



The European Union and China in the Economic Security Dilemma.

How the dynamic development of trust alters trade cooperation.

[Chinese Title:] 经济安全困境中的欧盟与中国: 信任的动态发展如何改变贸易合作

Author:

Lucie Buttkus

Master of Science with a major in European Studies from University of Gothenburg, Sweden

Master of Law in International Politics – Chinese Politics and Diplomacy from Fudan University, Shanghai, China

Table of Content

中文摘要	1
ABSTRACT	2
BACKGROUND: EU-CHINA TRADE RELATIONS IN THE LIGHT OF ECONOMIC GLOBALIZATION	4
THEORETICAL DISCUSSION.....	5
TRUST IN INTERNATIONAL RELATIONS	6
KYDD'S APPROACH TO TRUST IN INTERNATIONAL RELATIONS	7
THE SPIRAL GAME.....	8
A CHANGING DEFINITION OF SECURITY: FROM MILITARY TO ECONOMIC SECURITY	10
RESEARCH QUESTION AND HYPOTHESES.....	13
RESEARCH DESIGN: METHODOLOGY, CONCEPTUALIZATION AND DATA	14
CONCEPTUALIZATION	16
DATA	18
ANALYSIS	19
THE HONEYMOON PHASE: FROM ACCESSION TO CRISIS (2001-2007)	20
THE CRISIS YEARS: A GAME CHANGER (2008/2009)	21
THE AFTERMATH OF THE CRISIS: POWER STRUGGLES (2010-2013)	24
NEW FUTURE WAYS: STRATEGIC PARTNERS OR BEST FRENEMIES? (AFTER 2013)	26
CONCLUSION AND STRATEGIC IMPLICATIONS	31
DISCUSSION AND OUTLOOK	36
REFERENCES.....	38
APPENDIX	42
CODING GUIDELINE: ANALYSIS OF THE WTO TRADE POLICY REVIEW MECHANISM	42

List of Figures

Figure 1: Realist Views on Anarchy and Trust (Kydd, 2005, 14).....	7
Figure 2: Equilibria in the Spiral Game (Kydd, 2005, p.60 with added labeling)	9
Figure 3: Strategies for Each Type in the Spiral Equilibrium (Kydd, 2005, p.62; own presentation)	10
Figure 4: Illustration of the Process Model (developed by the author).....	16
Figure 5: The four periods of current EU-China Trade Relation	20
Figure 6: Overview of TDS complaints between the EU and China (2001-2016); own collection and presentation.	23
Figure 7: Trends of overall tendency of voiced perception of each other's willingness to cooperate in WTO TPR (as assessed by the author)	27
Figure 8: Trends of overall tendency of voiced perception of each other's trustworthiness in WTO TPR (as assessed by the author).....	27

中文摘要

本文旨在探究中（国）欧（盟）商贸关系评估中仍被忽略的因素，即在混乱秩序下信任感对促成合作的重要性。当前，国际秩序正面临巨大变化，并趋向多极化发展。以中国为代表的新兴大国逐步在国际社会中掌握更多话语权，开始向世界发出中国声音，影响国际秩序和国际贸易。这一趋势在当今超级大国与中国的关系中体现明显，主要表现为相对力量的变化。欧盟与中国作为世界两大超级经济体，双方经贸关系的本质为高度相互依存。随着 2001 年中国加入世界贸易组织，双边贸易金额大幅上升。从 2003 年起，中欧关系上升为全面战略合作伙伴，以促进双边贸易战略联盟，此举也影响了除贸易以外的其他领域。近年来，中国经济发展迅猛，在全球经济格局中跃升为最具影响力的新兴经济体。本文认为，国际秩序中相对力量的变化导致中欧之间经济安全面临挑战，使得双方在经济合作与竞争中不得不保持更为微妙的平衡。

本文采用定性过程追踪及由 Andrew H. Kydd (2005) 提出的新型博弈理论框架，分析中欧之间如何通过一系列复杂的相互了解过程，逐步提高互信程度以此推动双边贸易合作。通过本方法，作者更加意识到信任度研究的重要性，但目前尚无相关研究。不同于其他广受欢迎的理论，Kydd 的理论不仅有助于改善不信任及不合作心态，同时也适用于解释合理信任驱使下如何增加达成合作的可能性。本文利用世界贸易组织相关数据，测试相关理论支撑假设，阐明了两个核心观点。其一，当中欧任何一方担心对方将过度扩张时，双方合作意向达成率将大幅下降，（受威胁方）将利用对方试图合作的意愿为自己谋利。其二，当中欧任何一方采取稳健温和且理性规避风险的合作姿态，双方合作成功率将大大提升，并不会利用对方试图合作的意愿为自己谋利。本文通过资料数据三角测定，大量分析生僻数据来源，为上述观点提供了详实的基础。

本文通过研究行为模式和信任度提升过程，分析促成事件发展及相互理解的因果机制，审慎提出多种未来中欧经贸关系发展的路径选择。路径选择的关键将取决于双方的真实动机和基于相互理解下双方采取的合作战略。信任因素长期被忽视，因此对该因素进行相关研究十分重要。有关学者提出“经贸关系稳定健康发展是深化中欧关系的基础” (Xin, 2017, p.69)，因此可以预见信任感的增强将在未来双边关系的各个方面发挥重要作用。

本文对全面了解中欧两个经济体在当前变化的国际形势下复杂的战略合作关系提供了时效性极强的案例论证，同时针对之前不被重视但对国际关系十分重要的信任感因素提出了新的见解。本研究为理论发展注入了启发式剩余价值，具体表现为将 Kydd (2005) 所提出用于军事安全维度分析的螺旋博弈模型的适用性扩大至更广义关于安全理解的研究。

关键词：

中（国）欧（盟）经贸关系 | 经济安全 | 国际关系中的信任感 | 国际关系

Abstract

This paper sheds light on a factor that has so far been underconsidered in assessments of the EU-China trade relationship: how trust determines whether cooperation is possible under the conditions of anarchy. In the international system that is undergoing dramatic changes, and is becoming multipolar, the power distribution has shifted towards emerging powers, primarily China, who now have the power to introduce their own narratives to global governance and international affairs. This bears implications for established great powers – that respectively suffer from a relative power decline – as well as for their relationship with China. The European Union and China are two economic great powers whose relationship is characterized by high economic interdependence. Their trade relationship has boomed especially since China's accession to the WTO in 2001. Shortly after both actors have committed to a strategic partnership to mutually assure and coordinate their strategic alliance, beyond trade. China has since experienced unprecedented economic growth and has established itself as the most successful emerging great power in the global economy. I will argue that this affected relative power positions in the international order, leaving the EU and China in an Economic Security Dilemma, which forces both actors to engage in a delicate balancing act of economic competition and cooperation.

Using an innovative game theoretical framework, developed by Andrew H. Kydd (2005) in combination with qualitative process tracing, this paper will assess and elaborate how the levels of trust and respective trade cooperation between the EU and China have developed over time due to a complex learning process about each other's motivations. This approach furthermore allows for the concept of trust to be treated formally: Trust has thus far been considered a crucially important factor, but nevertheless remains understudied. Kydd's rationale as opposed to other spiraling theories, allows not only for downward-spiraling of mistrust and non-cooperation but accounts for the possibility that justified trust may just as well facilitate cooperation. Mainly drawing on data recorded in the WTO framework, this paper will test corresponding theory-informed hypotheses, and demonstrate that (1) China and the EU will be hesitant to commit to economic cooperation when they fear that the other actor is an expansionist and therefore intends to exploit their willingness to cooperate; but that on the other hand, (2) they are more likely to commit to economic cooperation when they believe that the other actor is a security seeker with benign security interest and hence does not intend exploit their willingness to cooperate. The validity of these findings is ensured by data triangulation and an intense study of outlying data points.

Drawing from identified patterns of conduct, the observations regarding the development of trust between both actors, the assessment of the causal mechanisms that likely lead to the unfolding of events and the observed mutual perceptions of China and the EU, this study will finally cautiously develop multiple possible paths that EU-China Trade relations may take in the near future, depending on both actor's actual motivations as well as strategies they choose to follow according to their perceptions of each other. It is of crucial importance to gain insight into the importance of the understudied factor trust, since a "stable and healthy development of economic and trade relations lays a foundation for deepening China-EU relations" (Xin, 2017,

p.69) and it can be assumed that trust plays an important role in further developing all dimensions of the relationship.

Beyond the topical, case-related contribution to a holistic understanding of the complex strategic intertwining of both economic great powers in a changing world order and new insights into the formerly not formally treated but highly relevant factor of trust in International Relations, this study offers a heuristic surplus value to theory development in that it amends the context of the Spiral Game model's applicability outside of the military dimension of security which Kydd (2005) had developed it for, to the study of a more timely broadened understanding of security.

Keywords:

EU-China Trade Relations | Economic Security | Trust in International Relations | International Relations

Background: EU-China Trade Relations in the Light of Economic Globalization

In the aftermath of the Cultural Revolution the paramount leader of the People's Republic of China, Deng Xiaoping, initiated far reaching economic reforms that determined the fate of the country in the post-Mao era. This strategic shift continues to impact China's political strategy, development and international relations to this day. In the light of economic globalization Deng prioritized economic development, allowing for economic opening and inviting the implementation of certain market economic measures, as well as Foreign Direct Investment. Many scholars agree that this new orientation speaks to a great understanding of economic globalization and the necessity of adaptation (cf. Chow, 2006). As a result China experienced unprecedented economic growth and has become an increasingly powerful actor in the international system. Especially China's accession to the WTO in 2001 is understood as an important commitment to and step towards integration into the global multilateral trading system, which has boosted economic cooperation with the European Union (and other state actors) and has led China to become an extraordinary global economic power. Even though the EU was one of the largest opponents of China's accession to the WTO and put forward a series of strict conditions including non-trade conditions, both sides now agree that there is a very high degree of mutual dependence and that both are important partners in the WTO (Heng, 2017, 131), sharing many converging interests. It is plausible to assume that China's WTO accession was a stepping stone into the China-EU Comprehensive Strategic Partnership of 2003, and constitutes an integral part of the latter. Consequently, the EU became China's largest trading partner in 2004, while China became the second largest trading partner for the EU. According to the European Commission today both "trade on average over €1 billion a day". In 2017 the EU exported €198.2 billion in goods and another €38.3 billion in services to China. China is the EU's biggest source of imports, with €374.8 billion worth of imported goods in 2017 and another €29.6 billion in services. Even though both partners are thus highly dependent on access to each other's markets and the other's willingness to cooperate, the trade deficit has not been the only source of concern with respect to their economic cooperation:

While the initial period after the WTO accession is often referred to as the 'honeymoon period' of EU-China Trade Relations, it was followed by more pragmatism on both sides (cf. Men, 2014; Zhou, 2017). The global economic and European debt crisis undoubtedly marked a defining event in the EU-China cooperation. Even though scholar's views and interpretations vary with respect to the scope and direction of this change, it is widely agreed that the crisis had a major impact on both players' perception of each other, as well as their consequent behavior. Heng (2017) finds that the interaction between China and the EU was asymmetric before 2008 with offensive behavior of the EU and a defensive Chinese strategy, and that the relationship actually became more symmetric through the EU's relative power decline caused by several economic and political crises ("With increasing dependence on China, the EU improved its attitude towards China", p.131). Zhou (2017) finds that the crisis has brought both partners closer together, increased EU's dependency on the Chinese market and enabled new dialog platforms (p.10). Nevertheless, ever since the establishment of the Comprehensive Strategic Partnerships there have been doubts about each other's commitment to the

partnership, trade disputes and accusations of unfair policies and protectionist measures. Both sides at times seem hesitant to engage in a full-fledged strategic trade cooperation, but especially the EU. China is persistently verbally assuring the EU that it sees them as an important strategic partner and encourages increased engagement in the partnership. Some researchers are optimistic that increased interdependence will serve both actors to overcome diverging strategic interests despite acknowledging that these impose serious obstacles to the realization of a genuine strategic partnership (e.g. “China needs the EU as much as the EU needs China”, Taneja, 2010, p. 385). Heng (2017) is optimistic about future development of the trade relations and finds an increasingly positive approach of mutual assurance, when analyzing the mutual evaluation of EU and China in the WTO policy review mechanism. He nevertheless concludes that “interaction between the two sides is still very fragile on some aspects and is far from becoming mature”, and that it is not obvious that the EU has a strategic orientation towards China. Some researchers have, some even quite harshly, contested the scope of the strategic partnership and claim that (often the argument goes: due to a lack of trust) the EU and China won’t be able to establish an actual strategic partnership in the foreseeable future (cf. Holslag 2011, 2015).

Holslag (2015), among others, finds that “the deterioration of the economic relation between China and Europe is the product of a deeper economic power shift that has led to the growing politicization of economic affairs” (p.131) and hence explains economic frictions between both actors by a negative spiral of protectionism and political competition. He concludes that the risk of spiraling tensions between the EU and China might increase. Holslag therefore sees the EU and China in a security dilemma situation and possibly at the beginning of a tragic spiral: “Although neither Beijing nor Brussels has the intention to threaten the other side’s interests, and considers its own intervention in economic affairs as a very defensive policy, each perceives the other’s actions as provocative and offensive” (ibid., p.147). Heng (2017) argues contrary to Holslag that “According to the theory that trade volume is directly proportional to trade frictions, it is a normal phenomenon” that the EU and China increasingly engage in trade disputes (p.128). Heng (2017) also interprets trade policy reviews on both sides as signs of bilateral will to resolution of trade disputes. Even though, especially Chinese scholars seem optimistic about the EU-China cooperation, there has uncontestedly been a quite dynamic development including some drawbacks and difficulties that this paper will examine in detail to gain new insight in the past and future trade relations.

Theoretical Discussion

This section will provide an overview of the current stage of research conducted on the development and impact of trust in International Relations, as well as the limited amount of research that has thus far been conducted on how economic security concerns impact the EU-China relations. Furthermore, a game theoretical model, the Spiral Game by Andrew Kydd (2005) is introduced. It will be argued that amending the context of the game’s application to the context of economic security will provide a useful framework for the formally structured study of the complex causal mechanisms that impact the EU-China trade relations. It will be elaborated that the EU and China find themselves in an Economic Security Dilemma situation

constituted by the continuous learning about each other's motivations and related perceptions of trustworthiness.

Trust in International Relations

The concept of trust is frequently addressed in International Relations. It is widely recognized that trust is a key component of nation state's relations with each other, that it has a great impact on facilitating either cooperation or conflicts between states – traditionally in the context of military security. Nevertheless, the rigorous study of the establishment, development and impact of trust among states is difficult due to the soft character of the concept of 'trust'. Only few attempts have respectively been undertaken thus far to formally treat and study trust in International Relations. There is, however, an advanced theoretical foundation, that was negotiated among various schools of International Relations, which such research efforts can build on:

It is widely agreed upon that International Relations take place in anarchy. Realist theories of International Relations build on the claim first brought forward by Thomas Hobbes (1668) that anarchy and mistrust are given features of the international system and that hence security seeking states will, if necessary, pursue aggressive policies to secure themselves. In his influential structural realist theory, Kenneth Waltz (1979) has argued that state actors in the anarchical system are distinguished only by their varying capabilities and that hence contrary to liberal claims economic interdependence is not sufficient to ensure the absence of conflict between state actors. He concludes that competition and the pursuit of relative gains lead to instability and the risk of war, a mechanism which, as will be argued, is relevant with respect to economic security and trade disputes as well. John H. Herz (1950) shaped the term 'security dilemma' to describe a situation in which insecure states will pursue power to make themselves more secure, which can in turn be perceived as a security threat by other actors (cf. also Jervis, 1999, p.49). Hence international conflict can be a tragic clash between actors with fundamentally benign desires to survive. A key component of the explanation of conflict in the Hobbesian anarchy is thus mistrust caused by the insecurity about whether or not the other actor is aggressively motivated or merely pursuing its own security interests.

Even though both offensive and defensive neo-realist approaches use the idea of trust, the precise role trust plays in the security dilemma, and particularly the dynamic development of trust over time, have so far been understudied. Even in the formalized form of a model, the classic Security Dilemma Game does not take into account that "trust can be eroded through competition, even though the actors themselves are actually trustworthy" (Kydd, 2005, 44) and that on the other hand high levels of trust can facilitate cooperation despite unfavorable structural conditions. Kydd (2005) therefore develops a new approach based on the Bayesian theory of belief change which he calls *Bayesian Realism*, and a corresponding series of closely related game theoretical models in which he shows "how trust determines whether cooperation under anarchy is possible and how trust interacts with other variables, such as relative power and the costs of conflict, to facilitate or hinder cooperation" (p.28-29). Even though military security is associated with features different from economic security, e.g. it may be argued that

synergy effects are possibly easier to be achieved in economic security, whereas military security is more often understood as a zero-sum game; I argue that Kydd's framework nevertheless bares immense explanatory value for relatively new dimensions of security, economic security in particular. State actors are treated as black boxes, as usual in the realist paradigm, that engage in rational decision making, which implies that trust or mistrust do not merely 'occur', but they are shaped rationally through state interaction.

Kydd's approach to Trust in International Relations

This subsection will provide a deeper insight into Andrew Kydd's approach to trust in International Relations, because his innovative theoretical approach will function as the foundation of the framework against which the case of EU-China trade relations shall be tested by this research. While Kydd developed his approach to assess state interactions in the context of military security, one of the research goals of this study is to demonstrate that this framework still provides high explanatory value if the model is context-amended to a broader, more timely understanding of security, which will be addressed in-depth the next subsection.

Kydd's relatively new approach to trust in International Relations, even though routed in the realist paradigm, innovatively accounts for the possibility of upward spiraling, that is a positive dynamic development of trust and cooperation between states, in addition to the downward spiraling that was suggested by many scholars before. He demonstrates in fact, that both upward and downward spiraling can be captured by the same model and respective causal mechanisms. Kydd (2005) defines trust as "a belief that the other side is trustworthy, that is, willing to reciprocate cooperation, and mistrust as a belief that the other side is untrustworthy, or prefers to exploit one's cooperation"(p.3). His approach differs from other realist theories, as he assumes that, while security remains an important motivation for states, "some may be willing to pursue conquest 'farther than their security requires' as Hobbes puts it" (p.18). States can hence have mixed motivations (see figure 1). He calls states that are primarily motivated by security interests "security seekers", more aggressively motivated players "expansionists".

	State Motivations	Level of Trust
Offensive Realism	Security	Low
Defensive Realism	Security	Variable
Bayesian Realism	Mixed	Variable

Figure 1: Realist Views on Anarchy and Trust (Kydd, 2005, 14)

Kydd bases his series of game theoretical models on the classic Prisoner's Dilemma Game in which, according to offensive realism, an irreducible level of mistrust prevents cooperation, and that can be genuinely tragic, according to defensive realism and spiral modelers. He disagrees with defensive realism that there is an inherent tendency towards unjustified mistrust in International Relations (because even security seekers can be perceived as aggressive), but claims that through increased information, beliefs about the other actors' motivations tend to converge with their real motivations (p.19). Accordingly, he claims that while justified mistrust may hinder cooperation, justified trust can just as well facilitate and sustain cooperation and

thus overcome the downward spiral of self-sustaining non-cooperation. As he identifies uncertainty about the other actors' motivations, as the core of all trust problems, he designs the Spiral Game¹ in which he introduces rational uncertainty about actors' motivations, which was not formally treated in preexisting models. This uncertainty stems from historical variation on state motivations (p.18). Kydd models how states form beliefs about each other's motivations and how they behave in response to these (varied) beliefs. One of his core assumptions based on Bayesian realism is that "decisionmakers behave rationally given their beliefs and change their beliefs rationally in response to new information" (ibid.). The spiral game is hence designed as a repeated game which allows for a dynamic learning process based on increased information over time. Initial cooperation provides an occasion for rational learning, which means that it helps distinguish trustworthy from non-trustworthy actors over time. So trust can be built from observing what states do because of the possibility of separating equilibria in the model, where different types act differently. According to Kydd's approach "that the dynamics of trust and mistrust are rational phenomena based on learning by leaders rather than the product of biases, misperceptions, and lack of information about one another" (Walker, 2007, p.378), as spiral modelers and defensive realists would suggest.

The Spiral Game accounts for a number of underlying structural variables that influence player's preferences including the consideration of gains or losses associated with choosing defection, the advantages and costs of initiating a conflict, the prior likelihood that this player is trustworthy, and a minimum threshold of trustworthiness necessary for cooperation. As the Spiral Game will be in the center of my analysis, I shall now explain it in detail. Due to the restrained volume of this paper I will limit my summary of Kydd's framework to what is necessary to develop my argument, which includes the setup of the game and its implications, and excludes Kydd's calculations.

The Spiral Game

This Game is a modified version of the Security Dilemma Game, which considers two possible types of players with respect to their motivations/preferences (security seekers and expansionists), and the prior likelihood that the player is one or the other. Additionally, Kydd introduces uncertainty about each other's beliefs, by allowing each side to receive some information about the tendency of the other side's motivation prior to the game, which enables each player to modify their beliefs (p.52). Each type can thus now be defined by an additional dimension: they can be trusting (signal suggests that other is security seeker) or fearful (signal suggests that other is expansionist), depending on the information they received about the other player. Correspondingly, there are four types of players (security seeking/trusting (SST), security seeking/fearful (SSF), expansionist/trusting (ET) and expansionist/fearful (EF)) in the Spiral Game; and thus with two players there are 16 possible combinations of these players meeting. This richer set of beliefs allows us to address the concerns raised by spiral modelers

¹ It is worth noting that Kydd named the Game after the Spiral modelers who differ from defensive neorealists in their analysis of how the destruction of trust comes about and what can be done about it. Spiral modelers abandon the rational actor assumption and focus on the analysis of psychological biases. Kydd, however, finds that their theories have rational cores and models the tendency of actors with benign self-images to believe, that others perceive them as non-aggressive, in the spiral game, and hence avoids the bias towards psychological theories when arguing that states can be either security seekers or expansionist as mistrust is not necessarily a mistake anymore (Kydd, 2005, 17).

and defensive neorealism (cf. Kydd, 2005, p.54-58). Kydd moves on to calculate posterior beliefs about the state's motivations using Baye's rule and also accounts for the likelihood that the perceived signal is false. The core of the Spiral Game is that players have to consider this more complicated set of preference types in their decision making.

Each player has to make a single decision: cooperate or defect, in ignorance of the other side's choice. Additional to the Cooperative (CE) and Non-Cooperative Equilibrium (NCE), that are known from the classic Security Dilemma Game, the Spiral Game introduces the Spiral Equilibrium (SE), as well as the cooperative/spiral equilibrium (CSE²) as illustrated in figure 2.

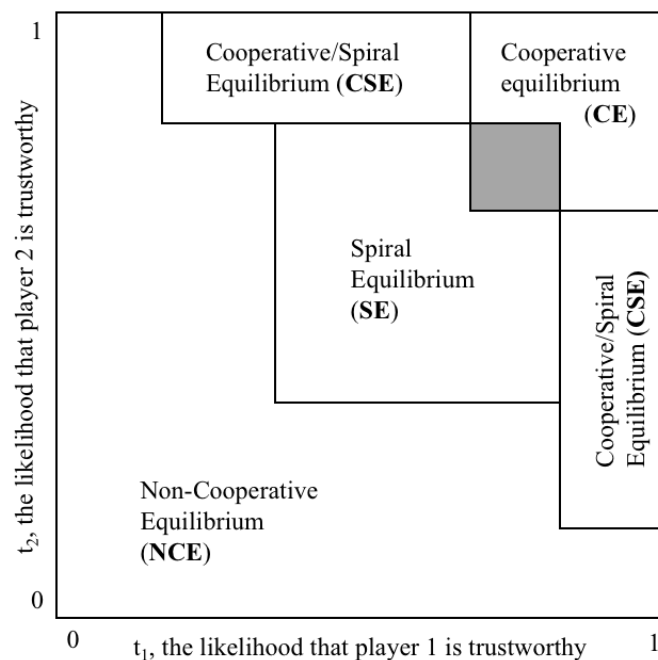


Figure 2: *Equilibria in the Spiral Game (Kydd, 2005, p.60 with added labeling)*

In the Non-Cooperative Equilibrium all four types defect, because they prefer to defect if they assume that the other side has expansionist motivations. The NCE is possible anywhere, but is the only equilibrium possible for low trust levels. In the Cooperative Equilibrium security seeking types cooperate, while expansionist types defect. SST and SSF need to trust the other side enough to be willing to cooperate, hence the minimum threshold of trust required for cooperation needs to be reached³ (p.59-61).

The Spiral Equilibrium is what provides the explanatory value of this Game, and this paper respectively, because it is an equilibrium that makes it impossible for one player to distinguish whether the other player is a fearful security seeker or an expansionist in a single round, and hence allows us to gain insight into how state actors learn about each other's preferences over time and how this gradually affects their willingness to cooperate. In the SE the levels of trust are not high enough for SSF to cooperate, and SST must be willing to cooperate even though only the SST on the other side is expected to cooperate (p.61,62). In the overlapping shaded

² Kydd only discusses this equilibrium in the appendix. As it does not contribute to this research, it will not be addressed in this paper in detail either.

³ It is derived by comparing the payoff for cooperation with the payoff for defection. Note that the CE is less likely than in the classic Security Dilemma Game, because SSF have a lower level of trust due to the information they received about the other side.

region, SSF would be willing to cooperate if they assume that the other will cooperate, hence the CE is possible.

Strategies for Each Type in the Spiral Equilibrium	
<i>Type</i>	<i>Strategy</i>
Security Seeking and Trusting	Cooperate
Security Seeking and Fearful	Defect
Expansionist and Trusting	Defect
Expansionist and Fearful	Defect

Figure 3: *Strategies for Each Type in the Spiral Equilibrium* (Kydd, 2005, p.62; own presentation)

In the NCE beliefs about each other's motivations don't change, because all types pool on the same strategy and posterior trust goes to zero. In the CE posterior trust equivalently goes to one. So posterior trust is always perfect or non-existent in the classic Security Dilemma Game. Kydd shows that thanks to the possibility of the separating Spiral Equilibrium, if a player defects the other is still uncertain about their motivations/preferences. In case of defection, trust declines, but is not set to zero if there is any chance that the other could still be a security seeker. Hence spirals can occur between perfectly rational actors and do not depend on psychological biases or misunderstandings (cf. p.66). However, Kydd points out that these spirals are unlikely to occur between genuine security seekers as the beliefs about the others' motivations will tend towards their real motivations as information increases over time (if we repeat the game, and defection reoccurs the trust level will soon tend towards zero) (p.67). He also draws implications on how these implications of the model should influence an observers' beliefs about the players' preferences, which will be implicitly used to derive this paper's hypotheses and subsequent analysis. Kydd originally uses his series of models on trust in International Relations in the context of military security, and applies it to the Cold War in particular. However, this paper claims and will demonstrate by this study that this framework and rational holds high explanatory value for the context of this case study, which is economic security. As Kydd points out the labeling of cooperation and defection in the game is contextual. I will thus elaborate on the applied definition of cooperation and trust in the subsection on conceptualization.

A Changing Definition of Security: From Military to Economic Security

The framework by Andrew Kydd has, as most academic work in the realist paradigm, been developed to study nation states' relations in the context of the consideration of military security goals and concerns. It is, however, widely agreed that since Francis Fukuyama famously declared the "end of history" in 1989 the international system has been undergoing dramatic changes. The distribution of power that had been assumed to remain stable and in favor of western liberal democracies before, has been altered in favor of emerging great powers. Almost 30 years after the "end of history" scholars observe the emergence of a multipolar system in which western liberal democracies, that have thus far dictated the norms and practices of the global system, experience a relative decline in terms of power and influence respectively and in which new emerging powers, especially China, gain significantly in power and influence,

increasingly allowing them to introduce their own narratives and contest the status quo. Consequently, all global players find themselves in a position of relative insecurity, in which they have to re-evaluate their global strategies and face new dimensions of security concerns. Waltz (1993) has argued that in the post-cold war world order nuclear weaponry solves the credibility problem since no actor can use their nuclear weapons anymore as this entails the risk of their own destruction which would be irrational behavior. A nuclear world can thus be considered a geopolitically stable world in which military security concerns hence become obsolete. As the sheer geographical survival of the state can now be regarded as given, states can focus on economic prosperity and hence military security concerns are substituted by economic security concerns in an ever more economically interdependent world – which is particularly true regarding the EU and China given that they constitute each other's most important trade partners and do not pose direct military threats towards each other.

In its 1993 White Paper, "Growth, Competitiveness, Employment – the Challenges and Ways Forward into the 21st Century", the European Commission acknowledges that after the end of the Cold War new and broader notions of security have evolved beyond those of military threats. States' security concerns now include more and different areas, such as economic security which according to Geeraerts and Huang's (2016) definition "relates to the strategic ability of states to maintain and develop their socio-economic system of choice and their relative economic power position under conditions of anarchy" (p.3). Sperling and Kirchner (1995) add more components to this definition, including "the ability of the state to foster a stable international economic environment in order to extract the welfare gains of openness while minimizing the potentially negative consequences for national welfare flowing from a loss of policy autonomy" (p.22). This research considers both the states' goals concerning its own economy as well as developments in the international economic environment as underlying mechanisms that motivate all actors to evaluate whether other states are following benign economic security concerns or are motivated more aggressively. Corresponding to what has been argued, it can be assumed that it is one of the state's core strategic interests to uphold their levels economic security, and economic power has become the new currency of power in the international system.

It shall once more be highlighted that the European Union and China do not impose a direct military threat to each other. In fact, both actors collaborate in multilateral institutions, are among each other's most important partners in trade and have committed to a comprehensive strategic partnership. However, what is frequently underconsidered is that the absence of imposing a military threat towards each other does not mean that China and the EU are not concerned about relative power positions in the international system – merely the interaction and context has shifted from the military to the economic dimension of security. As I will show later in the analysis systemic changes such as the shift of relative power positions towards China in the light of the global economic crisis, can have and have had an external impact on the development of trust in so far as these shifts increased the threshold of levels of trust needed to trigger cooperation.

Therefore it can be argued that the EU and China find themselves in what appears to be an Economic Security Dilemma, characterized by high complexity due to the high level of

interdependence of both actors. EU-China trade relations constitute a challenging balancing act between cooperation and competition. As Geeraerts and Huang (2016) note accurately, “In the interconnected global environment, economic power and prosperity, access to resources, and cutting-edge technologies are defining both power and vulnerabilities, turning competition in these areas more and more into a securitized game” (p.4).

With converging and diverging strategic interests related to economic security, and the additional insecurity induced by the evolving international system with shifting power distributions, there are many factors that could possibly encourage mistrust: Fearon (1995) argues that rationalist explanations for defection, and thus a source of such mistrust, can be caused by the incentive to misrepresent information about one’s preferences or capabilities or keep them private in order to uphold a competitive advantage and negotiate for the best possible outcome (p.390-401), which is likely a factor in the case of EU-China trade relations in the Economic Security Dilemma. Another problem he addresses is the difficulty to reach credible commitments under anarchy (p.401-408) which is in line with Jervis’ (1978) argument that mutual cooperation is fostered by “anything that increases each side's expectation that the other will cooperate” (p.171) and which Kydd (2005) demonstrates in a more nuanced manner. Jervis has furthermore argued that mutual cooperation under the conditions of anarchy becomes more likely when (1) incentives to cooperate are increased by increasing the gains of mutual cooperation and/or decreasing the costs of being exploited; and when (2) incentives for defecting are decreased by decreasing the gains of taking advantage of the other and/or increasing the costs of mutual noncooperation (*ibid.*). This will be considered in the following analysis.

As has been discussed before, the increased dependency on China as an export market and additional economic security concerns triggered by China’s unprecedented economic rise, are a plausible source of the EU’s increased economic security concerns. But the stakes are also high for China: The concern of not being able to maintain and develop their socio-economic system of choice and their relative economic power position in the global order, is directly related to the threat of a potential domestic political crisis due to social discontent. It is widely agreed that much of the Chinese Communist Party’s legitimacy steams from the outstandingly successful economic rise and international establishment of China as an economic great power since the Deng Xiaoping era. To secure economic development, stability and resilience, is therefore without doubt a top priority for the Chinese leadership and any factors able to compromise these goals are to be considered a source of serious concern (cf. ‘performance legitimacy’, Zhu, 2011; Holbig & Gilley, 2010; Yang & Zhao, 2015).

In the following the rationale and formal models developed in Kydd’s theoretical approach as elaborated in the previous subsection shall be used as a framework to study the EU’s and China’s conduct in the Economic Security Dilemma in order to test whether the causal mechanisms proposed by this approach provide explanatory value to the study of this timely challenge in international cooperation. By formally treating the concept of trust this study succeeds to capture the dynamic development of trust and trade cooperation between the EU and China in a structured manner that allows to identify patterns and mechanisms that can in turn be used to cautiously outline possible future developments of their relationship. Much of

the (English-written) research conducted surrounding the puzzle of how to overcome trade frictions between these economic great powers is rather Eurocentric, often focusing on how the EU ought to protect its market from the rising China. This research paper offers a new, I claim more balanced, perspective that recognizes that the perception of both actor's protective measures and strategies in the eyes of the other matters. It takes into account that in fact merely benign actions can be perceived as aggressions by either actor because of their rational economic security concerns and the insecurity inherent in the changing international system. Due to the limited space of this paper this analysis will focus on the trade dimension of EU-China economic relations, as trade defense and trade disputes are well documented and serve well to observe the studied underlying mechanism. However, it should be noted that the effects of this challenging situation, in which the EU and China balance competition and cooperation, expand well beyond trade to related issues such as investment, finance, innovation, research and development.

Research Question and Hypotheses

As pointed out above, trust has always played an important role in understanding conflict and cooperation between states in the anarchical international system. By formally treating the concept of trust and placing it in the core of analysis, this study sheds light on a factor in EU-China cooperation that has so far been considered important, but has nevertheless been understudied. In contrast to the classic Security Dilemma Game, the here applied framework of Kydd's (2015) Spiral model considers a more realistic situation in which trust is not either perfect or non-existing, but develops dynamically, rationally and more nuanced in a learning process. Relating to this rationale this paper's research question reads as follows:

In how far does the dynamic development of the level of trust based on beliefs about each other's motivations impact the European Union's and China's willingness to cooperate with respect to their trade relations?

It is helpful to briefly revisit the core assumptions of this research that can be derived from the introduced theory, with Kydd's (2005) Spiral Game at core, in order to deduce testable hypotheses:

- The EU and China face a delicate balancing act between cooperation and competition, given their respective economic security concerns.
- Benign protective actions may be perceived as aggressions that call for retaliation.
- Mutual perceptions of trustworthiness alter the commitment to their trade relations.
- The mutual perceptions of trustworthiness develop dynamically in a learning progress; the key events will be treated as rounds of the same game.
- Costly actions have a greater effect on perception of trustworthiness than diplomatic parlance.
- Both upward- and downward-spiraling of trust and cooperation are possible.

In line with these assumptions and their implications, the following theoretically informed hypotheses shall be tested in this case study:

H1: The EU and China will be hesitant to commit to economic cooperation when they fear that the other actor is a non-trustworthy expansionist and therefore intends to exploit their willingness to cooperate.

The underlying theoretical claim is that defection decreases trust which makes future cooperation less likely.

H2: The EU and China are more likely to commit to economic cooperation when they believe that the other actor is a trustworthy security seeker with benign security interests and hence does not intend to exploit their willingness to cooperate.

Here the underlying theoretical claim is that cooperation increases trust, which makes future cooperation more likely.

Research Design: Methodology, Conceptualization and Data

In the following I will discuss in detail and justify the methodological approach, conceptualization of key concepts and selection of data that is deemed most beneficial to assess the research question and hypotheses developed above. This paper examines the EU-China trade relations as a single case, within-case study using the method of theory-guided process tracing (TGPT) which is “the temporal and causal analysis of the sequences of events that constitute the process of interest” and builds on the assumption that “in these temporal sequences of events, their order is causally consequential” (Falleti, 2006, p.457; Aminzade, 1993). This qualitative approach allows for an in-depth exploration of this case and the underlying causal mechanisms at work. It is used “to uncover what stimuli the actors attend to; the decision process that makes use of these stimuli to arrive at decisions; [and] the actual behavior that then occurs” (George & McKeown, 1985, p.35). The reconstruction of the intertwined development of actors’ mutual perceptions of trustworthiness in relation to their actions over time, which is acquired through process tracing will be used to test the hypotheses put forward by this research. Due to the space and time limitation of this paper, the testing of a particular model in form of theoretically informed hypotheses is chosen over a free exploration of possible causal mechanisms. Few or weak evidence against the hypotheses would speak for the explanatory value of this theoretical model and hence the applicability of the causal mechanism proposed by Kydd (2005) in the context of a broadened understanding of security reaching beyond its original intent. This is deemed legitimate as special attention is accordingly paid to data contradicting the proposed theory, and indicating that the hypotheses should be falsified, thus making use of a unique advantage of process tracing as a methodological approach: The in-depth study may allow to suggest new causal mechanisms and hence alternative hypotheses.

The decision to proceed in this manner is further supported by Mahoney's (2016) understanding, shared by the author of this study, that an implicit Bayesian logic is at the heart of process tracing. He argues that "the key to [...] falsification is not the number of pieces of data or the proportion of 'misses' that count against a hypothesis. Rather the key is the decisiveness of the data in casting doubt on explanations" (p.496). Accordingly, data triangulation is considered an appropriate means to improve the researchers judgment and to reduce the risk of 'confirmation bias' (cf. Ulriksen & Dadalauri, 2016, p.236). The weight of information that can be gathered for each data point can thus be understood as a measure of validity. The pieces of evidence in process tracing studies can stem from more and less reliable sources and contain more explicit or implicit information with respect to the process under consideration, e.g. diplomatic parlance that needs to be handled with care as it is subject to the researchers evaluation and weighing, as well as contextual judgement vs. explicit and unambiguous expressions and actions, such as the formal issuing of complaints. The likelihood, sequence, and testimonial character of evidence as well as the condition of previously incorporated evidence shall be guidelines as to how prior belief in a given hypothesis shall be updated (cf. Fairfield & Charman, 2017). The analysis will explicitly point out outlying or implausible data points and elaborate intensively at such occasions.

The causal mechanisms in this process are based on nuances of trust and perception which are 'soft' constructs that are difficult to measure. Using the formal model of the Spiral Game as a theoretical background to analyze this case is particularly useful because it defines clear assumptions, makes logical connections between these assumptions and derives claims that can be tested empirically. This provides a framework in which such soft constructs can be measured more standardized. Using a game theoretical model with process tracing is feasible, increasingly common practiced, and beneficial, since as argued by Lorentzen et al. (2017) formal models and "process tracing share an underrecognized affinity – a focus on causal mechanisms" (p.468). The definition of the nature of such causal mechanisms and how they are to be measured accordingly, is surprisingly inconsistent in the current state of research. The author of this paper is strongly supporting many scholars who disagree with the idea suggested by King et al. (1994) that mechanisms are equivalent to intervening variables. Instead, this study is following Falletti's (2006) understanding that "causal mechanisms should identify relationships between conditions and outcomes that can be applied to other contexts" (p.5), which further constitutes the methodological advantage of TGPT for a lack of alternative research methods to investigate this level of causal complexity.

In figure 4 I develop a visualization of the process that shall be traced, in order to illustrate how the causal mechanisms, as suggested by the formal model discussed above, as well as behavior and respective mutual perceptions are interconnected. The initial signal according to Kydd (2005) must have led both actors to agree to an initial act of cooperation – I argue that we observe this key act of cooperation in China's WTO accession in 2001. In the following, the chronological unfolding of key events related to EU-China trade relations are observed. An actor's behavior is observed by the other actor which impacts their perception of trustworthiness of the first, which again leads to behavior and respectively perception by the other actor, etc. The causal mechanism under observation is the learning process and whether the behavior at any given time matches the previously established perceptions of the other in a way that the

context-amended Spiral Game model would predict – or not. The following analysis will trace the process along these key events in order to collect data that will finally be used to falsify or support the hypotheses – as well as to suggest alternative influences to further the theoretical development and enhance the validity of this study’s findings.

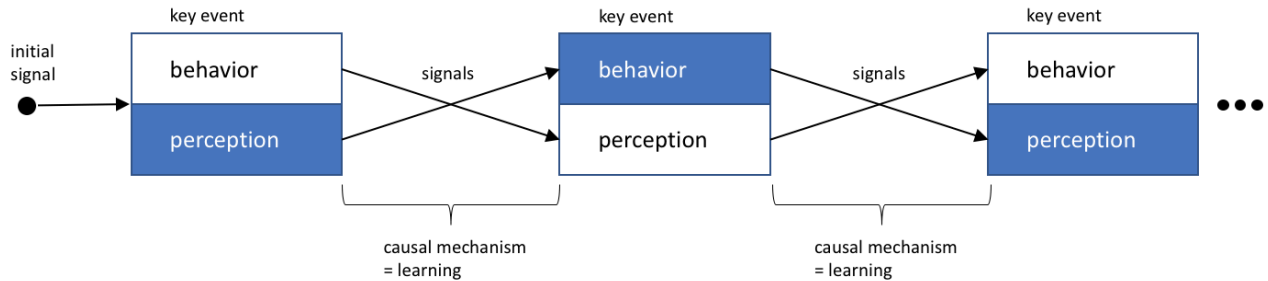


Figure 4: Illustration of the Process Model (developed by the author). Each color (white, blue) is representative of one actor. The process may entail any number of key events.

Finally, it should be noted that the analysis will necessarily weigh its focus toward the European perspective. This is necessary partially due to research practical reasons such as the limited amount of data provided by Chinese authorities in English. However, it should be noted that this circumstances’ impact will not compromise the quality of this study, since according to the theory under scrutiny, China does have reason to believe that EU is a security seeker and thus highly trustworthy – it’s judgement of the EU’s motivation should remain rather stable over time. Kydd (2005) himself argued that “security seekers tend to be liberal democracies and non-democracies with limited aims and capabilities” (p.203); China, however, is a non-democratic actor that experienced a drastic increase in capabilities over the time period relevant to this examination which leaves reasonable doubt for the EU to take into consideration that China may be expansionist. Therefore, changing perceptions of trustworthiness are more likely to have occurred in the European Union, and the reasoned focus of analysis is functional and legitimate. Nevertheless, special attention is paid to avoid taking a Eurocentric stance as elaborated in the theoretical discussion relating to the China and the EU in the Economic Security Dilemma. The Chinese perspective, particularly interaction, perception, reactions and relevant signals are of course relevant and included in the analysis as far as they are accessible. This is one of the reasons why this study relies heavily on data produced in the multilateral WTO framework, which will be further discussed below.

Conceptualization

The labeling of cooperation and defection in the Spiral Game rationale is contextual. It is therefore important to line out a clear conceptualization of cooperation and defection, as well as the concept of trust for this specific case study of EU-China trade relations in the Economic Security Dilemma.

Following Keohane (1984) cooperation is here defined in contrast to harmony, meaning that cooperation “requires active attempts to adjust policies to meet the demands of others. That is, not only does it depend on shared interests, but it emerges from a pattern of discord or potential

discord. Without discord, there would be no cooperation, only harmony” in which converging interests simply outweigh conflicting interests (p.12). From this definition it becomes clear that cooperation therefore requires mutual adjustment of state behavior to actual or anticipated preferences of the other partner. This is particularly difficult in situations of great uncertainty and limited information – then “obstacles to collective action and strategic calculations may prevent them from realizing their mutual interests” (ibid.). Given the understanding of the Economic Security Dilemma presented above, it becomes clear that this is a such situation of great uncertainty. Due to the high stakes that determine both actor’s strategies, it is furthermore likely that both actor’s assume that disclosed information about each other’s true preferences is limited (no matter if this is actually true, here the perception matters). Failure of cooperation (as willingness to adjust to each other’s preferences) is “discord: a situation in which governments regard each other’s policies as hindering the attainment of their goals, and hold each other responsible for these constraints” (ibid., p.51-52). Discord is what can be observed in the non-cooperative equilibrium and spiral equilibrium of Kydd’s Spiral Model. In the case of EU-China trade relations non-cooperation (or defection) hence does not mean that there is no trade or no relationship between the EU and China, which would be unrealistic in the highly interdependent international order. Non-cooperation means a rejection of mutual adjustment of policies to meet the partner’s demands and preferences. Here ‘cooperation’ includes for example improving market access or removing trade barriers and trade defense (anti-dumping, anti-subsidy and safeguard measures; EC, 2013). ‘Defection’ on the other hand includes behavior that rejects to adapt to the other actor’s demands or are potentially harmful for the other actor, such as imposing protectionist measures, trade barriers, initiating trade disputes or complaints in the framework of the WTO, which by definition speak to the opposition to the other’s preferences.

Another relevant construct that requires precise definition is trust. Following Hoffman’s (2002) suggestion, it should be emphasized that the “mere presence of cooperation is an unreliable indicator of trust. Trusting relationships are special forms of cooperation involving discretion-granting policies and leaders that view one another as trustworthy” (p.384); therefore “trust implies a willingness to take risks on the behavior of others based on the belief that potential trustees will ‘do what is right’” (p.375). This willingness to take risks will be limited if the other is perceived to be not trustworthy, that is if the actors is suspicious that their partner is likely to exploit them. The danger of misplaced trust is what causes security concerns as actors fear exploitation. It is widely agreed that “danger of misplaced trust can be alleviated, but not eliminated, by improving the amount and quality of information actors have about one another” (Hoffman, 2002, p.379; cf. also Giddens, 1988; Hardin, 1993; Luhmann, 1979). This is also found as a foundational premise in Kydd’s Spiral Game framework since the learning process is a means of gathering information about each other’s motivations over time which ultimately allows the actors to reach more valid judgements to base their respective actions and strategies on. According to Kydd’s model, perceptions of trustworthiness are equivalent to believes about the other’s motivation. A good indicator for the perception that the other actor is not trustworthy, and according believe that their motivation may not benign, are accusations of unfair conduct, particularly when they are brought up formally, e.g. in the WTO trade dispute settlement mechanism. High levels of transparency, few accusations and voiced suspicion about lack of transparency, on the other hand, are an example of an indicator for trustworthiness as

they are likely an expression of willingness to increase information which in turn decreases the danger of misplaced trust for the other actor – therefore letting the first appear more trustworthy in the eyes of the latter.

Trust “includes trustors’ perceptions that their trustees have a responsibility to fulfill the trust placed in them even if it means sacrificing some of their own benefits” (Hoffman, 2002, p.379; cf. Barber, 1983; Hollis, 1998; Kegley and Raymond, 1990; Lieberman, 1967). Sending *costly* signals is an effective way of demonstrating the willingness to sacrifice own benefits or take risks, and therefore make an actor appear more trustworthy. If too little risk is attached to these signals, that is they are not very costly, they are unlikely to change the perception of the other actors (cf. Kydd, 2000, p.326). Reassurance in form of costly signals can thus help actors overcome mistrust and establish or improve cooperation (cf. *ibid.*, p.353): Diplomatic parlance reflects the actor’s strategy and accordingly what the speaker believes to be most beneficial for him to say, given his assumptions about the other actor’s perceptions of trustworthiness of the speaker; (costly) actions on the other hand imply that the actor has indeed followed through with either cooperation or defection – hence there is less insecurity.

On a side note I would like to highlight that this conceptualization accounts for a factor that is often neglected in Western research, namely that concepts and understanding often differ between Western, Asian and other cultural settings, which can even lead to substantial conceptual gaps and consequently how mechanism work in one cultural context may not transfer exactly to another cultural context (cf. Pan, 2012; Michalski & Pan, 2017). I argue that there is sufficient proof to assume that the measure of costly signaling is used not only by the European Union and other Western actors but in a similar manner with similar intent by China. *Guanxi*, a concept deeply rooted in the Chinese culture, suggests that China has a similar understanding of the importance and impact of costly signaling to build (trade) relationships (cf. Gold, Guthrie & Wank, 2004) – which can be understood as social connections on state level. We should in fact bear in mind that the “notion of reciprocal obligation and indebtedness is central to the system of *guanxi* in China” (*ibid.*, p.7), which lends credibility and sincerity to China’s efforts to cooperate as a means of establishing trust and introducing an upward-spiral for economic relations with the EU.

Data

The critical juncture for the data used in this research paper is constituted by China’s WTO accession in 2001 which is also considered the initial costly signal, which as elaborated above, kick-started the process traced in this study. In order to ensure high quality, the analysis aims to include as many relevant data points as possible. In order to develop a holistic picture of the sequence of events and perceptions, the research relies on different data sources to triangulate. The analysis heavily relies on WTO documents as they are deemed particularly valuable resources of data to this research for various reasons: The WTO data constitutes a unique and recurring public record on formal complaints and reviews of trade policy that can be observed over time. It entails well-prepared statements worked out by experts that reflect the actor’s perceptions and are representative of the actor’s knowledge, judgement and policy intentions

at each given point of evaluation. The statements are addressed directly towards each other, while being issued in a neutral, multilateral forum which follows a standardized formal pattern and is repeated in a standardized manner. Therefore bias towards either party is limited and data from different points in time is reliably comparable. Furthermore, it should be noted that opinions voiced in this forum still impact and stem from experiences in bilateral relations between that two actors, but the additional presence of a neutral third party (WTO) is likely to impose an additional layer of accountability as well as a higher stake for the speaking actor, therefore the data may be more relevant, reliable and reflective of the actors actual preferences and perceptions, than data produced in bilateral diplomatic meetings. Using WTO data published in English furthermore helps overcome the lack of directly comparable data equivalent to European documents published by Chinese authorities in English language.

The primary source of data are WTO documents produced in the Trade Policy Review (TPR) Mechanism, which is a multilateral platform in which member states express critiques and opinions on the trade policy, economic development and practice of other members, on a regular basis. The WTO TPR statements of China and the EU, in which they review each other respectively, will be analyzed with respect to their voiced concerns on their respective behavior in the bilateral and multilateral trade relationship. Thereby the development of mutual perceptions of trustworthiness and willingness to cooperate can be traced over time. Furthermore the scope of the stated converging and diverging strategic interests concerning economic security is revealed which provides valuable context information for judging these diplomatic statements. The coding guidelines for this assessment including examples can be found in the appendix.

Another type of data that this research will rely on are protocols of and statements about trade disputes, particularly formal complaints that are subject to the WTO Trade Dispute Settlement (TDS) Mechanism (e.g. anti-dumping cases). These statements are unambiguous indicators that an actor's behavior is perceived as non-cooperative, since discord could not be resolved by either partner's willingness to adjust their policies according to their partner's preferences. They furthermore potentially imply an intent to increase the use trade defense instruments, which is an indicator of mistrust reflecting economic security concerns. Other data that will be used in order to test the validity of these findings by data triangulation include Trade Defense Instrument (TDI) reports, current trade policy documents by both actors, and trade policy reviews as well as policy recommendations by government bodies and related institutions. In order to support my findings I will furthermore highlight relevant related findings that have been established by other scholars.

Analysis

This analysis assess and connects the unfolding of events over time based on the very stimuli that the actors under examination were exposed to when forming their believes about each other's motivations on which they based their strategic decisions concerning economic cooperation. It tests whether the actual behavior that occurred matches the blueprint of a process

that would be predicted by the theory and respective hypotheses presented above (cf. also Falleti, 2006, p.4). Upon careful review the key events were clustered into four periods of time that showed internal consistency as well as substantially different interaction from other periods (for overview see figure 5). Such key events include the WTO accession, trade disputes, implementation or removal of protective market measures, trade policy revisions, the economic crisis, the change in Chinese leadership etc. They are treated as rounds in the Spiral Game rationale. Each key event allows for an increase in information about each other's motivation hence the level of trust and cooperation is to be adjusted for every round of the game.

For every period an assessment is conducted as to in how far the findings support the theory-informed hypotheses. A frequent occurrence of defection in the EU-China trade relationship would suggest that levels of trust decline over time, and that if both actors fail to credibly appear as security seekers to each other, and respectively appear aggressively motivated instead, the odds of cooperation in the economic context sink. This downward-spiral could theoretically ultimately lead to a failure of the trade relations, which again is practically unrealistic, because there are other factors to consider. On the other hand we would expect that a frequent occurrence of cooperation, that is a proof of the willingness to adjust one's policies to accommodate the other actor's needs, will lead to an increase in the levels of trust and will ultimately foster economic cooperation, which constitutes an upward-spiraling process – a possibility that many scholars have thus far underconsidered.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
‘Honeymoon Phase’							Crisis Years		Aftermath of the Crisis: Power Struggles				New Future Ways			

Figure 5: The four periods of current EU-China Trade Relation, pivotal years highlighted in blue; own classification and presentation.

The Honeymoon Phase: From Accession to Crisis (2001-2007)

The first years after China's WTO accession are often referred to as the Honeymoon Phase of China-EU economic relations, preceding a period of more pragmatism on both sides (cf. Men, 2014; Zhou, 2017). In the negotiations around China's WTO accession the EU was one of the actors that uttered the strongest opposition and put forward strict requirements. It is thought provoking that only two years later both actors had established levels of mutual trust that were high enough to allow for the establishment of the Strategic Partnership in 2003. I argue that this was possible, because both actors trusted each other enough to be willing to risk the misplacement of trust, because the potential benefits of successful long-term cooperation were outweighing the potential costs. This initial level of trust was established by the actions leading up to China's WTO accession in 2001, which can be understood as a costly signal to the EU that China was willing to take on the responsibilities of commitment to membership in the multilateral trading system and to comply with the WTO regulations. China was respectively likely judged as “trustworthy, that is, willing to reciprocate cooperation” (Kydd, 2015, p.3) and

hence perceived as an economic security seeker by the European Union. The earlier claim that China is likely to believe that EU is a security seeker, and thus highly trustworthy, is supported by the data this analysis is based on: the assessment of all WTO TPR comments by China reveals that China has constantly perceived the EU as (very) trustworthy, with one exception in 2013 which will be discussed later (for a graphic overview of the complete assessment see also figure 7 and 8, p.27). The initial trust levels were thus high enough to kick-start the game of a substantial trade relation.

As a new member China's trade policy was only reviewed once in this period of time (in 2006), while the EU was reviewed in the usual interval (2002, 2004, 2007). The tone of both actor's comments on each other's trade policies was outstandingly friendly and optimistic in the first phase, especially if compared to later periods, which demonstrates confidence in the other partners actions ('to do the right thing') and suggests that both perceive each other as relatively trustworthy partners during this phase. Both actors voice mild concerns about the use of different TDI and demand further liberalization. In 2006 the EU complained that China's efforts to comply with WTO standards were insufficient (lack of cooperation), but acknowledges that China is a relatively new member and is therefore willing to judge relatively leniently. Neither of the comments in the TPR mechanism in this phase uses very critical language – on the contrary increased bilateral cooperation and improved relations are often emphasized.

Furthermore, it should be noted that there are barely any formal complaints submitted to WTO TDS, besides one case filed by the EU in 2006 (DS339 – China Auto Parts). This finding suggests that trade disputes that have occurred in the early years after China's WTO accession could be resolved in bilateral dialogs or were not perceived as severe enough to issue a formal complaint. Hence levels of mutual perceived willingness to cooperate remained high.

In this period we can observe what we would expect, namely that mutual perceptions of benign motivation, that is high levels of trust assigned to the respective other partner, lead to cooperation, which again leads to high levels of initial trust at the beginning of the next key event. This first identified period constitutes an upward spiral, kick-started by a costly action on behalf of China, in which both actors share an optimistic view that economic cooperation will be fostered and expanded. There were complaints that full compliance with WTO regulations is not reached by either side, which reflects the actor's willingness to cooperate, that is the willingness to make adjustments to accommodate the other's preferences. This does, however, not automatically mean that defensive actions are perceived as aggressive by the other partner, as defensive neorealist scholars and spiral theorists would suggest. On the contrary: During this first phase of EU-China trade relations after China's WTO accession it appears that the development of mutually beneficially and trusting trade cooperation is possible. The data collected thus supports the second hypothesis: China and the EU are likely to cooperate during this phase because they perceive each other as benign security seekers and hence trustworthy.

The Crisis Years: A Game Changer (2008/2009)

After this initial phase of optimism and upward spiraling, the years of the global economic and European debt crisis constitute a pivotal point in the EU-China trade relations. Relative power positions in the international system as well as economic dependence shift towards the newly emerged resilient economic great power, China. First indications of a possible downward spiral

appear. As opposed to the previous pattern, the EU's comment on China's TPR now states that growing tendencies in trade defense are observed (WTO, 2008, p.18), which indicates a lack of willingness to cooperate in the EU's perception and can be explained by China's growing consciousness over its newly gained leverage and power. The language used nevertheless suggests that the EU is remarkably more invested in pampering China than it was before, amongst others China's "constructive engagement to solve frictions" and the positive effects of their dialogue mechanisms are emphasized (ibid., p.17) – speaking seemingly contradictory to China's willingness to cooperate. This ambivalent finding, which is therefore at average assigned a neutral value in the evaluation of perception of Chinese willingness to cooperate, can be explained by the inherently climaxing struggle of the balancing act of cooperation and competition between both actors during the crisis years. China's financial support of the European Union during the economic crisis in "the form of direct investments and portfolio investments in sovereign bonds of EU states under economic distress" (Shi, 2016) is a highly costly action with great potentials to foster trust. In contrast to mere diplomatic parlance the costs related to these measures increase the impact of this action on the EU's judgement process, because they are proof that China has indeed followed through with their intention to cooperate – hence the insecurity inherent in the system is decreased. However, China's unique economic resilience in the crisis, the respective power shift towards China and increased European dependency on China as an export market have at the same time unintendedly and unavoidably increased the EU's economic security concerns to be exploited in the future. Therefore the levels of trust needed to trigger cooperation on the European side have likely increased during the crisis years as well. It would have been assumed that according to the theoretical framework applied here, China would manage to successfully boost levels of trust through this costly signal and hence facilitate cooperation. Kydd's model does, however, not account for variable power positions or changing motivations, as well as increased economic security concerns due to increased insecurity in the international system during the crisis years. Even though the author of this study is aware that no model can perfectly depict 'reality' without becoming invaluable *per definitionem*, it is suggested that these shortcomings should be subject to future research and modeling (see also outlook section). It should be noted that the general framework amended by the possibility of variable power positions or motivations due to a changing international system, proofs to provide great explanatory value for this case study to this point.

China's 2009 TPR comments suggest that China is well aware of the EU's insecurity as they emphasize that "China and the EC enjoy very close economic ties" as well as the EU's commitment to the multilateral trading system ("left a deep impression on us", p.20) in an almost unconvincingly exorbitant manner – but nevertheless suggests that China continues to perceive the EU as a trustworthy partner. On the other hand China brings forward serious accusations relating to "more and more constraints on trade" that the European Commission "created" (China, 2009, p.21), as well as anti-dumping measures targeting Chinese exports, urging the EU to comply with WTO requirements. These accusations are an indicator that China is not quite satisfied with the EU's willingness to cooperate anymore. This finding can be understood as harbingers of TDS cases that China starts issuing from now on (first in 2009: DS297 Iron Steel Fasteners) which are often motivated by outright retaliation (Zhou & Zhang, 2017), which is clearly toxic for the development of mutual trust. In the case of the Iron Steel Fasteners Dispute, for example, anti-dumping measures were first initiated by EU leading to

China's TDS case, but China followed up on protective measures which in turn led to the issuing of formal complaint to the WTO TDS by the EU concerning the same issue in the following year, 2010. This remarkable dynamic, I argue, is a clear sign of a power shift towards China, as well as China's awareness of and willingness to use its newly gained relative global power position. The crisis years kick-start a period of substantially increased numbers and frequency of TDS procedures – with numbers virtually exploding from one complaint by the EU between 2001 and 2007 to one or two complaints per year, now filed with almost equal frequency by both partners (see figure 6).

According to the first EU-China Power Audit published by the European Council on Foreign Relations in 2009 observers still had high hopes for “reciprocal engagement”, but suggested applying the principles of “reduction and reciprocity, relevance and realism” to EU's China policy (Fox & Godement, 2009, p.12-13). This supports the findings that the European perception started to trend towards a more pragmatic China approach, but that the perception of China's trustworthiness nevertheless still remained relatively high.

Year	Name	Short Description	Complaint by
2006	DS 339	Imports of Automobile Parts	EU
2008	DS 372	Financial Services	EU
2009	DS 297	Iron Steel Fasteners	China
2009	DS 395	Export Raw Materials	EU
2010	DS 405	Footwear	China
2010	DS 407	Iron/Steel Fasteners from EU	EU
2011	DS 425	X-Ray Security Inspection Equipment	EU
2012	DS 432	Export Rare Earth	EU
2012	DS 452	Renewable Energy Sector	China
2013	DS 460	HP-SSST (High Performance Stainless Steel Seamless Tube)	EU
2015	DS 492	Tariff Concession Poultry Meat	China
2016	DS 509	Raw Materials II	EU
2016	DS 516	Price Comparison Method	China

Figure 6: Overview of TDS complaints between the EU and China (2001-2016); own collection and presentation.

To recapitulate, the mutual levels of trust were clearly affected by the insecurity introduced by power-shifts in a dramatically shifting international economic and political order, and experienced a slight decrease on both ends as compared to the ‘honeymoon period’. Nevertheless, due to costly signaling and high initial trust levels, the mutual perceptions of trustworthiness remained relatively high throughout the crisis years, leading to the levels of mutual perceived willingness to cooperate remaining rather high as well. This finding is in line with the reasoning of Kydd's Spiral Game framework and supporting the second hypothesis.

The Aftermath of the Crisis: Power Struggles (2010-2013)

Triggered by the uncertainties and relative economic and political power-shifts of the global economic crisis years, EU-China relations experienced a period of power struggles, rebellion and suspicion in the aftermath of the crisis. This is amongst others clearly reflected in language shifts in diplomatic documents of the time: What was still called “subsidization of state-owned enterprises” in the 2008 TPR comment by the EU (WTO, 2008, p.18), became “discriminatory state intervention” in 2010 (WTO, 2010, p.20).

Nevertheless the overall assessment of the 2008 TPR is on average rather neutral, as the EU acknowledges China’s resilience in the crisis and its importance as an export market. The comment highlights that European companies “remain confident about China’s market in the future” (p.6), which is an indicator that trust levels remain relatively high in the beginning of the ‘aftermath period’ even as “serious systemic concerns” (p.19) are starting to be voiced regarding China’s performance with respect to information and transparency. Likely due to the relatively high initial trust levels at the beginning of this round of the game, China is still perceived as relatively trustworthy while the perception of its willingness to cooperate is clearly declining.

China’s TPR comment in 2011 suggests a different perception of the state of economic relations from the Chinese side: While they are remarkably less optimistic about the EU’s performance during the crisis than in the last 2009 TPR (WTO, 2011, p.20), China is still ‘applauding’ the EU for not increasing protectionism, which is an indicator that the EU is reciprocating cooperation in China’s perception. China takes a stance at eye level of the EU declaring the two partners had been “two major forces in advocating free trade, multilateralism and peace in the world” (ibid., p.21) throughout the global economic crisis. The few criticism concerning the usual and previously debated aspects are clearly outweighed by several paragraphs devoted to highlighting strengthened cooperation and common interests (“significant and far-reaching influence”, “huge potential”, ibid.). Without doubt, China still perceives the EU as very trustworthy and is eager to foster and increase trade cooperation.

On the other hand, the EU’s comments on China’s 2012 TPR show clear language of frustration, which was foreshadowed by its 2010 comment in which the EU complained about “clear signs of reform stagnation in China: as illustrated by the fact that we are raising today very similar concerns to those already expressed during China’s last TPR in 2008” (EU, 2008, p.21). It is made clear at several points in the 2012 TPR that the EU deems Chinese efforts and progress concerning protectionism and transparency insufficient, and demands more responsiveness. These doubts about China’s genuine interest to cooperate suggest a decrease in the perception of China’s trustworthiness – the risk of misplacing trust is perceived as high by the EU. This is likely additionally enforced by EU’s increased economic security concerns due to China’s new higher relative power position in the international system.

It is plausible to assume that both actors faced high levels of insecurity in 2013, because of the recent change in Chinese leadership – power positions and conduct needed to be reassessed.

The EU's 2013 TPR offers an outlying data point, which should therefore be paid special attention to. It is the only TPR in which China openly confronts and drastically criticizes the EU. During the meeting an actual debate developed with exceptionally many comments going back and forth between both actors using quite drastic language to express explicit criticism – which is remarkably outstanding considering the usually very diplomatic tone in these documents. China complains to be the major target of unfair protectionist tools (WTO, 2013, p.18) “based on criteria that are problematic, and arbitrary or discriminatory, to say the least” (ibid., p.63). China furthermore “urges the EU to reflect soberly [and] correct its attitude” (ibid.) and finally accuses the EU of “hypocrisy” (ibid., p.67) for rejecting a request of China to send a delegation to study and learn from the EU subsidy programme and notification mechanism in reaction to EU's accusations of Chinese state interference. It becomes clear that China perceives the EU as not sufficiently cooperative at this point in time. Judging from its reactions the EU is clearly offended by the Chinese remarks (“surprised about the tone”, “unacceptable”, ibid. p.66): the EU comment can be classified as openly hostile and cynical. For example, the EU representative says they “take note of the view that our notifications on subsidies are not sufficiently transparent and we will look at the notifications of other partners like China to find good examples” (ibid.) after reprimanding China for insufficient transparency for years. Judging from this heated debate it appears obvious that trust levels as well as mutual perception of willingness to cooperate, that is adjust own policies to the other's preferences, reach the absolute low of the time span of this analysis at this point in time, in July 2013.

During this period economic security concerns and related mistrust are clearly at play, with the two dominant issues taken being related to restricted access to the Chinese market and accusations of unfair competition on both sides (cf. Geeraerts & Huang, 2016). The observable results of these concerns are trade disputes and increased use of Trade Defense Instruments (TDI): Chinese market access is restricted via tariffs and non-tariff barriers, joint venture regulations and mandatory technology transfers. Dumping and subsidies cause mutual complaints of unfair competition. The period of 2010 to 2013 constitutes the time span with the single most frequent issued complaints to the WTO TDS by both sides (six in total over the course of four years), which supports the notion that conflicts could not be solved because either party was not willing to adjust their policy according to the other's preferences which constitutes demonstrated non-cooperation in the sense of the definition laid out above. Given the sudden unprecedented economic growth of China, the unforeseen uncertainty in the international order, and the common adaptation process after the WTO accession, a certain level of trade disputes is to be expected. Nevertheless, it becomes obvious during this period why some scholars (cf. Holslag, 2011, 2015) have contested the scope and genuineness of the strategic partnership. It appears that the sheer involvement in international regimes, such as multilateral cooperation in the WTO framework cannot solve the problem of trade disputes that keep occurring. Indeed, Geeraerts & Huang (2016) have argued with respect to the market access issue that “Incomplete implementation of WTO obligations and barriers to market access are preventing a genuinely reciprocal trading relationship between Europe and China” (p.7). Accusations of unfair competition climax. In fact, China is the single most target of EU trade defense (TD) measures, accounting for 38% of all individual EU TD investigations in the evaluation period leading up to the post-crisis period (data: 2005-2010; bkp, 2012, p.45), and by far leading the list of investigated countries on anti-dumping investigations by the EU, with

a total number of 135 cases (p.60). In the same period of time China investigated 30 anti-dumping cases against the EU (ibid.). An independent evaluation of the EU TDI furthermore states explicitly that the “most important function of TDI appears to have been to safeguard the EU’s economic interests in the wake of the integration of major emerging markets such as China into the global economy” and finds, coherent with my earlier claim that “anti-dumping has been the main instrument of this insurance policy, rather than the provisions in the WTO intended for the purpose (safeguards and renegotiation of commitments)” (cf. bkp, 2012, p.xv). This is a strong indicator favoring the realist perspective on this trade relation, namely that in high threat situations the EU draws on bilateral trade defense rather than liberal multilateral institutions to protect its economic interests (cf. ibid.).

Additionally, Zhou and Zhang (2017) find that Chinese “anti-dumping moves have often been motivated by retaliation or the threat of retaliation” rather than an actual need to protect vulnerable industries (p.514), which Bkp (2012) likewise confirms with respect to the EU’s actions (p.58). It is thus likely that each actor perceives their own actions as merely defensive, whereas they are perceived as aggressions by their counterpart. These observations support the first hypothesis and the logic of the applied framework in general, as it suggest that trust is developed in a dynamic learning process and that defection by one actor is likely to lead to defection by the other, in which case this retaliation can indeed be caused by a (possibly mistaken) rational assessment of the other’s trustworthiness.

Another indicator for a mutual lack of willingness to cooperate in the area of trade during this period is that the ‘annual’ EU-China high level economic and trade dialogue was not held in 2011, 2012, and 2014. It appears counterintuitive at first sight that despite these clear indications of power struggle, the EU-China 2020 Agenda for Cooperation was adopted in November 2013, which was characterized by observers as “indeed a genuine pledge to widen cooperation, putting peace and security as the first pillar of the relationship” (Godement & Vasselier, 2017, p.22). At second glance, it should be noted, however, that there have been “few formal agreements, and even fewer really new agreements” (ibid.) and all initiatives that were actually followed up on thus far were not directly related to trade.

To recapitulate, the process and development of events observed in this period depict without doubt a rapid downward spiral of trust and trade cooperation in the aftermath of the global economic crisis, reaching an absolute low point in 2013. Given that both actors increasingly face economic security concerns and clearly perceive each other’s behavior as a threat that needs to be retaliated, these findings strongly supports the first hypothesis.

New Future Ways: Strategic Partners or Best Frenemies? (after 2013)

After 2013 China and the EU enter into their current period of trade relations, which, considering the data obtained from the WTO TPR mechanism, is still unfolding and bears valuable insight into both actor’s current and near future strategic behavior given the patterns of conduct and mechanisms observed in the process thus far.

As has been shown the most current period of EU-China trade relations left off at an absolute low in mutual perceptions of trustworthiness and willingness to cooperate. As opposed to findings of previous periods, the overall tendency of perception of each other's motivation – that is willingness to cooperate – as well as trustworthiness, are clearly drifting apart during this most recent phase of trade relations, leaving China and the EU at polar opposites, as can be concluded from the documentation of the TPR mechanism (for overview see figure 7 and 8).

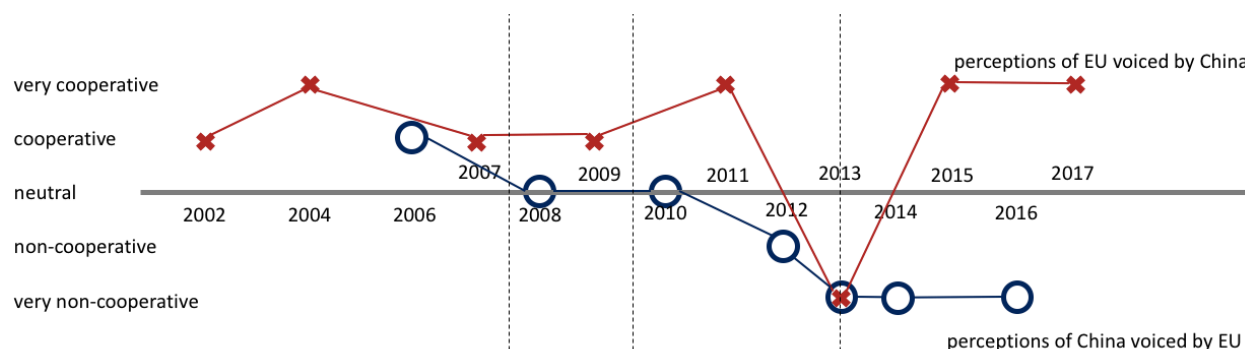


Figure 7: Trends of overall tendency of voiced perception of each other's willingness to cooperate in WTO TPR (as assessed by the author). Coding guideline in the appendix.

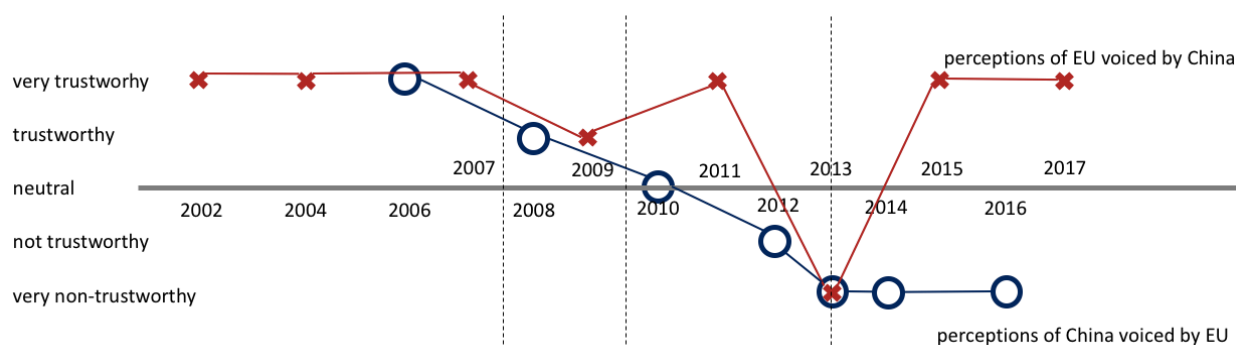


Figure 8: Trends of overall tendency of voiced perception of each other's trustworthiness in WTO TPR (as assessed by the author). Coding guideline in the appendix.

The EU's recent TPR comments adopt a more pragmatic language, a debate similarly heated as in 2013 did not occur again, but there was also less and less hope expressed concerning genuine Chinese interest to cooperate, particularly to reduce protectionism and enter a trusting full-fledged economic partnership. Mistrust and suspicion are ruling according to the data recorded in the EU's comments on China's 2014 and 2016 TPR. The main issues the EU was complaining about in 2014 were the lack of progress on Intellectual Property Right (IPR) enforcement, also in form of forced technology transfers and the joint venture regulation as a restriction of market access (WTO, 2014, p.23), which had been addressed in all China TPRs but is now moving to become the focus of the EU's comment.

Transparency once more is the overarching theme of the statement and the whole review process, with other nations taking issue with this as well. The repeated upcoming of the same issues taken by the EU is an indicator for frustration and the EU's perception of China as not particularly trustworthy during this period. Judging that there is a lack of progress concerning European demands, apparently the stakes of misplacing trust appear too high; furthermore economic security concerns have skyrocketed in a period where the EU is struggling to recover

from the economic crisis and is faced with high levels of internal and external instability. This *Zeitgeist* was objectively reconstructed by applying the process tracing method as well: one example indicator would be the first mentioning of ‘Brexit’ in May 2012 according to the Oxford English Dictionary, which falls into this period. According to the Spiral model it would be expected that the EU’s willingness to cooperate would remain low respectively. However, the Chinese claim to perceive the opposite. I will revisit this finding shortly and point out why this is implausible and most likely a product of China’s diplomatic strategy rather than an accurate account of their actual perception.

In harsh contrast to 2013, China’s 2015 comment on the EU’s TPR entails outstandingly little critique – it is virtually non-existing. While a few words of minor critique are voiced in the manner of a side note, the Belt and Road Initiative negotiations, mutual investment and a possible Free Trade Agreement (“which will help combat protectionism”, WTO, 2015, p.26) are pronounced extensively. The partnership is declared “one of the most important, stable and constructive partnerships in the world” (ibid.) all of which – in the light of recent heated debates in the TPR setting – appears rather hedonistic and is clearly a result of the Chinese policy shift towards the EU in 2014 which vehemently promotes a deepening of the “China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation” (Mission of the People's Republic of China to the European Union, 2014).

This pattern of stating polar opposite perceptions continues: In China’s 2016 TPR the EU upholds the complaint about (even increased) intransparency (“New laws and measures on foreign investment, national security, NGOs and cybersecurity all contain elements that go against market opening and principles of transparency”, WTO, 2016, p.27) and criticizes the insufficient submission of (translated) documents which is an indicator that China is still not perceived as very trustworthy – as argued above. The tone remains pragmatic, even though serious accusations of backward development concerning market access restrictions and discrimination are made. The EU openly voices its economic security concerns relating to “China’s ambitions to undertake market driven reforms [and voice their] concern at where these reforms currently stand, and where they are headed” (WTO, 2016, p.75). These overcapacity scares and other observations outlined above suggest that the EU’s mistrust against China remains large – not only due to China’s conduct, but also its own economic security concerns.

China, on the opposite, pronounces and conjures the “spirit of mutual trust” (WTO, 2017, p.20) explicitly in 2017, highlights the good relationship between both partners and its willingness to “intensify cooperation with the EU” (ibid., p.19) while using a reassuring, friendly tone – all of which suggests that China perceives the EU as very trustworthy. China is aiming for acknowledgment and dialog on eye level. It uses its newly gained relative power position to push the EU to acknowledge that WTO accession provisions have now expired and accuses them of not fulfilling their duty to grant market economic status (MES) to China (ibid.). From the Chinese perspective, the EU was unwilling to sacrifice their own benefits by granting MES, indicating that the EU’s level of trust was not high enough to trigger trustful cooperation (cf. Hoffman, 2002, p.379), which is another indicator that China could not have perceived the EU as so willing to cooperate as they have voiced in the 2015 and 2017 TPR. This is to point out that this research acknowledges that diplomatic documents always need to be assessed in

context and with caution, which has been considered here and which in fact provided another layer of information concerning China's strategic motivation, which will be valuable in the overall assessment of this case.

Tracing the process of these most recent events, two main findings can be derived: First, the downward spiral of mistrust and non-cooperation that unfolded over the course of the years after the global economic crisis and climaxed in 2013, as demonstrated above, continues to have a dominant impact on EU-China trade relations to this point. Substantial progress in trade cooperation beyond diplomatic parlance, in form of new agreements or followed through costly actions in recent years, cannot be observed. Secondly, the data also suggests that China is putting a lot of effort into trying to induce an upward spiral by using reassuring techniques in form of diplomatic parlance, but also costly signaling for example by reaching out to the EU promoting the 'One Belt, One Road' Initiative (BRI) and signaling willingness to negotiate an Investment Agreement (which was, however, not finalized thus far). Such measures can be considered an important step towards the re-establishment of trust and mutually beneficial trade cooperation. It should also be highlighted that the EU cautiously signaled back support under the precondition that BRI "adheres to market rules and international norms in order to deliver benefits for all and to encourage responsible economic behaviour" (EC, 2016, p.10). Even though their support is formulated in a rather pragmatic and carefully restrained manner it should be understood as a costly signal of willingness to cooperate, considering how these signals may be perceived by the EU's long-standing strategic partners, e.g. established great powers like the US, that may be negatively affected or at least cut off from the benefits of this undertaking. The question remains, however, whether the EU's efforts to reciprocate cooperation are costly enough for the EU and China's trade relations to enter in an upward spiral again in the near future.

In 2013 trust levels were set to zero and building up needs time, especially considering that the levels of trust needed to trigger cooperation have increased rather than decreased after the power shift towards China and increased European dependence since the crisis years. It will take costly actions, demonstrated willingness to cooperate from both actors and most importantly a lot of time to build up trust to the necessary levels again. It is intuitively self-evident that building trust takes longer than destroying it. I therefore argue that the last period of EU-China trade relations is still in progress, the events and actions of this segment of the process are still unfolding. I argue furthermore, that the Spiral Game model nevertheless provides an adequate framework for this most recent period of EU-China Trade relations even though the judgement of whether the presented data supports the hypotheses should be undertaken more carefully and certainly be considered less deterministically than for the other periods.

Where cooperation and trust levels in EU-China trade relations will go from here is still subject to data-informed speculation and need to be put forward with scholarly caution. Hints concerning future conduct and respective development of their economic relations can be found in current strategy papers, voiced perceptions, and current conduct as these will – as suggested by the logic of the Spiral Game model – be the source of information that both actors will utilize to develop their future strategies and conduct. Theoretically there are two possible developments: The EU and China could enter a path towards (1) more trusting cooperation or

(2) towards continuing predominance of mistrust and restricted cooperation. I argue that both is possible, even though it is tougher creating an upward spiral from such low levels of trust and willingness to accommodate each other's preferences. That is on top of a changing international order that increased rather than decreased levels of trust needed to trigger such cooperation. While the starting point clearly differs from the early years of EU-China trade relations after China's WTO accession in 2001, an upward spiral is not impossible: Another model developed by Kydd (2005) in his book, the Reassurance Game, provides proof that "reassurance between genuinely trustworthy actors is possible even for very low levels of trust" (p.251).

The concept of 'reciprocity' which is a key element of Kydd's understanding of trust (p.3) takes a dominant position in both the EU's (2016) and China's (2014) latest policy papers towards each other. This is an indicator that both actors continue to assign high priority to "reciprocal benefit in both political and economic terms" (EC, 2016, p.4), which means the basic requirement to allow for an upward spiral is fulfilled. Nevertheless scholars widely agree – and this study has shown this extensively – that ever since the economic crisis years EU-China trade relations have entered a period of more pragmatism, caution and possibly realist-inspired strategies (cf. Godement & Vasselier, 2017, p.12). Even though the European Commission states that the "EU-China 2020 Strategic Agenda for Cooperation fulfils an important role as the highest level joint document guiding the EU-China Comprehensive Strategic Partnership", it is also emphasized that "the EU needs its own strategy, one which puts its own interests at the forefront in the new relationship" (EC, 2016, p.2) which following the definition put forward in this research, can be understood as opposition to willingness to adapt policies to a partner's needs to an extent of own sacrifice, which again potentially constitutes non-cooperation. Godement and Vasselier (2017) accordingly present a rather pessimistic and China-skeptical view on the prospect of trustful trade cooperation in the latest power audit on EU-China relations by the European Council on Foreign Relations (ECFR), which underlines the notion of mistrust that is apparently predominant in European perceptions. They argue that the "'myth of convergence' of the 2000s – that China [...] would eventually transition to a market economy and rule of law [...] has been replaced by a new lore [...] of potential Chinese investment and contributions, of 'an offer you cannot refuse'" (ibid., p.9-10). They furthermore criticize the stagnation of the negotiation of an investment agreement which to complete had been a European priority destined for progress in January 2016, but hasn't been driven forward since. They point out that none of the recent agreements (after 2010) were related to economic relations but rather traditional areas of security. Godement and Vasselier conclude that "only where issues to a narrow definition of China's interests – innovation, security from terrorism, safety standards facilitating exports – does cooperation move ahead. On other issues, it is hard to pick out clear results from the mass of ongoing dialogues" (Godement & Vasselier, 2017, p.24-25). Given this rather pessimistic assessment, negatively spiraling appears just as possibly as an outcome.

The future development of EU-China trade relations will depend on whether or not – and to which extent – the EU and China are indeed interested in actual trusting cooperation with respect to their economic relations and in a truly strategic partnership. After all, if anyone, only

the actors themselves have the full information concerning their own motivation – this is what makes the strategic game evolving around economic security concerns so challenging.

Conclusion and Strategic Implications

This section shall condense all information and insight gained through this study in order to provide a pointed answer to the question addressed by this paper. Based on these findings I will furthermore present strategic implications that can be derived, and briefly develop a set of policy recommendations that both actors ought to take into account if they aim to develop trustful economic cooperation and a truly strategic partnership in the future.

To recapitulate this paper addresses the question in how far the dynamic development of the level of trust based on beliefs about each other's motivations impacts the European Union's and China's willingness to cooperate with respect to their trade relations. The analysis has shown that a close correlation of perception of trustworthiness and willingness to cooperate can be observed when tracing the process of EU-China trade relations since 2001, and that the data widely supports the hypotheses about the causal mechanisms of this process, which suggests that Kydd's (2005) framework provides high explanatory value in the context of economic security that it has been amended to by this research project.

As has been suggested by other researchers, this can substantiate and confirm that the EU and China are trapped in an delicate situation due to their mutual economic security concerns, having to perform a balancing act between cooperation and competition. It has been demonstrated that economic security concerns and levels of trust assigned to trade partners have a substantial impact on success or failure of cooperation. Furthermore both downward and upward spiraling mechanisms could be traced and elaborated in context, which constitutes one of the surplus values this research provides: During the first period after China's WTO accession it was observed that mutual levels of trust and willingness to cooperate remain high. Both parties are optimistic that the other will 'do what is right', the likelihood of misplacing trust is perceived as low whereas the likelihood that the other actor is driven by benign motivations is perceived as high. All of these factors facilitate cooperation, and the dynamic development of trust was described as upward spiraling during this 'honeymoon' period. As the EU's economic security concerns increased due to China's unprecedented economic rise and the EU's own shortcomings concerning global economic power position and resilience in the economic crisis, they became increasingly suspicious of China's supposedly benign motivations. Trade frictions and disputes culminated. Increased trade defense on both sides motivated by retaliation, as argued above, as well as using bilateral over multilateral measures to protect their own market, are clear indicators that possibly benignly motivated defensive measures are perceived as dangerous aggressions – that in turn, call for retaliation. As a result, a downward spiral of mistrust and rejection of trustful cooperation set in. In 2013 tensions climaxed, letting mutual perceptions of trustworthiness as well as willingness to cooperate tend towards zero. Given the recent voiced perceptions it becomes clear that the EU's current judgement is likely that China is an expansionist power: Since 2012 China has failed to credibly demonstrate willingness to engage in trustful trade cooperation according to the EU's

perceptions, which following to the applied framework means that China is either an expansionist power or a fearful security seeker. As China is, however, declaring to perceive the EU as trustworthy throughout the whole process, the EU has no reason to assume that China is fearful (because it would perceive the EU as a potential expansionist) – therefore the logical conclusion is that China must be perceived as a (trusting or fearful) expansionist; independent of whether this perception is accurate.

On the other hand it has been shown that even though China has voiced perceptions that the EU is acting cooperatively in the recent years, this is very likely biased by strategic interests – China is lobbying towards the EU to gain back their trust and is therefore using excessive reassurance in a diplomatic manner. As demonstrated above this claim can easily be justified as it is supported by the data: The swift shift in language used in the 2013 and 2015 TPR cannot be explained by a sudden change in Chinese perception of the EU's conduct. The EU has increased rather than decreased the use of trade defense and its general willingness to adjust policies to meet the partner's demands and preferences, that is willingness to cooperate, appears rather low given the most recent pragmatic and sceptic policy papers and observer's proposals on EU's China policy.

In summary, it will be a difficult undertaking to increase perceptions of mutual trustworthiness back to a level where trusting cooperation is possible, for two main reasons: Firstly, as argued above, the EU likely believes that China is an expansionist power – it is perceived as less trustworthy than in the years after China's WTO accession. Secondly, the level of trust that is needed to trigger cooperation was raised as an effect of the global power shift towards China due to China's rise and the global economic crisis. Both of which have also caused European economic security concerns to increase. I have nevertheless argued that both actors have a vast interest in, if not no alternative to, working towards rebuilding this trust, not least because of the specific character of the Economic Security Dilemma: As opposed to concerns and challenges in the context of the traditional military dimension of security, economic security concerns are determined by the high interdependence of both actors which in a way ties their 'fates' together.

The data and observed process strongly suggest that involvement in international institutions and economic interdependence alone will not lead to prosperous, maximally beneficial and trustful trade cooperation. Although I acknowledge that these measures constitute a platform that fosters information flows and increases accountability to a certain extent, which makes it factually impossible that EU-China trade relations would reach a level of actual non-cooperation. Both actors have shown to be committed to the multilateral trading system, both remain prioritizing reciprocal economic relations.

Even though I share the conviction that balance of power motifs are at play here, I argue that Holslag (2015), Godement and Vasselier (2017), and other critics go too far with their pessimism when they deterministically declare the economic frictions as insurmountable, depict the EU as naïve, China as a maliciously intended threat and the EU-China Trade Relations at the verge of a downward spiral. As I have pointed out in the beginning of my analysis, given the regime type and dramatic economic development of its partner, as well as

related relative power positions in the drastically changing international system, it has never been easy or the natural flow of things for the EU to develop trust in China. The development of trust was made possible by intensive efforts of both actors to actively work towards overcoming their system-induced economic security concerns. The level of trust needed to trigger cooperation on behalf on the EU was certainly even drastically increased through China's resilience and the EU's increased dependence through the global economic crisis. It is correct that the power struggles climaxed in the 2013 WTO EU TPR which constituted an absolute low in both cooperation and trust levels. However, credible and costly signals have been sent by both sides since the clash in 2013 aiming to reestablish a trustful, at best mutually beneficial trade relationship. Trust is not rebuilt overnight, and the events and strategic conduct of this most recent stage of EU-China trade relations are still unfolding; it is therefore too early to judge which direction the partnership will take – and it certainly was too early to when Holslag's paper was published in 2015.

This research has demonstrated: The neorealist understanding of anarchy, mistrust, power struggles and spiraling provide high explanatory value when assessing the case of EU-China trade relations. Economic security concerns and dynamically developing perceptions of trust matter. They are key factors to determine whether successful, mutually beneficial cooperation is possible. But it was also shown that, as the mere definition of cooperation entails, there is no cooperation without discord – we need to conclude that not everything is lost just because of occurring defection. On the contrary: The insights gained about the development of mutual perceptions of trust can be used to build a successful full-fledged economic partnership in the future – given the prerequisite that both actors truly have benign motivations and are willing to take costly actions to foster mutual trust.

It has been shown that the underlying mechanisms that have fueled the recent downward spiral include rational insecurity about each other's motivations and capabilities, possibly worsened by misperceptions and conceptual gaps. The factors identified as preventing progress in the re-establishment of sufficiently high trust levels, particularly the EU's perception of China's trustworthiness, appear to be amongst others an accused lack of transparency, unfair competition, as well as restricted market access, particularly in services. In order to overcome these challenges both actors should take action to allow for a possible upward spiral of trust and cooperation to occur. While it is required that China (due to its relative power position in the international system) continues to send costly signals, the EU should reciprocate these signals by diplomatic reassurance or even costly actions, and take Chinese offers of opening seriously in order to demonstrate to China that it is indeed not only trustworthy but also willing to build a trustful trade cooperation. Thereby the playing field can finally be leveled and mutually beneficial economic relations can be fostered.

Drawing from the lesson's learned by Fearon's work (1995), a promising measure to increase levels of trust are bilateral dialogues of which China and the EU have thus far established more than 50, because they provide additional information about each other's motivations and are a forum of mutual reassurance, which is, even if not as effective as costly signaling, still a means to increase mutual perceptions of trustworthiness as actors are reassured that they agree what the 'right thing to do' is. After all, "EU-China relations constitute the partnership that (apart

from that with the US) has the longest and most extensive history of institutionalization” (Smith, 2016; cf. Algieri 2002, 2008). However, even though Xin (2017) agrees that these dialogs are relevant and promising, he finds that the dialogue mechanisms show a lack of efficiency. Particularly when it comes to avoiding trade frictions and disputes. Even though these dialogues might thus appear semi-successful at first sight, I argue that they bare important potentials to increase levels of trust, mutual understanding and thus finally cooperation. Both actor’s should therefore work towards increasing these dialog platforms’ efficiency.

On a similar note, both actor’s engagement in international regimes such as the WTO bares the potential for more credible commitments and can hence help to increase the levels of trust. As a dialogue platform the WTO trade dispute settlement mechanism has certainly contributed, even if not perfectly, to better mutual understanding and decreased blind protectionism. Multilateralism should therefore remain in place and is considered a valuable contribution.

Adding insights from a social constructivist perspective, it could be argued that via dialogue and diplomacy, states are more likely to negotiate a common reality and possibly even create a shared identity that helps foster cooperation. Dialogues and diplomacy could even eliminate or minimize misunderstandings and psychological biases as exchange of ideas increases the likelihood of the formation of shared perceptions and definition of problems, thus reducing potential conceptual gaps (cf. Michalski & Pan, 2017; Pan, 2012). Geeraerts and Huang (2016) indeed find “indications that analyses and viewpoints are gravitating toward a common diagnosis of crucial problems in the Sino-EU economic security relationship”. The constant communication and credible mutual reassurance of their benign security motivations in form of these dialogues, could furthermore bridge a dangerous lack of information about each other’s motivations and capabilities, which can help prevent trade disputes in the first place. As this would make defection in the EU-China trade relations, for example in form of trade disputes, less frequent, we would according to Kydd’s (2005) model anticipate an upward spiral that would ultimately lead to increased cooperation.

Reconsidering the total account of this evaluation it appears that the measures taken seem to be pointing into the right direction, particularly the establishment of a high number of dialogues on all levels, both actor’s undoubted commitment to international regimes and multilateral trade organizations, and the willingness of both sides to send costly signals to underline the diplomatic reassurance more effectively. However, in the light of the disputes and disagreements that are still predominant in the EU-China trade relations, the question remains why these measures seem to prove less efficient than it was hoped for. Is it only a matter of time and a normal development in young trade relations as Heng (2017) has suggested? He argues contrary to Holslag’s argument that “According to the theory that trade volume is directly proportional to trade frictions, it is a normal phenomenon” that the EU and China increasingly engage in trade disputes (p.128) and interprets WTO trade policy reviews on both sides as signs of bilateral will to resolution of trade disputes. Another possible yet unpopular explanation for continuous defection according to Kydd’s (1997, 2005) reasoning would be that not both actors have benign security interests, but that it is in their very nature to develop expansionist tendencies at some level of economic success, which would be the classic realist argument. Until this reasoning would be proven true without any doubt, both actors should,

however, put their most determined efforts into developing mutual trust and understanding, through diplomacy, costly signaling and demonstrated repeated willingness to cooperate. While decreasing the cost of exploitation and striving for credible commitment through active engagement in multilateral institutions. The scope of the gains that both sides can draw from an optimal outcome of these effort justifies a strategy that is built on a combination of all possible ways to foster cooperation that we have explored above. Finally, the only solution to this Economic Security Dilemma can be, that both actors feel ensured of their strategic ability to maintain and develop their socio-economic system of choice, as well as their relative economic power position in the future. With a changing international system and emerging economic great powers at least the latter will, however, be difficult to achieve; especially if China manages to uphold the speed and scope of its economic growth. Overcoming the Economic Security Dilemma in EU-China trade relations will therefore take intensive commitment from both sides, and only time will tell if both consider potential benefits greater than potential costs of this process.

Discussion and Outlook

This final section will provide a critical reflection on the conducted research, assess the methodological and theoretical approach, and offer suggestions for future research that ought to be conducted in this area of research.

Explorative studies often follow a qualitative approach – and so does this case study. However, this research makes use of a standardized framework in form of a formal model, the Spiral Game, which defines clear assumptions, makes logical connections between these assumptions and derives claims that were tested empirically. This approach has proven highly beneficial in structuring the complex process and made possible the formal identification and assessment of complex underlying causal mechanisms and their outcomes. By combining the advantages of a formal model with in-depth qualitative process tracing of a single case, this research makes a valuable contribution to the study of EU-China relations which has often been studied in a rather unsystematic, narrative or purely historic manner. By formally identifying strategic patterns in the past and current process, this method allows to cautiously predict and lay out multiple possible paths of future developments in EU-China trade relations, depending on both actor's true motivations and which strategic behavior China and the EU decide to follow in the future. This methodological approach is therefore considered a valuable means to improve the quality and validity of the study's findings, as well as its predictive value. It is hence recommended for similar future research.

Besides the topical, case-related contribution, that was summarized in the conclusion and strategic implications section, this paper aims to make a theoretical contribution. The theoretic heuristic surplus value of this study is the demonstration of applicability of the context-amended Spiral Game model to new dimensions of security beyond its original intent, which contributes to research ambitions related to the thus far underdeveloped study of the post-Cold War understanding of security in International Relations. I have concluded above, that the observations captured by this research can partly be explained by applying Andrew Kydd's existing Spiral Game framework, but that furthermore changing power positions and variable economic security concerns should to be taken into account. Kydd (2005) himself acknowledges that his theory has not foreseen these options (p.202) which means there is room for error, which future theory development and testing should strive to avoid.

The scope of this research project is necessarily limited. Even though Kydd's (2005) model considers a set of underlying structural variables including relative power, cost of conflict that help account for variation of motivation types (expansionists, security seekers), he rightly points out that there are other factors that influence state preferences as well (p.19). A more complete theory of trust in International Relations developed in the future could therefore draw from other theoretical schools as well: Social constructivism argues that identity formation shapes state preferences, which should be very interesting to consider when researching EU-China dynamics on cooperation, especially in the light of power redistribution. Liberal theories suggest that social preferences influence state preferences. While states are treated as black boxes in this study, further research could consider how domestic political system aggregates social preferences to generate national policy (cf. Moravcsik, 1997, 518). For example: Liberal

theories such as the democratic peace theory (originally with respect to military security), suggest that democracies are more likely to be security seekers than non-democracies (Kydd, 2005, 21), which would also be interesting to consider studying the EU and China's domestic formation of beliefs about each other's motivations, since according to this theory it should be easy for China to assume with high certainty that the EU is a security seeker merely because it is democratic; whereas it takes more effort for China to be perceived as non-aggressively motivated. Even though no model can perfectly represent the 'objective' world without losing its academic relevance due to a lack of generalizability, turning to these internal domestic processes would certainly provide interesting additional information about EU-China (trade) relations as well as their formation of trust over time. The application of the Spiral Game model to this new context, even though treating states as 'black boxes' is nevertheless considered valid and useful. After all, a certain reduction of complexity of the empiric world by models is necessary to gain valuable academic insights.

It should furthermore be noted that military and economic security certainly differ in many respects. For example it would be plausible that motivations are more diversely impacted in the economic security context than in the classic understanding of military security, and that power positions are more flexible in the economic than the military setting, due to the high economic interdependence in the post-Cold War world order. Future research on whether theories and models initially developed in the classic narrow understanding of security can be amended to the contemporary understanding of security, should identify differences and similar features of different dimensions of security.

This research has taken measures to avoid 'confirmation bias', for example by using data triangulation, point out outlying data points and observations, and elaborating on alternative factors that may not yet have been considered by the suggested framework. It should nevertheless be pointed out that this project mainly aimed to demonstrate the applicability of this framework to the context of economic security. Future research should test the causal mechanisms that were supported by the data of this case study in a broader set of cases and against more alternative hypotheses.

Finally, since this project demonstrates the applicability of Kydd's Spiral Game to EU-China Trade relations, its implications could reach beyond the case of EU-China relations. Even though I want to restrain from even drawing cautious generalizations, it is recommended that this new context be further explored for economic relations between other great powers in the new international order under the influence of economic security concerns. The awareness of importance of mutual perceptions and the possibility to impact dynamic development of trust, should be a driving force for state actors when developing strategies for interaction.

References

- [¹] Aminzade, R. (1993). Class Analysis, Politics, and French Labor History. In: L. Berlanstein (ed.) *Rethinking Labor History* (p.90-113). Urbana and Chicago: University of Illinois Press.
- [²] Bkp development and research consulting (2012). *Evaluation of the European Union's trade defense instruments*. Retrieved from: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=786> [02.01.2018].
- [³] Chow, G.C. (2006). Globalization and China's economic development. *Pacific Economic Review*, 11(3), p. 271–285.
- [⁴] European Commission (EC). (1993). *Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21st Century* [White Paper]. Retrieved from <https://publications.europa.eu/en/publication-detail/-/publication/4e6ecfb6-471e-4108-9c7d-90cb1c3096af/language-en> [13.11.2017].
- [⁵] European Commission (EC). (2013). *Introduction to Trade Defence Policy – Types of Trade Defence Instruments*. Retrieved from: http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151014.pdf [02.01.2018]
- [⁶] European Commission (EC). (2016). *Joint Communication to the European Parliament and the Council - Elements for a new EU strategy on China*. Retrieved from: http://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf [02.01.2018].
- [⁷] Fairfield, T. & Charman, A. (2017). Explicit Bayesian analysis for process tracing: guidelines, opportunities, and caveats. *Political Analysis*, 25(3), p.363-380.
- [⁸] Falleti, T.G. (2006). Theory-Guided Process-Tracing: Something Old, Something New. *Newsletter of the Organized Section in Comparative Politics of the APSA*, 17.
- [⁹] Fearon, J. (1995). Rationalist Explanations for War. *International Organization*, 49(3), p. 379-414.
- [¹⁰] Geeraerts, G. & Huang, W. (2016). The Economic Security Dimension of the EU-China Relationship: Puzzles and Prospects. In: E. Kirchner, T. Christiansen and D. Han (eds.), *Security Relations between China and the European Union: From Convergence to Cooperation* (p. 187-208). Cambridge: Cambridge University Press.
- [¹¹] Godement, F. & Vasselier, A. (2017). *China at the Gates, a New Power Audit of EU-China Relations*. London: European Council on Foreign Relations (ECFR).

- [12] Gold, T. Guthrie, D., & Wank, D. (2004). An introduction to the study of Guanxi. In: T. Gold, D. Guthrie, & D. Wank (eds.), *Social Connections in China – Institutions, Culture, and the Changing Nature of Guanxi*. Cambridge, UK: University Press.
- [13] Heng, L. (2017). China-EU Relations in the Context of Global Trade Governance. In: H. Zhou (ed.), *China-EU Relations: Reassessing the China-EU Comprehensive Strategic Partnership* (p.117-138). Singapore: Social Sciences Academic Press and Springer Science+Business Media.
- [14] Herz, J. (1950). Idealist Internationalism and the Security Dilemma. *World Politics* 2(2), 157–180.
- [15] Hobbes, T. (1968). *Leviathan*. Baltimore: Penguin Books.
- [16] Hoffman, A.M. (2002). A Conceptualization of Trust in International Relations. *European Journal of International Relations*, 8(3), 375-401.
- [17] Holbig, H., & Gilley, B. (2010). Reclaiming Legitimacy in China. *Politics & Policy*, 38(3), p.395-422.
- [18] Holslag, J. (2011). The Elusive Axis: Assessing the EU–China Strategic Partnership. *Journal of Common Market Studies*, 49(2), 293–313.
- [19] Holslag, J. (2015). Explaining Economic Frictions Between China and the European Union. In: V.K. Aggarwal & S.A. Newland, *Responding to China's Rise* (p. 131-150). Cham: Springer.
- [20] Jervis, R. (1978). Cooperation Under the Security Dilemma. *World Politics*, 30(2), 167-214.
- [21] Jervis, R. (1999). Realism, Neoliberalism, and Cooperation: Understanding the Debate. *International Security*, 24(1), 42-63.
- [22] Keohane, R.O. (1984). *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, NJ: Princeton University Press.
- [23] Kydd, A.H. (2000). Trust, Reassurance and Cooperation. *International Organization*, 54(2), 2000, p. 325-357.
- [24] Kydd, A.H. (2005). *Trust and Mistrust in International Relations*. Princeton, NJ: Princeton University Press.
- [25] Lorentzen, P., Fravel, M.T., & Paine, J. (2017). Qualitative investigation of theoretical models: the value of process tracing. *Journal of Theoretical Politics*, 29(3), 467–491.

- [26] Mahoney, J. (2016). Mechanisms, Bayesianism, and process tracing. *New Political Economy*, 21(5), 493-499.
- [27] Michalski, A., & Pan, Z. (2017). *Unlikely Partners?: China, the European Union and the Forging of a Strategic Partnership*. Singapore: Springer.
- [28] Mission of the People's Republic of China to the European Union (2014). *China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation*. Retrieved from: <http://www.chinamission.be/eng/zywj/zywd/t1143406.htm> [02.01.2018]
- [29] Moravcsik, A. (1997). Taking Preferences Seriously: A Liberal Theory of International Politics. *International Organization*, 51(4), 513–53.
- [30] Men, J. (2014). Is There A Strategic Partnership between the EU and China? *European Foreign Affairs Review*, 19(Special Issue), 5–18.
- [31] Pan, Z. (ed.). (2012). *Conceptual Gaps in China–EU Relations: Global Governance, Human Rights and Strategic Partnerships*. Basingstoke, U.K.: Palgrave Macmillan.
- [32] Shi, Z. (2016, 15.03.) China-EU Relations: Crisis and Opportunity. *The diplomat*, Retrieved from <https://thediplomat.com/2016/03/china-eu-relations-crisis-and-opportunity/> [02.01.2018]
- [33] Sperling, J., & Kirchner, E.J. (1995). The Changing Definition of Security. Presented at the ESCA Conference, Charleston, South Carolina, 11-14 May. Access via: <http://aei.pitt.edu/7296/>
- [34] Taneja, P. (2010). China–Europe relations: The limits of strategic partnership. *International Politics*, 47(3/4), 371–387.
- [35] Ulriksen, M.S., & Dadalauri, N. (2016). Single case studies and theory-testing: the knots and dots of the process-tracing method. *International Journal of Social Research Methodology*, 19(2), 223-239.
- [36] Walker, S.G. (2007). Reviewed Work(s): Trust and Mistrust in International Relations by Andrew H. Kydd. *Political Psychology*, 28(3), 378-381.
- [37] Waltz, K. N. (1979). *Theory of International Politics*. Reading, MA: Addison-Wesley Pub. Co.
- [38] Waltz, K.N. (1993). The Emerging Structure of International Politics. *International Security*, 18(2), p. 44-79.

^[39] World Trade Organization (WTO), Trade Policy Review Body. (2002-2017). *Trade Policy Review People's Republic of China / European Union – Minutes of the Meeting*. Retrieved from: https://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm [05.12.2017]

^[40] Xin, C. (2017). China-EU Economic and Trade Relations. In: H. Zhou (ed.), *China-EU Relations: Reassessing the China-EU Comprehensive Strategic Partnership* (p.69-92). Singapore: Social Sciences Academic Press and Springer Science+Business Media.

^[41] Yang, H., & Zhao, D. (2015). Performance Legitimacy, State Autonomy and China's Economic Miracle. *Journal of Contemporary China*, 24(91), p.64-82.

^[42] Zhou, H. (2017). An Overview of the China-EU Strategic Partnership (2003–2013). In: H. Zhou (ed.), *China-EU Relations: Reassessing the China-EU Comprehensive Strategic Partnership* (p.3-31). Singapore: Social Sciences Academic Press and Springer Science+Business Media.

^[43] Zhou, W., & Zhang, S. (2017). Anti-dumping Practices and China's Implementation of WTO Rulings. *The China Quarterly*, 230, 512-527.

^[44] Zhu, Y. (2011). “Performance Legitimacy” and China’s Political Adaptation Strategy. *Journal of Chinese Political Science*, 16, p.123-140.

Appendix

As elaborated in the methodology section of this paper, particularly in the data and conceptualization sections, different sources of data were used to triangulate. The specific definitions and measurements of the key concepts are exhaustively explained there. Since the analysis heavily draws on findings from document analysis of the WTO TPR mechanism, a coding guideline that was used in this particular part of the analysis shall be displayed in the following to provide further transparency of the coding process.

Coding Guideline: Analysis of the WTO Trade Policy Review Mechanism

The analysis of the WTO TPR was conducted by examining the ‘minutes of the meeting’ records of all reviews held on the EU’s and China’s trade policy in the WTO framework since China’s WTO accession in 2001. For each document three sections were used to acquire data: the ‘Statement by the Discussant’, the respective contribution of the other of both actors on the ‘Statements by Members’ section, as well as all following responses to this statements that were issued by either the EU or China.

The analysis units included statements of one or more sentences that contained relevant information about one actor’s perception of trustworthiness or willingness to cooperate of the other. These statements were collected and coded in the chronological order within each document in order to retrace the current state and development of information that either actor had when issuing their comment, since both parties responded to each other’s comments which means they possibly had to react to new information (most distinctive example: the EU’s TPR in 2013, when both actors issued extraordinary many responses that were clearly reacting to newly gained information).

The context unit accordingly constituted each separate document, that is the TPR of one actor in one year (e.g. TPR of the EU in 2015). Since the development of perceptions is not expected to change as rapidly as during one meeting, only one data point was recorded per TPR for each of the variables, reflecting an overall global trend of the document with respect to this particular concept. All gathered statements of one TPR were collectively considered to determine these trends. Thereby I acknowledge that neither the perception of trustworthiness nor willingness to cooperate can be measured by one single statement, they can however, at least as trends, reliably distilled as the essence of all data within one TRP process. I am furthermore aware that perceptions are constantly evolving ‘soft’ concepts that cannot be assigned a metric number and have therefore measured global trends of the documents on an ordinal scale. The information gained by displaying these data points as trends in the manner of a time series has proven as a valuable asset in answering the research question posed in this paper. The following overview displays coding guidelines and examples that were used to systematically analyze the WTO TPR documents:

Perception of Willingness to Cooperate

Cooperation: “requires active attempts to adjust policies to meet the demands of others. That is, not only does it depend on shared interests, but it emerges from a pattern of discord or potential discord” (Keohane, 1984, p.12).

Non-cooperation: rejection of mutual adjustment of policies to meet the partner’s demands and preferences, respectively.

The dimensions along which this concept is measured were hence defined by following adjustments that both actors demanded according to previous research by, amongst others, Geeraerts and Huang (2016) as well as pre-test review of the documents by the author of this study.

Dimension	Coding Rule	Example
Trade Barriers and Defense Instruments (including anti-dumping, anti-subsidy and safeguard measures; EC, 2013)	Mentioning of removing such measures or acknowledging efforts to remove them: indicator for willingness to cooperate	“EU deserves applause for having largely resisted trade protectionism” (China on EU, 2011, p.20)
	Mentioning of (intent to) setting up / keeping such measures: indicator for decreased / low willingness to cooperate	“there are still significant obstacles that impede trade and investment, in particular the issue of forced technology transfer and inadequate protection of trade secrets.” (EU on China, 2014, p.23) “EU remains a frequent user of anti-dumping measures [...] initiative of modernization of the EU’s trade defense instruments, we have serious concerns that the Chinese products are always the major target” (China on EU, 2013 p.18)
(Formal) Trade Disputes / Complaints	Mentioning of settlement or acknowledging efforts to settlement: indicator for willingness to cooperate	“Trade frictions, which were normal in any fast-growing trading relationship, had been solved in a cooperative way” (EU on China, 2006, p.23) “constructive engagement to solve frictions between the EC and China was illustrated by the first meeting of the ‘EU-China High Level Economic and Trade Dialogue Mechanism’ in Beijing in April 2008” (EU on China, 2008, p.17)

	Mentioning of (intent to) issuing formal complaints, e.g. in the WTO framework: indicator for escalation, that is too low willingness to cooperate since both are unable/unwilling to settle otherwise	<p>“After listening to the statement by Mr Balas, I feel obligated to respond in defence of China’s interest and position. No.1, I hope that the EU is not saying that all the outcomes of dispute cases in the WTO support all the views of the EU. I hope this is not the case the EU is trying to suggest [...] Since the EU has been accusing China of state interference, sometimes in the form of subsidies, on one occasion we suggested that we would like to send a team to the EU to study the subsidy programme and notification mechanism, but this request was declined by the EU. So I think this is an indication of the EU’s hypocrisy.” (China on the EU, 2013, p.67)</p>
Market Access	Mentioning of increased market access or acknowledging efforts to increase market access: indicator for willingness to cooperate	<p>“most EU companies remain confident about China’s market in the future, and they are developing new investment strategies and expansion plans” (EU on China, 2010, p.6)</p> <p>“The EU looks forward to more ambitious opening on investment and services in the Shanghai Free Trade Zone and generally more opening across the country” (EU on China, 2014, p.23)</p>
	Mentioning of (intent to) (further) restricting market access or maintaining status quo that is considered restricted: indicator for decreased / low willingness to cooperate	<p>“some long-standing barriers to market access and other measures distorting international competition remain in place” (China on EU, 2011, p.20)</p> <p>“While we acknowledge China's true commitment to resist protectionism during the global economic crisis, its export restrictions, such as duties and quotas, are an exception. These trade restricting measures, especially on raw materials, have also been reflected in the recent G20 report on trade and investment measures. As all countries are interdependent and relying on the free supply of raw materials the EU invites China to eliminate its export</p>

		restrictions.” (EU on China, 2012, p.37) [cf. corresponding Trade Dispute in 2009]
--	--	---------------------------------------------------------------------------------------

Perception of Trustworthiness

Trust: Kydd (2005) defines trust as ”a belief that the other side is trustworthy, that is, willing to reciprocate cooperation, and mistrust as a belief that the other side is untrustworthy, or prefers to exploit one’s cooperation” (p.3). I chose to add to this definition that trust ”includes trustors’ perceptions that their trustees have a responsibility to fulfill the trust placed in them even if it means sacrificing some of their own benefits” (Hoffman, 2002, p.379 and “implies a willingness to take risks on the behavior of others based on the belief that potential trustees will ‘do what is right’” (ibid., p.375). This willingness to take risks will be limited if the other is perceived to be not trustworthy, that is if the actors is suspicious that their partner is likely to exploit them. The danger of misplaced trust is what causes security concerns as actors fear exploitation.

Dimension	Coding Rule	Example
Unfair Conduct	Accusation of (continuing) unfair conduct with respect to trade is an indicator for low levels of perceived trustworthiness.	“unfair trade measures taken by the EU against Chinese products are based on criteria that are problematic, and arbitrary or discriminatory, to say the least” (China on EU, 2013, p.63)
Lack of Transparency	<p>Accusations of a lack of transparency are an indicator for low levels of perceived trustworthiness, as the actor clearly judges that the other is unwilling to disclose relevant information.</p> <p>On the other hand mentioning of good performance on transparency indicates the perception of relatively high trustworthiness.</p>	<p>“main concern is related to lack of transparency, which makes China's trade and investment policies [...] "opaque and complex" [...] more needs to be done still to make key WTO principles like transparency and non-discrimination a norm in China's legislative system. In this respect we would like to recall that China committed upon accession to make all laws, regulations and other measures pertaining to or affecting trade in goods or services available in one or more WTO languages. However, more than 10 years after accession this remains the exception” (EU on China, 2012, p.36)</p> <p>“It is particularly commendable that during the review period, the EU largely maintained open and transparent trade policies” (China on EU, 2013, p.18)</p>
Mutual Reassurance	Mutual Reassurance in form of diplomatic	“China and the EU's strengthened cooperation in this regard bears significant

(diplomatic parlance or costly signaling)	parlance or mentioning of (intent of) costly signaling can be an indicator of increased levels of perceived trustworthiness or an expression of the genuine wish to increase the other's evaluation of their trustworthiness, depending on who the acting subject of that statement is.	and far-reaching influence to the safeguarding of common interests of both sides and paves the way for expanded mutually beneficial cooperation in the future.” (China on EU, 2011, p.21) “China is a genuine supporter of the multilateral trading system and the EU trusts that China will positively contribute to the adoption of the post Bali work programme. In this regard, we welcome China's recent notification of its Category A commitments under the TFA” (EU on China, 2014, p.24)
Explicit Mentioning of Trustworthiness / Mutual Trust and Understanding	Explicit mentioning of the other's trustworthiness or mutual can be an indicator of increased levels of perceived trustworthiness or an expression of the genuine wish to improve their mutual levels of trust,.	“China and the EU share the same understanding on promoting inclusive growth [...] China stands ready to intensify cooperation with the EU, so as to uphold the multilateral trading system [...] increase mutual trust and inject vitality into world economic development.” (China on EU, 2017, p.19/20)

All judgements were made in the context of current events of the respective time episode, tracing and reflecting the information that both actors have based their perceptions of each other on at each given point in time. Therefore further relevant contextual knowledge is elaborated in the analysis above.