the two, combined with mixed nature of these products indicate interdependence. The long time span, from 1979 till now, also is likely to have produced an interdependence relationship, rather than just an interconnectedness relationship.

An interdependence relationship between the EU and China is likely to be an uneven one. The two are not dependent of the same things and not equally divided. The products imported to the EU from China are mostly textiles, but the EU also imports a large amount of chemicals and machinery. These are used in further production in EU, and end to this deliverance will affect productions in Europe as well as importing businesses. This makes the EU dependent of China, whom on the other hand is dependent on the EU’s internal market. China enjoys favourable access to the internal market and this help fuel the economic development in China. It can therefore be said that the EU and China have an interdependence relationship, according to the standards of Keohane and Nye.

The power balance in the interdependence theory is not irrelevant. It is here divided into the sensitive and vulnerability principles in the interdependence theory put an interesting light on the EU-China trade relations. The sensitive principle was how fast a country is affected by the stop in trade; vulnerability is the option of alternatives in the long run.

It can be said that the EU is more sensitive than China, whom in turn is more vulnerable to change. If trade were to stop suddenly between the EU and China, the production in Europe of many more advanced products would stop. The supply needed - chemicals and machinery - would stop being imported, halting the industry in the EU. At first China might not suffer greatly from this sudden stop in trade. China has a large annual trade with the USA and other parts of the world. So even if the EU is China’s main trade partner, it would not at first crumble the country. China would how ever be more vulnerable in the long run. The lack of foreign investors from the EU and access to the internal market would decrease the annual average growth in China. The EU is likely to find alternative production facilities in other countries. India is a likely alternative to China in the event of a stop in trade.

Keohane and Nye set three characteristic of complex interdependence. Multiple channels, the absence of hierarchy among issues and the minor role of the military play an important vital part of the theory.

Traditionally there are very few channels between two states. The two countries foreign state department would be engaged in dialog, and not much else. Today more channels have been created. In the EU-China case, most of the dialog is still conducted very much by high ranking diplomats and political figures. This is partly due to the communist regime in China and partly to the political agenda of the EU. Cooperation’s do, however, have easier access to Chinese soil, to inspect and negotiate investments than earlier. The number of issues being discussed by the EU and China are not dominated by traditional power politics. It is human rights, labour standards and trade that are the main focus. Thereby the old hierarchy among issues, where national security is the main objective, is gone. The minor role of military, mentioned by Keohane and Nye, is also true with the EU-China trade relations. The role of military power in international relations is not relevant between the EU and China. The relationship between the EU and China are based upon trade and economic considerations. Military force has never truly influenced the policy conducted by either.

The part of the interdependence theory that might provide the most input to this paper is the definitions on regime changes. Here Keohane and Nye described four different models. It is the first two of these, the economic progress and the overall power structure models, which are the one that explains best the events this paper deals with. The other two that do not fit are the issue structure and the international organization models.

The economic progress model describes how technological change and economic interdependence leaves existing regimes obsolete. The EU can be seen as a regime due to its economic power compared to China and the rest of the world. This model describes how the regime may be pressured by technological change, and can end in a higher level of interdependence than first intended. The domestic demand will lead governments accepting a higher level of interdependence due to domestic demands.

A higher level of technology can be said to have linked the EU and China more tightly in interdependence. It is due to technological advances in China that it is possible to produce such a large variety of goods. The domestic demand is in the EU calling for cheaply produced goods and in the China domestic demands are calling for the continuation of the economic development. It can therefore be said that economic progress has brought the EU and China closer together. An explanation for this can partly be found in the Overall power structure model.

In the overall power structure model, the economic interactions between the hegemonic state and the developing state it trades with, causes the developing state to gain economic power and rise faster than otherwise. The trade between the EU and China have aided China in the gain of economic power. China has gained access to the internal market and has attracted foreign investors from the EU. This is an example of how the secondary state grows strong due to economic transactions with the hegemonic state, to the extent, that it now can pressure the economic policy of the hegemonic state.

A combination of the two regime change models can help give an image of how the development in China, partly caused by the EU, has created a higher level of interdependence.

The interdependence between the EU and China can give an explanation to why the EU does not pursue their ‘moral in trade’ policy more aggressively. The level of interdependence has simply become too high to pursue it. The EU is too sensitive to changes in the trade with China. It might not be vulnerable in the long run, but a disconnection of trade with China, would be too costly. Secondly the domestic demand restricts the opportunities to act for the EU. However according to the interdependence theory, China should be equally dependent on the EU and also experience domestic demand, however China is not complying with political demands from the EU.

Around the year 2000 the level of import started increasing dramatically. The annual imports growth percentage went from just over four percent in 1999 to just over 16 percentages in 2007. This indicates an increase in the level of interdependence between the EU and China. China acceptance into the WTO can be seen as a part of this. The interdependence theory would explain the effort made by the EU to aid China in the process of being accepted into the WTO, with the domestic demand. With China as a part of the WTO the European citizens are guaranteed access to cheap Chinese manufactured products. The same domestic demand might explain the double standards of the EU. On one hand the European citizens might demand cheap Chinese manufactured products, but on the other demand a policy sensitive to human right and labour standards. The decision makers in the EU solves this dilemma by engaging in annual meeting with China, where human rights and labour standards are in focus, and at the same time continue not to act according to its official policy. Thus, the demand rooted in the values of the society and the demand for access to affordable materialistic items, are being successfully fulfilled.

The fact that China is being treated as a GSP country without classifying as a vulnerable country, provides further evidence to the independence theory. By giving China status as a GSP country, the EU is ensuring trade and the right to maintain the official requirement to China. If China was re-classified to a non-GSP country, goods would become more expensive to European consumers and the EU would lose its right to demand the respect of human rights in China. This is a way of the EU of maintaining the interdependence with China. Leaders in the EU may complain about the loss of autonomy due to the high level of interdependence, but they will accept the interdependence enable to satisfy the domestic scene.

# Conclusion

The question this paper set out to answer; “How is the EU’s ‘moral in trade’, in the trade relationship with China, affected by the change in the economic power of China?” is a complicated one. The economic development of the EU and China, the importance of their economic power and the actions by both the EU and China leads to the conclusion; that China’s increasing economic power, and the importance of China as a trade partner, has caused the EU to not enforce its own policy. The EU should, according to the clearly defined requirements set by the EU itself, cancel current trade agreements with China. China is continuingly violating human rights by enforcing the ‘one child’-policy, the imprisonment of political protestors and not providing judicial equality. The use of ‘morel in trade’ is unsuccessful due to the economic size of China.

The Chinese economic development has averaged annually around 10 percent ever since the first market reforms in 1979. European countries have engaged in trade relations with China since beginning. To say that the European country is the cause of the Chinese economic growth would be to say too much. The EU’s internal market was not fully into place until 1993, and even though the European market was large before, it cannot be said to be the root of China’s economic success. Trade with other countries, especially the USA are highly influential, as well. It is also clear that the annual growth in European imports did not reach a level above four percent until the late 1990s. This further indicates, that the level of trade between China and the EU has not been so influential on China’s economic success, that it can hold much credit for its high annual growth.

Both the EU’s and China’s annual average growth rate increased from around the year 2000. About the same time as the EU’s import from China increased. This increased import from the EU is likely to be a part of the increase in the Chinese growth rate. It is important to remember that the global economy experienced economic growth from around 2000, which continued until 2007. The USA experienced this economic growth as well.[[134]](#footnote-134) This common growth is likely to have further decreased the EU’s opportunity to demand the respect of human rights in China, as China was growing strong as a result of the economic burst after the year 2000.

The realist theory as presented by Morgenthau deals very poorly with this form of investigation. This is largely due to the absence of national security issues and the potential use of military force. It is only possible to give a vague explanation to why the EU decides to continue the ‘moral in trade’-policies toward China, which are unlikely to be respected. The EU knows that China is not likely to stop the ‘one child’-policy soon, release the many political prisoners or to change the judicial system. The best explanation the realist school can offer in this case is that the EU has assisted China in obtaining membership in the WTO via the EU’s diplomatic capabilities, in an attempt to bring a potential ally closer. By doing this the EU is getting China more dependent on global trade, which is largely centralized in the EU and the US i.e. the West. This movement is however explained in more details by other theories. Not being able to combine power politics with economy can be a weakness of classical realism.

A movement towards western idea and western liberalism is also how Fukuyama and his *The End of History* article, would interpret the situation in this paper. It is very likely that the EU is simply patient with the evolution of ideology in China; that the EU is simply waiting for democracy in China, and is aiding the steps away from communism by providing a basis for economic growth in China. This would explain why the EU sets requirements but do not follow through by enforcing. The EU might have analysed the situation correctly, since China did become a member of the WTO in 2001; however it also possible, that by believing in the evolution of ideologies in China, the EU is being counter affective. The EU is actively aiding China by providing grounds for successful economic growth, thus removing some of the need for ideological reform and revolution in China. Fukuyama’s battle among ideologies rested on a situation where the ideologies where in conflict. The evolution of the Soviet Union was partly caused by its counterpart, the liberalistic Western countries. Since 1989 the Chinese communistic regime has not been seen as a counterpart to the Western economies; China has been a partner in trade. The closed market economy of the Soviet Union created a situation where the demand for ideological change and political reform was sparked from within. By aiding China in becoming economically successful, the EU could be removing the domestic demand for ideological evolution and political reform, that otherwise were to change Chinese politics.

Fukuyama’s article is naturally not as describing as other theories explained in whole books. It does however give a good explanation to the events in this paper.[[135]](#footnote-135)

Keohane and Nye’s interdependence proved to be the most applicable in this paper. The ability to explain how economic relations between two countries, or in this case the EU and China, can influence the policy of one or both, made the interdependence theory very usable in this case.

It is highly likely that the size of China and the influence on the EU’s economy has forced the EU into a situation, where it is not possible to follow-through on the ‘moral in trade’ principle. The EU continues the attempts, to get China to respect human rights and to implement all of the ILO conventions, without any remarkable success. The sensitivity and vulnerability principles of the interdependence theory proved a good tool in understanding some of the dynamics in the EU and China, in the event trade should stop between the two. Damage would be greatest to the EU at first, but would in the long run do better than China, without the common trade.

The principles of the multiple channels, absence of Hierarchy and minor military role proved to be a good explanation of how international politics and relations function in the modern world. The nature of the Chinese communist regime is more closed than most other states today; however the EU and China are in frequent dialog and the present of foreign investors in China is no doubt greater today than 40 years ago. National security and military forces are not being discussed in the meetings between the EU and China because in is not relevant. The military force of either is irrelevant to the trade relations. The interdependence theory was able to explain this very well.

It is however possible that the full explanation for the EU not to more actively pursue the ‘moral ‘in trade’ principle, or draw the consequences of human rights violations, is found in two of this paper’s theories. The interdependence theory was very good at explaining the situation the EU and China are in, but the motivations described by Fukuyama is likely also to play a role. This explains why the EU so actively helped China in becoming a member of the WTO, but is unsuccessful in demanding the full respect of the human rights.

# Alternative choices

After finishing a paper like this it is often possible to get a different perspective on the issue at hand. This paper has dealt exclusively with the affairs of the EU and China. In today’s closely linked global economy there are other important factors that might very well influence these affairs. China’s connection with the USA is likely to be highly influential on China’s dealings with the EU. This interaction between the three, the EU, the USA and China, is described by Clement Stubbe Østergaard, Lektor at Århus University, in a chronicle he published in the news paper Politikken in August 2009. Here he describes the connection between the USA, the EU and China.[[136]](#footnote-136)

He describes how the USA since the end of the Second World War has had better connections with China due to its interest in the region. The EU on the other hand has had limited interest in China until fairly recently. This has created an environment where the USA has grown closer to China and has interest in the gab dividing the EU and China. This gab allows the USA to better control any situation between the three.

The culture in the USA has been kinder to China, than it has been in the EU. The USA has seen China as an equal for many years and has made an effort to create understand elements within the foreign state department. This has been achieved by involving political scientist with cultural and linguistic knowledge of China. The EU has not been as successful in achieving this tie between cultural and political understandings. The EU has not seen China as an equal the same way the USA has. This is partly due to the scepticism among some Eastern European EU members. Their history has created reluctance towards China. The competitiveness of China is fuelling this sensation in the new EU member states.

Clement Stubbe Østergaard enlightens different sides of the same complicated game this paper deals with, and could not include. The connection between the USA and China is better, than the one between the EU and China due to historical interest, but also the policy of the USA. The importance of China was perhaps realised earlier, and the USA has since shown a high level of political skill by including some of the best minds. Creating an environment where a greater understanding of China could be used by policy makers.

The USA has also been able to look beyond the errors in the Chinese regime, such the violations of the human rights. The incident at Tiananmen Square lingered in European politics longer than it did in the USA. The notion that changes can be created from the outside, maybe the EU’s fault in this case. It might at least hold some of the blame, as to why the connections between the EU and China, are not better.

The strong ally China has in the USA is highly likely to influence its policy towards the EU. China is not as dependent on the EU as the EU would need, for China to change its policies on human rights.

As the economic bonds between these three actors tighten and China continues gaining economic power, the influence of the EU is likely to decrease. It is interesting to see how this will influence the policy conducted by the EU. The rapid development of Chinese economy is likely to create a multipolar situation in international politics. If economic policies and issues will still be at the top of the agenda in a multipolar world, is hard to say.

# Abstract

This paper deals with the trade relationship between the EU and China. The paper investigates how China’s economic power affects the EU’s foreign trade policy towards China with the working problem:

“*How is the EU’s ‘moral in trade’, in the trade relationship with China, affected by the change in the economic power of China?”*

Introducing a new term called ‘moral in trade’ this paper identifies the foreign trade policies, of the EU, as containing a form of moral. The EU does this by requiring the respect of human rights and labour standards in its partner countries. The respect of these values in turn grants the partner country cheaper access to the EU’s internal market.

The theories used in this papers investigation is: Morgenthau’s classical realism, Fukuyama’s article *The End of History* and Keohane and Nye’s interdependence theory.

Realism provides this paper with a classical political angle, where issues like national security and military power are considered. Fukuyama explains the EU’s policies by referring to the battle between ideologies, which in his view, has been won by Western liberalism.

The economic development of the EU and China is explained together with the trade policy of the EU and the state of human rights and labour standards in China. This provides the information needed to understand the mechanisms, which influence the trade between these two economic powers.

This paper proves that is Keohane and Nye’s interdependence theory, which is best able to explain the complicated relationship between the EU and China. Trade and economic development in both regions are reliant on the other; although in two slightly different ways.

This paper concludes that the EU is not able to pursue its regular political demands, regarding the respect of human rights and introduction of labour standards towards China, due the size and strength of the Chinese economy. This is proved with the presentation of the continuing violations of human rights in China and the continuing increase in EU-China trade.

It is highly likely, as presented in this paper’s perspective section at the end, that the USA-China relationship is influential on the EU-China relationship.

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96. Any GSP+ country must first of all be considered vulnerable in terms of its size or limited diversification of exports.

And secondly have ratified and effectively implemented 27 specified international conventions in the fields of human

rights, core labour standards, sustainable development and good governance.

http://ec.europa.eu/trade/issues/global/gsp/index\_en.htm [↑](#footnote-ref-96)
97. GSP-covered import is the imported goods which already experience preferential access (in the form of tariff

reductions) to the EU market. There are no requirements attached to the GSP. [↑](#footnote-ref-97)
98. List of countries considered ”vulnerable” with regards to the GSP+ scheme -

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101. Human Development Report, China 2007/08, ”Access for all, Basic public services for 1.3 billion people” -

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102. Francis Snyder, “The European Union and China, 1949-2008 Basic documents and commentary”, 2009, Hart

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103. As one of the first European countries, Denmark established a diplomatic relationship on ambassadorial level with

China in 1956. This was followed by France in 1964 and Germany & the UK in 1972 (Eberhard Sandscneider, “China’s

diplomatic relations with the states of Europe”, The China Quarterly, 2002, Vol. 169).

38Since 1st of January 1970 decisions under the common commercial policy have been taking by qualified majority

within the Council. Up till then the member states had entirely coordinated their own bilateral relations with non-

Community countries. (Scadplus, Activities of the European Union – http://europa.eu/scadplus/leg/en/lvb/a20000.htm [↑](#footnote-ref-103)
104. Following the death of Mao Zedong in 1976, the market-oriented Deng Xiaoping started economic reforms and

international opening of China to the outside world. In 1978 he announced the launched of the “Four Modernizations”

within the fields of, agriculture, industry, science & technology and national defence. This programme focused on

economical self-reliance, import substitution and growth through exports and foreign trade (Snyder, 2009: 55) [↑](#footnote-ref-104)
105. <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/china/> [↑](#footnote-ref-105)
106. Snyder, 2009:55 [↑](#footnote-ref-106)
107. “Agreement on Trade and Economic Cooperation between the European Economic Community and the People’s

Republic of China”

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&t

reatyId=341 [↑](#footnote-ref-107)
108. As core labour standards are not a requirement in the WTO agreements, I will not go further into them. See WTO on

labour standards: http://www.wto.org/english/thewto\_e/whatis\_e/tif\_e/bey5\_e.htm [↑](#footnote-ref-108)
109. <http://www.ipr2.org/index.php?option=com_content&view=article&id=44&Itemid=1> [↑](#footnote-ref-109)
110. European Commission, EU-China trade in facts and figures -

http://trade.ec.europa.eu/doclib/docs/2009/january/tradoc\_142202.pdf [↑](#footnote-ref-110)
111. Eurostat - http://epp.eurostat.ec.europa.eu/cache/ITY\_OFFPUB/KS-GI-08-001/EN/KS-GI-08-001-EN.PDF [↑](#footnote-ref-111)
112. The Tiananmen Square protest was a series of demonstrations led mainly by students advocating for democracy in

China. The demonstration started the 13th of April 1989 and ended with the killing of students on the Tiananmen Square

the 4th of June 1989 (Andrew Nathan, “The Tiananmen Papers”, Foreign Affairs Journal, Volume 80, No.1: pp.2-48).

Furthermore did the EU impose a ban on arms export from China – a ban which still applies [↑](#footnote-ref-112)
113. Carol M. Glen and Richard C. Murgo, “EU-China relations: balancing political challenges with economic

opportunities”, 2007, Asia Europe Journal, Volume 5, Issue 3. [↑](#footnote-ref-113)
114. Communication from the Commission – COM(1995)279. The Communication is too old to be found in the EurLex

database, but has been scanned by the University of Pittsburgh - http://aei.pitt.edu/2784/01/062.pdf [↑](#footnote-ref-114)
115. Eurostat - http://epp.eurostat.ec.europa.eu/cache/ITY\_PUBLIC/6-18052009-BP/EN/6-18052009-BP-EN.PDF [↑](#footnote-ref-115)
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125. <http://www.foreignaffairs.house.gov/archives/108/97363.pdf> P. 1 [↑](#footnote-ref-125)
126. <http://www.amnestyusa.org/china/page.do?id=1011134> [↑](#footnote-ref-126)
127. The Constitution of the People’s Republic of China - http://english.peopledaily.com.cn/constitution/constitution.html [↑](#footnote-ref-127)
128. Labour Law of the Peoples Republic of China -

http://english.mofcom.gov.cn/aarticle/policyrelease/internationalpolicy/200703/20070304475283.html [↑](#footnote-ref-128)
129. The Trade Union Law of the People’s Republic of China - http://www.china-labour.org.hk/en/node/7031 [↑](#footnote-ref-129)
130. Internationally recognised core labour standards in the People’s Republic of China, ICFTU -

http://www.icftu.org/www/pdf/clschinacor2006.pdf [↑](#footnote-ref-130)
131. The Constitution of the People’s Republic of China - http://english.gov.cn/2005-08/05/content\_20813.htm [↑](#footnote-ref-131)
132. This system requires every household in China to register for a specific location and for a specific status – urban or

rural. This status is almost impossible for an individual to change as it is passed on from generation to generation

(Naughton, 2007:124). [↑](#footnote-ref-132)
133. Referring here to the Bosnian civil war in 1992-1995. <http://www.onwar.com/aced/chrono/c1900s/yr90/fbosnia1992.htm> [↑](#footnote-ref-133)
134. <http://www.guardian.co.uk/business/useconomy> [↑](#footnote-ref-134)
135. A more graphic picture of Fukuyama’s thoughts see “The End of History and the Last Man”. The Book Fukuyama wrote based on his article [↑](#footnote-ref-135)
136. <http://politiken.dk/debat/kroniker/ECE762871/kronik-hvad-er-det-der-skiller-europa-og-kina/> [↑](#footnote-ref-136)