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## But Why Would They Do That? European External Governance and the Domestic Preferences of Rule Importers

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## Abstract

After having shown that the current European External Governance framework would fail to predict or explain the transfer of European environmental standards for the automotive industry towards the People's Republic of China, the article proposes a revised framework which includes new assumptions regarding the domestic preferences of rule importers. The case study highlights the central explanatory role of the Chinese domestic preference in the rule transfer process. It also shows that the Chinese decision, although primarily motivated by considerations of effectiveness, was also influenced by the greater legitimacy of the Euro emission standards.

## Keywords

European External Governance; Europeanization: Rule Transfer; EU-China relations; Automotive Industry

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## INTRODUCTION

European External Governance (EEG) has been developed as an attempt to “move beyond a traditional, intergovernmental account of EU foreign policy” (Schimmelfennig and Wagner 2004: 657). The initial research agenda was particularly broad, since it included the study of multi-level governance, the explanation of the sectoral variety of governance modes, the study of the transformative effects of European governance on Member States' policies (Europeanization) as well as on the policies of non-EU states (Schimmelfennig and Wagner 2004). Over time however, EEG came to refer “exclusively [to] the transfer of given EU rules and their adoption by non-member states”, as opposed to European internal governance which is primarily concerned with the formation, adoption and domestic implementation of such rules (Schimmelfennig and Sedelmeier 2004: 661).

Research on external governance revealed the existence of an important analytical distinction between the transfer of European rules towards countries engaged in accession negotiations (future EU Member States) and towards countries deprived of membership prospect: whereas relations between the EU and candidate countries were mostly governed by the external incentive mode of rule transfer, which became known as “governance by conditionality”, the transfer of specific policies towards the EU's immediate neighbourhood can be seen as representing a “purer” mode of external governance, since the EU could not rely on enlargement to “buy-off” third countries and impose somehow unilaterally its system of rules (Lavenex 2004).

After reviewing the European External Governance literature, we shall see that the current approach has been developed and tested on the basis of case studies in which power asymmetries were insufficiently controlled for, which allowed European rules to be transferred regardless of the third countries' domestic preferences. In this contribution, I argue that, under a symmetrical power distribution, rule transfer is likely to result from the correspondence between the properties of the rules in competition and the domestic preferences of the rule importer.

In order to test the proposed revision of the EEG framework, a case study will be conducted on the adoption by the Chinese government of European environmental standards regulating the emissions of gaseous pollutants for light-duty vehicles. Throughout our investigation, we shall be guided by the following two questions: first, why did China decide to import a foreign rule rather than to define its own national rule; second, since there existed several rules to import, why did China select the European rule rather than any other rule.

## EEG AND COMPETING EXPLANATORY MODELS

The researcher trying to answer the aforementioned questions is confronted with a flurry of loosely differentiated theoretical approaches, all of which aim at explaining what is essentially the same phenomenon: the propagation over time and space of similar ideas, policies or practices. Each sub-discipline has given in to the temptation of coining its own approach, resulting in a confusing inflation: emulation, hybridisation, learning, convergence, transfer, harmonisation or diffusion form a long but non-exhaustive conceptual list, in which boundaries are permeable and redundancies legion. The following sections aim at presenting the most widely used of these approaches and at justifying the selection of European External Governance as a theoretical framework for this research.

### Alternative explanatory models

At this stage, it is necessary to consider alternative explanatory models and to justify the choice of EEG as a framework for this article. I suggest selecting alternative explanations on the basis of two criteria: the degree of theoretical formalisation and the number of academic followers. This leaves us with three potential candidates to account for the Chinese decision to adopt European environmental standards: policy transfer, lesson-drawing and the diffusion approach.

The *diffusion approach* was initially developed as an attempt to conceptualise policy changes at the federate level within the US federal system, based on the assumption that policy changes made in one state were likely to be taken into consideration by neighbouring states in their policy-making procedures. As a result, the diffusion literature adopted a structural approach which sought to highlight patterns of policy-making (Marsh and Sharman 2009). By contrast, the notion of *policy transfer* emerged in the 1990s in British academic circles as an answer to the predominantly American reflection on policy diffusion. Defined as “a process in which knowledge about policies administrative arrangements, institutions, etc. in one time and/or place is used in the development of policies administrative arrangements and institutions in another time and/or place” (Dolowitz and Marsh 1996: 344), the policy transfer approach departs from considerations of intentionality and seeks to identify the institutional channels via which transfer takes place and the “transfer agents” promoting them (Stone 2004). Finally, *lesson-drawing* is yet another form of policy-making emphasising the desirability and practicality of transferring foreign experiences and practices. In this context, the decision to import certain rules “depend upon a subjective definition of proximity, upon epistemic communities linking experts together, functional interdependence between governments, and the authority of intergovernmental institutions” (Rose 1991: 6).

Although this article falls short of restoring the tremendous internal and sectoral diversity within these three approaches, I believe that none of them offers a fully satisfactory explanatory model to tackle the case at hand. First, these approaches can hardly be distinguished from one another, so that it is nigh impossible to disentangle among them and say where one approach ends and where the next starts. In addition, the determinants leading to one rule being either transferred, diffused or simply learnt from abroad are broadly unknown. On this basis, James and Lodge (2003) question the added-value of the concept of “lesson-drawing” with regard to traditional accounts of rational policy-making in which learning plays a role. They also strongly criticise the transfer literature and recommend to “us[e] alternative theories focusing more directly on the effects of learning processes” (2003: 190); second, choosing among these approaches amounts to accepting the implicit trade-off between agency-based and structure-based approach and between methodologies centred on pattern-finding or process-tracing (Marsh and Sharman 2009: 274-278). As explained by the same authors, the extreme heterogeneity of the field may well come at the expense of our

understanding of diffusion and transfer mechanisms and therefore calls for “a process of standardisation” (2009: 269) or, at least, for some degree of consolidation within an overarching framework.

### **The EEG approach: the long-searched overarching framework?**

EEG is interested in the conditions under which rule transfer processes are effective – with effectiveness defined as the extent to which the EU rule is selected, adopted and implemented by non-EU states. Lavenex and Schimmelfennig (2009: 800-805) put forward three competing explanations. According to the institutionalist explanation, external modes of governance reflect internal EU institutional arrangements. These institutionalist path dependences between internal and external governance modes may be explained by the increase in legitimacy and/or in effectiveness that derives from the reliance on internal EU institutional templates. The power-based explanation primarily emphasises asymmetrical interdependence and hypothesises that strong asymmetries in favour of the EU lead to hierarchical modes of governance, whereas more balanced forms of interaction based on symmetrical interdependence tend to generate less hierarchical modes of governance. In the domestic structures explanation, external governance reflects third countries' domestic structures and capacities. As such, it is similar to the first institutionalist explanation, but considers that external governance mirrors third countries' rather than EU's internal governance. This mirroring can be explained by functional necessities linked with third countries' constitutional orders or administrative capacities.

The main added-value of the EEG approach (particularly in the revised version proposed in this article) is that it puts forward a framework in which both structural factors (such as sectoral trade interdependence, market structures or institutional contexts and policy networks) and agency (federal and regional government units, private actors) play an equally important explanatory function. EEG also allows to combine the two aforementioned methodologies: on the one hand, individual causes can be traced precisely from one location to another, thus allowing to investigate the path and particular reasons leading to rule transfer in specific instances (process-tracing); on the other hand, EEG does not preclude the testing of broad explanatory hypotheses, such as for example, the question of whether power asymmetries or certain rule properties are more conducive to rule transfer (pattern-finding).

The question remains of whether the Chinese dragon is not too big a case for the still relatively young EEG approach. I suggest that taking this leap is both logical and necessary. It is logical since the framework's purpose is to investigate rule transfer from the EU towards non-EU countries deprived of membership prospect, without any reference as to the geographical position or power position of the non-EU country considered<sup>1</sup>. Through fine process-tracing on the basis of case studies conducted on immediate EU neighbours, explanatory mechanisms have been suggested: it is the logical continuation of these studies to see whether the same mechanisms apply when considering non-EU countries located further away. Finally, this leap is also a necessary one since the initial mechanisms suggested by process-tracing are possibly influenced by the geographical location and power distribution which characterised the case studies led so far. Moving in the direction of genuine pattern-seeking requires testing the suggested mechanisms on new countries, which are not placed in a situation of asymmetric interdependence with the EU. In many respects, this case study on the Chinese importation of EU environmental standards can be seen as a crucial test of the generalizability of EEG explanatory hypotheses, which will decide whether EEG will remain a regional theory of European influence in its neighbourhood or a more general theory of rule transfer.

### **Main findings of the EEG approach**

Since its coining in 2004, EEG has experienced a steady growth in the specialised literature. A special edition of the *Journal of European Public Policy* (September 2009) gathered seven contributions which already tackled a variety of policy areas as well as of policy targets. These articles highlighted the sector-specific character of external governance modes and shed additional light on rule transfer mechanisms towards countries deprived of membership prospects, thereby strengthening the validity of the analytical differentiation operated between external governance and the conditionality-based approach towards candidate countries. Nonetheless, the question of which variables lead to effective rule transfer remains largely unanswered. Initial findings suggest that hierarchy is most conducive to effective rule transfer, but both Youngs (2009) and Freyburg *et al.* (2009) identify differentiated effects of hierarchical governance on rule transfer in the field of democracy promotion and good governance most prominently between rule selection/adoption and rule application. Similarly, Knill and Tosun (2009) provide evidence that hierarchy is most likely to lead to effective rule transfer in the field of environmental policy. At the same time, they show that reluctance from the part of non-EU states can impede the effectiveness of the rule transfer and thus predict the increasing reliance on more horizontal forms of external governance.

In more sensitive areas of cooperation, Barbé *et al.* (2009) show that the selection of the EU rule depends on its perceived legitimacy and on the ability of the EU to offer incentives to third countries. Finally, Dimitrova and Dragneva's (2009) study of EU rule transfer towards the Ukraine underlines the centrality of dependence and interdependence patterns between the Ukraine and the main governance providers of the region. Their conclusions speak unambiguously in favour of the power-based explanation, since EU rule transfer is showed to be effective when interdependence is concomitantly high with the EU and low with Russia.

### **Shortcomings of the current framework**

Most findings are derived from comparative studies led on countries which, given their size, economic profile or geographical location, are in a situation of asymmetrical interdependence towards the EU. It is for instance disputable that general patterns of rule transfer can be inferred from the relationship between the EU and its three Western neighbours (Norway, Iceland, Switzerland).<sup>2</sup> Other studies focus on rule transfer towards the countries of the European Neighbourhood Policy (ENP) which, for most of them, do not have any membership prospect. In addition, there is a higher degree of cultural and political heterogeneity, as well as institutional practices that frequently diverge from European ones. Relations between the EU and these countries therefore constitute a purer instance of external governance, from which general patterns of rule transfer are more likely to be inferred. Yet, interaction between the EU and the ENP countries is also characterised by asymmetrical interdependence, which explains the frequent complaints that the cooperation agenda reflects European interests rather than truly common interests (Bicchi 2006).

In the current EEG model, power relations are circumscribed to one governance mode (hierarchy) and to one explanatory hypothesis (power-based). However, power asymmetries potentially impact the dynamics of rule transfer whatever the mode of governance and whatever the explanatory hypothesis tested. In other words, network and market governance may occur in the shadow of hierarchy (Héritier and Lehmkuhl 2008) just as rule transfer may take place on the basis of the institutionalist or domestic structure explanation in the shadow of power constraints. This calls for additional research based on a design allowing a tighter empirical control for power asymmetries.

From a conceptual perspective, the deliberate choice for a structural approach also led proponents of the EEG approach to somehow downplay intentionality. Yet, if one considers that rule importation is a policy decision, taken by an actor on the basis of a specific set of interests and motives, it becomes necessary to introduce a new set of explanatory variables so as to take into consideration the domestic preference of the rule importer. The absence of control for power asymmetries in the existing EEG case studies may explain why the preferences of the rule importers were not included in the model, since the EU was able to export its norms, whatever the preferences held by third countries, by mobilising its overwhelming economic power. Nevertheless, when the power distribution is more symmetrical, third countries can be expected to interrupt or reverse rule transfer if their interests are no longer best served by the importation of a foreign rule.

## **TOWARDS A REVISED EEG FRAMEWORK**

To overcome these shortcomings, I suggest a revised EEG framework in which power becomes a new independent variable, thus allowing for tighter empirical control. In addition, the proposed revision includes new assumptions on the domestic preferences of rule importers, based on previous research on the Europeanization of Central and Eastern European countries.

### **Controlling for power asymmetries**

There exists a large body of literature pointing to the role of power relations and of coercion in rule transfer processes. The notion of coercive isomorphism put forward by DiMaggio and Powell (1983) is an attempt to conceptualise changes in institutional settings brought about by external pressures, be these from international organisations or from powerful foreign states. Henisz *et al.* (2004) also suggest distinguishing between direct international coercion when the choice of governments is influenced as a result of interaction with powerful external actors, and indirect international coercion, whereby such actors intervene in domestic political struggles by lending their support to a particular domestic actor against another.

Whether exercised directly or indirectly, there are three channels via which coercive isomorphism can occur. First, rule transfer can be imposed as a result of geopolitical power pressures, because of acute differences in capabilities endowment between two actors. One example would be the imposition of stricter air security regulations by the United States on smaller Central American countries in the wake of the 9/11 attacks. Second, rule transfer can result from sectoral power dynamics, when a foreign country can mobilise sectoral capabilities or expertise to impose its rules upon another country, irrespective of the geopolitical power distribution. EU conditionality can be seen as falling within this category, since the EU's ability to impose its rules on the basis of this mechanism depends on third country's sectoral dependency on access to the European single market. Finally, rule transfer can be imposed by a coalition of rule exporters mobilised against a single rule importer (or against a weaker coalition of rule importers). A negative example would be the refusal of a large coalition of developing countries to include the so-called Singapore issues in WTO negotiations, despite urging pressures from the US, Europe and Japan.

In this article, I shall consider only the first two channels of coercion, thereby excluding the coalitional power distribution. This decision is motivated by the nature and functioning of the international organisation involved in the case at hand: although the United Nations Economic Commission for Europe did play a role as a platform for discussion and exchanges among technical experts, the relevant working party (WP29) is

not a decision-making body in which a coalition of EU Member States could force the adoption of their rules upon non-EU states. Besides, the Chinese are indeed participants in the WP29, but they are not actively involved in its activities (UNECE 2002: 6). If we use these distinctions to classify the existing EEG research, we can observe that the case studies were conducted under an asymmetrical geopolitical power distribution, with some degree of variation in the sectoral power distribution (see Table 1). Controlling effectively for power asymmetries requires that we find cases located in the top left hand corner of the table (shaded in grey).

Table 1: Typology of power distribution

		GEOPOLITICAL POWER DISTRIBUTION	
		<i>symmetrical</i>	<i>asymmetrical</i>
SECTORAL POWER DISTRIBUTION	<i>symmetrical</i>	Rule transfer from the EU to a geopolitically powerful third country in a policy field where the EU does not enjoy any sectoral power advantage.	Rule transfer from the EU to a geopolitically weaker third country in a policy field where the EU does not enjoy any sectoral power advantage.
	<i>asymmetrical</i>	Rule transfer from the EU to a geopolitically powerful third country in a policy field where the EU enjoys a sectoral power advantage.	Rule transfer from the EU to a geopolitically weaker third country in a policy field where the EU enjoys a sectoral power advantage.

### Conceptualising the domestic preferences of rule importers

In their three Europeanization models, Schimmelfennig and Sedelmeier (2005) include assumptions on rule importers' preferences which prove very useful to complement the EEG approach: in the External Incentive model, third countries import a rule because they want to benefit from an incentive set up by the rule exporter; in the Social Learning model, they opt for the most legitimate rule available (logic of appropriateness); in the Lesson Drawing model, they select the most effective rule available to solve a particular policy problem. From these three models, I infer three different preferences on the part of third countries, corresponding to three different mechanisms of rule transfer (see Table 2).

Table 2: Third country's preferences, rule transfer mechanisms and corresponding EU rule properties

Typology of third countries' preferences	Rule Transfer mechanism	Corresponding EU rule property
Incentive-driven	The third country chooses the rule associated with the highest reward or with the lowest sanction	Rewards and sanctions associated with the rule
Value-driven	The third country chooses the most legitimate rule	Legitimacy
Solution-driven	The third country chooses the most effective rule to solve a domestic policy problem	Effectiveness

### Proposed revision and operationalisation of the model

In the revised EEG framework proposed in this article, rule transfer is a function of the power distribution, of the comparative properties of the rules in competition as well as of the specific preference held by the importing country. When power is controlled for, rule transfer is expected to result from the **correspondence** between the third country's preference (what the norm importer wants) and the comparative rule properties (what the rules have to offer).

### Operationalisation of the variables

The power distribution can be determined by looking at a series of indicators both at the geopolitical and sectoral level. In the traditional IR literature, relevant geopolitical indicators include the country and population sizes, the economic weight expressed in GDP, GDP per capita or economic growth, the possession of natural resources, the military budget or the availability of nuclear weapons, the quality of human capital or the control of advanced technologies. Sectoral indicators should give a representative account of the power relations at the level of the policy field within which the rule to be transferred is located. For instance, if the rule under scrutiny is a technological standard for mobile telephony, one may obtain a faithful picture of power relations at the sectoral level by considering the ownership of the technology (patent), the number of companies operating with the technology and the number of clients using the technology in the rule exporting and rule importing countries. For both series of indicators (geopolitical and sectoral), a differential can then be defined (for example 50 per cent): if the difference between both sides is inferior to 50 per cent, the power distribution qualifies as symmetrical; if that difference exceeds 50 per cent, the power distribution can be regarded as asymmetrical.

The comparative properties of the various rules in competition define the **policy offer**, whose determination requires that we first identify the rules available for selection. Once the various rules in competition have been identified, it is necessary to determine their comparative properties in the three areas defined by the EEG approach and in the Europeanization literature: the rules' reward-and-sanction system, the rules' legitimacy and the rules' effectiveness. The reward-and-sanction system can be derived from the



compliance mechanism set up by the rule exporter. Examples of reward-and-sanction system include market access or financial penalties. The rules' legitimacy can be assessed on the basis of two criteria: the domestic resonance (Schimmelfennig and Sedelmeier 2005) and the universality or singularity of the rules in competition, meaning the extent to which the rules aim at solving a problem in a general and potentially universal (and hence, replicable) way or the extent to which the solution advocated is tailored to the needs of the country where the rule was first developed<sup>3</sup>. The rules' effectiveness refers to their problem-solving prospects, which can be apprehended by taking a look at the rules' stringency, at their track records in tackling a given policy problem, at the conditions under which they can deliver the expected results and at the associated adoption costs.

Finally, the preference of third countries in the rule transfer process is defined by the interaction and confrontation between key political, economic and civil-societal players (Moravcsik 1993, 1997). This interaction gives us the **policy demand** at the national level, which is then defended by states' representatives at the international level. The determination of the third country's preference in a given policy area therefore requires that we identify the relevant domestic players whose individual preferences are likely to influence the national preference. This policy demand is frequently laid down in strategic documents or position papers, thereby providing the revealed preferences of the third country.

## THE TRANSFER OF VEHICLE EMISSION STANDARDS TO THE REPUBLIC OF CHINA

The Chinese automotive market has four main characteristic features. First, despite its large population, China still has one of the world's lowest per capita vehicle populations (21 vehicles per thousand inhabitants), which is about the same number as the US in 1913 (Gallagher 2003). With the progressive rise in standards of living and the increased demand for mobility, the potential of the Chinese market is considerable: were China to match the US number of per capita vehicle, Chinese streets would accommodate an additional 900 million cars (Zhao 2006).

Second, the Chinese automotive industry is highly fragmented and virtually deprived of R&D capabilities. There are more than 150 registered manufacturers today and this scattered landscape results in major scale inefficiencies (Russo *et al.* 2009: 2).

Third, the Chinese government progressively encouraged foreign car makers to enter its market in the form of joint ventures. *Volkswagen's* first contacts date back to 1978, which eventually led to the establishment of *Shanghai Volkswagen* (1985) and *FAW-Volkswagen* (1991)<sup>4</sup>. Shortly after, *Citroen* developed a joint venture with *Second Auto Works* (1992). To date, a total of 22 foreign car producers have developed joint ventures with Chinese companies.

Fourth, the Chinese production is nigh exclusively targeted to satisfy the rapidly growing domestic demand. In 2009, China became the world's largest automotive market, with annual sales reaching 13,64 million units. From these 13,64 million units, only 420,800 (3 per cent) were imported<sup>5</sup> – but, thanks to the many joint ventures, foreign brands hold a firm 66 per cent of the domestic market (Russo *et al.* 2009: 3). In parallel, Chinese car exports in 2009 represented a mere 2.7 per cent of the domestic consumption (369,600 units)<sup>6</sup>.

### The European vehicle emission control system and its adoption by China

The Community's action to define an emission standard for light-duty vehicles dates back to a directive in 1970, which has been amended on many occasions in order to decrease the legally acceptable threshold of gaseous pollutants: in 1991 (passenger cars) and 1993 (light trucks), Euro I standards were adopted and replaced by Euro II standards in 1996. These initial standards were further lowered by a directive in 1998 (Euro III and IV) and by two regulations in 2007 and 2008 (Euro V and VI) which repealed and replaced the 1970 directive. Currently, the EU is in the transition period between the Euro IV and Euro V regimes<sup>7</sup>.

The first Chinese legal act in the field of environmental protection was a 1979 law – however, the first national standards for vehicle emissions were not adopted before 1983. As the total number of vehicles increased, the Chinese government introduced the European emissions control system for light-duty vehicles in 1989 and for heavy-duty vehicles in 1993 and a more stringent legal framework was set up in 1995. From 1999 onwards, China then started to define national emission standards which systematically mirrored the Euro standards (see Table 3).

Table 3: Chinese emission standards for light-duty vehicles

Chinese standard	Date of entry into force	Region of entry into force
<i>CHINA I, based on EURO I</i>	January 2000	Nationwide
<i>CHINA II, based on EURO II</i>	August 2002	Beijing
	March 2003	Shanghai
	September 2003 (diesel) July 2004 (gasoline)	Nationwide
<i>CHINA III, based on EURO III</i>	December 2005	Beijing
	October 2006	Guangzhou
	January 2007	Shanghai
	July 2007	Nationwide
<i>CHINA IV, based on EURO IV</i>	January 2007 (diesel) March 2008 (gasoline)	Beijing
	June 2010	Nationwide

Source: By the author on the basis of the relevant Chinese legislation, available online in English translation at: <http://www.lexadin.nl/wlg/legis/nofr/oeur/lxwechi.htm#Environmental%20Law> (last accessed 15.01.2013).

### The current EEG framework applied to China's adoption of the Euro standards

The introduction of European emission standards into Chinese national law provides a challenging case for the current EEG approach, since none of the three explanations would have predicted the selection of the EU standard by the Chinese authorities.

The power-based explanation can easily be discarded since the power distribution, be it at the geopolitical or at the sectoral level, is characterised by a degree of asymmetry to the benefit of the Chinese side. Indeed, most geopolitical power indicators show that the power distribution between the EU and China is at best symmetrical or, more likely, asymmetrical to the detriment of the Europeans. In addition, the brief analysis of the automotive market in China has shown that the EU does not enjoy a sectoral power

advantage, while China does, for both static and dynamic reasons: first, Chinese car makers do not export towards the Single Market, whereas it is vital for European car companies to be present on the Chinese market; second, the Chinese market is the world's most rapidly growing market and offers the most attractive prospects of development in the coming decades.

The domestic structures explanation appears equally unconvincing because the EU standards adopted in 1989 introduced far-reaching commitments which did not "resonate" in the administrative and regulatory culture of the time. For instance, the EU standards could not be implemented under the administrative and judiciary system prevailing at the time. A series of institutional and legal reforms was therefore indispensable: creation and staffing of an environmental state agency at ministry level in 1998, training of judges and civil servants, development of monitoring capacities, scientific research and expertise.

Finally, the institutionalist explanation carries little explanatory power, since it implies the existence of joint agencies or policy networks within which the comparative merits of the EU rule can be conveyed. However, the observation of the current architecture of EU-Chinese relations shows that there are few such networks: the only relevant sectoral dialogue occurs in the broad framework of the Working Group on Enterprise, Industrial Policy and Regulation, whose plenary meetings are held once a year and have a particularly broad agenda, which does not create many opportunities for processes of socialisation between Chinese and European experts of the emission system. Discussions at the technical level are also crucially dependent on the broad foreign policy climate and Working Group meetings have been cancelled in the past<sup>8</sup>.

## **THE REVISED EEG FRAMEWORK APPLIED TO CHINA'S ADOPTION OF THE EURO STANDARDS**

The revised EEG model, by integrating new explanatory variables to take into consideration the domestic preferences of rule importers and the comparative properties of the various rules in competition, is better able to account for the Chinese decision to import EU emission standards.

### **Determining the Chinese domestic preference (policy demand)**

Among the most influential players in the literature on domestic preferences formation are the central government, the legislature, the judiciary branch, the decentralised administrative authorities, private interests, civil society and the international community – however, not all of them are relevant in the case at hand. Indeed, car emissions have become a matter of international concern rather recently and it seems unlikely that international pressure played a role in the Chinese decision to emulate EU standards, whether in 1989 or later<sup>9</sup>. Similarly, the importation of European standards cannot be attributed to the activism of Chinese civil society organisations given the persistence of obstacles to the constitution of intermediary bodies between the party-state and the citizens (Zhang 2003). In fact, access to courts for environmental damages has long been denied to citizens and often remains theoretical today, especially against state-owned polluting companies<sup>10</sup>. Finally, given China's constitutional arrangements<sup>11</sup>, neither the legislature nor the judiciary can be considered as domestic players liable to influence significantly the definition of Chinese domestic preferences.

The central government (especially the Standing Committee of the Communist Party) is traditionally the most influential player in Chinese politics<sup>12</sup>. In the case at hand, the preference of the central government is unambiguously solution-driven. Indeed, with sixteen of the world's twenty most polluted cities located in China, China is acutely

confronted with the external costs of local air pollution: premature deaths, increased costs of health care, insurance, hospitalisation, environmental damages to properties and to cultural heritage (World Bank and State Environmental Protection Agency 2007). Pollution also affects more severely the most vulnerable populations (elderly, children, socially deprived), thus contributing to sharpen social inequalities and tensions within the country (Gan 2003). The central leadership is well aware of the repercussions of environmental problems on economic growth, public health and social stability (Economy 2003, 2004 – as well as Deputy Minister Pan Yue's interview). Local authorities are traditionally important players in domestic Chinese politics and are moreover constitutionally co-responsible for public health issues. Given the extent of policy failure and the potential dangers for national cohesion however, the local level accepted all directions given by the central leadership. Besides, the technical character of the standards did not lend itself to a major political brawl between national and local authorities<sup>13</sup>.

Finally, the automotive industry is directly concerned by the importation of far-reaching emission standards which would place additional burden on production. There is evidence that the industry initially reacted with caution, if not with reluctance, to the government's plans to import emission standards, since the latter required to develop cleaner technologies for which there was no clear domestic demand (Zhao 2006). Yet, the central government was able to overcome this initial reluctance using well-designed fiscal incentives as well as promises of technology transfer from Western car makers (Gallagher 2003, 2006b).

### **Identifying the standards in competition (policy offer)**

When China was in the process of developing a regulatory framework to control emission from light-duty vehicles, there were two standard providers to emulate: the European Union and the United States. In the United States, the Clean Air Act amendments of 1990 defined the so-called Tier I standards (1994-1999), which were further sharpened by the Tier II standards (2003-2009). Whereas the Tier I inaugurated a system rather akin in its functioning to the Euro standards, with the regulatory body setting up an emission cap for all vehicles belonging to a given weight category, the new emission control system created by the Tier 2 standards differed quite extensively in that it abandoned the strict linkage between the emission cap and the vehicles' weight. Instead, 8 permanent and 3 temporary certification levels (the bins) were instituted and car manufacturers were free to produce vehicles that fit into any of the bins provided that they meet an average mono-nitrogen oxides target for their entire fleet<sup>14</sup>.

### **Comparing standards' effectiveness**

Comparing both standards' stringency is a less straightforward undertaking than it appears since they do not cover exactly the same gases, are set for different vehicle categories and are expressed in different units. Yet, if we focus on the emission caps for passenger cars regulating the emissions of carbon monoxides (CO), of mononitrogen oxides (labelled NOx) and of particulate matters (PM), it appears that the US Tier 1 standards are more stringent than their first European counterparts (see Table 4). Euro II standards defined a stricter CO cap for gasoline emissions but otherwise both standards set rather comparable emission limits, with one difference however: NOx were not included in the first two European standards. Overall, it is therefore not possible to argue that EU standards were imported based on their superior stringency<sup>15</sup>.

Table 4: EU and US emission standards for passenger cars in place at the time of the Chinese importation decision

	US Tier 1	EURO I	EURO II
<i>Year of adoption</i>	1991	1991	1994
<i>Year of entry into force</i>	Phase-in 1994 to 1997	1992	1996
<i>CO diesel</i>	3,4a (2,11); 4,2b (2,61)	2,72	1,0
<i>CO gasoline</i>	3,4a (2,11); 4,2b (2,61)	2,72	2,20
<i>NOx diesel</i>	1,0a (0,62); 1,25b (0,78)	-	-
<i>NOx gasoline</i>	0,4a (0,25); 0,6b (0,37)	-	-
<i>PM diesel</i>	0,08a (0,05); 0,10b (0,06)	0,14	0,08 to 0,10
<i>PM gasoline</i>	-	-	-

EU standards are expressed in grams per kilometre, US standards in grams per mile, with the gram per kilometre conversion between brackets. (a) 50,000 miles / 5 years; (b) 100,000 miles / 10 years.

Similarly, the examination of both standards' track records (Table 5) reveals *ex post* that CO and NOx emissions decreased by relatively similar rates in the EU and US for the period 1990-2008. The Chinese authorities could therefore expect that both standards would equally contribute to solving their domestic problem.

Table 5: Change in CO and NOx emissions (US 1990-2008; EU-27 1990-2007)

	CO	NOx
<i>Percent change 1990-2007 EU- 27</i>	-56,6%	-35,6%
<i>Percent change 1990-2008 United States</i>	-53%	-36%

Sources: US Environmental Protection Agency (2010: 7), Our Nation's Air – Status and Trends Through 2008 and European Environmental Agency (2009: 25), European Community Emission Inventory Report.

In order for standards to deliver the expected effects, it is necessary to run tests so as to measure the pollutant emissions from engines. Both the EU and the US standards are associated with specific measurement procedures<sup>16</sup>: whereas no major criticism has been levied against the US testing procedure (which has even been emulated by Australia), the European Union Driving Cycle has been shown to be poorly devised, allowing engine manufacturers to exploit technical weaknesses and engage in strategic

“cycle beating” behaviours – meaning that the engine could be designed so as to achieve a certain level of emissions under test conditions, whereas real-life emissions were significantly higher. In 2000, the EU changed this procedure but the New European Driving Cycle did not fully suppress cycle-beating<sup>17</sup>.

Finally, adoption costs did not intervene decisively given the comparable levels set by both standards which required a similar effort in greening engine technologies; the adoption costs would not have been higher with one standard than with the other. Besides, the structure of the Chinese market renders the cost argument less compelling: through their joint ventures, Chinese companies imported greener technologies from and largely shared the adoption costs with their European and North-American partners.

### Comparing standards' reward-and-sanction systems and legitimacy

The reward-and-sanction mechanisms set up by the EU and US are strictly similar: both standards condition market access. Therefore, market conditionality can only be seen as the rule property conducive to the exportation of the EU standards if we can show that the Single Market exerts more attraction on Chinese carmakers than the North-American market. Yet, empirical observations speak against this assertion: first, as far as current exports are concerned, Chinese-branded cars are quasi-absent from both the EU and US markets – in fact, China mainly exports trucks and most of its production is sold in the Middle-East, Southeast Asia and Africa; second, as far as future exports are concerned, the Chinese authorities consider the US market as more important for both strategic and symbolic reasons, based on the assumption that if they can compete in the US, they can compete anywhere (Perkowski 2006: 26).

As far as domestic resonance is concerned, the fact that Euro I and II were expressed using the metric system (which is also used in China) whereas the US Tier was expressed in the US customary units seems to have granted a moderate advantage to the European standards<sup>18</sup>. In addition, the voluntary standards were introduced in 1989 and the compulsory standards in 2000, which left a decade for the Chinese authorities to get acquainted with the particularities of the European system and simultaneously increased the cost of switching to the US system<sup>19</sup>.

The European emission control system is also a potentially universal mechanism, since it sets up a rigid emission limit, which needs to be respected by all vehicles belonging to a certain weight category. When importing the Euro standards in 2000, the Chinese authorities knew from the on-going discussions on Euro III and IV that this system would be kept. By contrast, discussions about the Tier 2 system in the late nineties indicated that the initial rigidity of the Tier 1 would be abandoned in favour of a more flexible bin system allowing car makers to continue selling large and dirty vehicles as long as their entire fleet meet an average NOx target. The Tier 2 system can therefore be regarded as a standard tailored to the singularities of the US domestic market, where a significant part of the consumers traditionally hold a preference for larger, more powerful and less environmentally-friendly cars. The universality or singularity of the standards can also be assessed by looking at their geographical diffusion: on the one hand, the Euro standards are promoted by a United Nations specialised agency (the United Nations Economic Commission for Europe<sup>20</sup>) and have been emulated by countries as diverse as India, Russia, Turkey, Thailand, Argentina, Brazil, Australia or Peru; on the other hand, the Tier 1 and 2 emission standards for light-duty vehicles have not been adopted beyond the two immediate neighbours of the United States (Canada and, partly, Mexico).

Finally, the longstanding presence of European companies in China contributed to tip the balance in favour of the European standard. Indeed, *Volkswagen* entered the Chinese market comparatively early<sup>21</sup> and used to claim over 50 per cent of the market until the

late nineties, meaning that the company enjoyed a dominant position when the Chinese government had to decide which standard to import<sup>22</sup>. Similarly, French foreign direct investments in the Chinese automotive sector are ancient and led to the constitution of a joint venture six years before the first Sino-US rapprochement (Hubler and Meschi 2001). Since both VW and Peugeot were domestically subject to the EU emission control system, the joint ventures rendered EU standards more familiar and more acceptable to the Chinese policy-makers before US companies could do so<sup>23</sup>.

## CONCLUSION

This article is an attempt to apply the European External Governance approach to new countries located beyond the immediate periphery of the European Union and which are not placed in a situation of asymmetric interdependence towards the EU. This case study reveals that the EEG framework, in its current formulation, cannot account for the Chinese decision to import the European rather than the North-American emission control system for light-duty vehicles. The very selection of the European rule could not have been predicted by any of the three explanations of the current framework. In order to address these shortcomings, this article puts forward a revised EEG framework which takes into consideration the domestic preferences of the rule importer next to the comparative properties of the various rules in competition. Under a symmetrical power distribution, it is expected that the rule imported will be the rule endowed with the best comparative properties in the area most valued by the third country (correspondence hypothesis).

The decision to import foreign standards becomes a rational policy decision when analysed through the lens of the revised EEG framework. Indeed, the Chinese decision to import foreign standards can be seen as resulting from the central government's eagerness to tackle a burning domestic policy problem for which no satisfying domestic policy solution existed (solution-driven domestic preference). Given the extent of domestic policy failure, the Chinese government had a vital interest in adopting a foreign rule that would decrease effectively local air pollution. Yet, the comparison between the two available rules which the Chinese authorities could draw inspiration from (Euro I and II and US Tiers) partly invalidates the correspondence hypothesis since, although both rules offer good problem-solving prospects, the US Tier standard has a slight comparative advantage which however did not lead to its selection. In other words, despite its solution-driven preference, the Chinese government imported a rule which was effective, but which was not the most effective policy alternative available. In addition to considerations of local agency, the Chinese choice can be explained by the previous acquaintance with and the greater legitimacy of the Euro emission standards.

Finally, the case study led in this article deals with an instance of bilateral rule transfer from the EU towards a powerful non-EU state. Yet, one of the lessons of the case study is that bilateral rule transfer is likely to be influenced by the outcome of multilateral rule transfer, occurring in global governance institutions such as United Nations agencies. In the case at hand, it would be interesting for instance to see why the UNECE promotes the EU rather than the US rule. Additional research is needed in this direction, particularly to see whether a different conceptual model is required at the multilateral level (Rousselin 2012).

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<sup>1</sup> Besides, the countries on which the EEG approach has been tested so far already include a significant degree of variations on these two parameters (for example, Moldova and Russia).

<sup>2</sup> Indeed, these are small countries, economically developed, with largely compatible political cultures and institutional practices. Should the domestic political consensus evolve, these countries could easily and rapidly become EU members. When dealing with them, the EU is therefore nearly dealing with itself in what might be more accurately labelled “semi-external governance”.

<sup>3</sup> The underlying idea is that, the more general and universal the rule, the less it can be suspected of serving the particular interests of the country where the rule was first developed. In this sense, it is similar (but not identical) to what Schimmelfennig and Sedelmeier (2005: 19) refer to as the “international rule consensus”.

<sup>4</sup> The final authorisation for the first joint venture came from Chen Yun himself, one of the Eight Immortals of the Communist Party in charge of economic affairs, which shows the level of involvement of the central leadership (Ziyang 2009: 102).

<sup>5</sup> Numbers provided by the China Association of Automobile Manufacturers, quoted in “China’s Auto Exports Down by 46%”, in *China Car Times*, 15.02.2010.

<sup>6</sup> Ibid. Chinese-branded cars are considered here; in fact, many components of the US or European cars are already manufactured in China.

<sup>7</sup> Euro V standards apply since September 2009 for the type approval of vehicles and since January 2011 for the registration and sale of new types. Euro VI will enter into force for the type approval of vehicles as of September 2014 and for the registration and sale of new types as of September 2015.

<sup>8</sup> For instance, the Working Group meeting was cancelled by the Chinese side in 2009, after President Nicolas Sarkozy received the Dalai Lama during the French presidency of the European Union.

<sup>9</sup> Only when China faced a credible threat of sanction (as was the case before the Beijing Olympics) did Chinese policy makers pay attention to international pressure.

<sup>10</sup> See the interview “The Chinese Miracle Will End Soon” with Pan Yue, China’s Deputy Minister of Environmental Protection, published in *Spiegel* 03.07.2005.

<sup>11</sup> The 1978 constitution rejects the idea of separation of power and puts forward the notion of democratic centralism under which all branches of government and all administrative units are answerable to the National People’s Congress (at the central level) and to Local People’s Congresses (at the decentralised level) and hence to the Communist Party.

<sup>12</sup> There exists a numerous literature on this aspect. One of the most vivid accounts is the first-hand testimony by former Prime Minister Zhao Ziyang (2009).

<sup>13</sup> Interview with a Chinese official from the Chengdu Environmental Protection Administration.

<sup>14</sup> The NOx fleet average is fixed at 0,07 g/mi and corresponds to the fifth certification level. Consequently, US car makers can offset the NOx emissions from vehicles belonging to dirtier bins by selling enough vehicles certified to greener bins.

<sup>15</sup> The opposite argument, according to which the EU rules were chosen precisely as a result of their lesser stringency, does not seem very convincing. Indeed, the difference in stringency between both standards is rather limited – from a numerical perspective, EU and US standards are quite comparable, with the US standard being only slightly more far-reaching. Consequently, choosing the European standard would not have resulted in a major gain of flexibility for the Chinese side. On the contrary, were the Chinese to privilege flexibility over stringency, then we would expect the selection of the US standard, which offers the advantage of fixing an average target rather than a cap, thereby allowing producers to continue selling a larger variety of car models.

<sup>16</sup> The Federal Test Procedure 75 for the US Tier standards and the EU Driving Cycle for the Euro standards.

<sup>17</sup> See European Environment Agency (2004), *Ten Key Transport and Environment Issues for Policy Makers*, EEA Report 3/2004.

<sup>18</sup> Interview with a Chinese official from the Chengdu Environmental Protection Administration.

<sup>19</sup> It should however be noted that path dependence does not constitute a fully satisfactory answer, since it does not explain why EU standards were first introduced in 1989.



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<sup>20</sup> Via UNECE Regulation 83. Even though China refused to sign the UNECE 1958 Agreement because it included provisions on mutual recognition, it later became a party to the 1998 Agreement on Global Technical Regulations, which foresees the extension of UNECE regulations on a voluntary basis.

<sup>21</sup> Twelve years before General Motors, which established its first joint venture in 1997 with the Shanghai Automotive Industry Corporation, and more than fifteen years before Ford, which established its first joint venture in 2001 with Chang'an Motors.

<sup>22</sup> The presence of VW on the Chinese market is such that China has been labelled "the second mother-market" or "Volkswagen-Republic" – see *Financial Times Deutschland*, 'WM und GM in China: das grosse Duell um die Volkswagen-Republik', 26.04.2010.

<sup>23</sup> Interview with an official from the European Commission. The argument is deemed "moderately important" by the Chinese interviewee. In my understanding, the "first-mover" argument cannot be invoked in support of EEG's hierarchy hypothesis given the absence of power asymmetries: German engineers and French industrialists could certainly present and explain the European standards to their Chinese counterparts within joint ventures, but VW and Peugeot staff had no leverage to force the adoption of their standards upon the Chinese central leadership. Instead, the strategy chosen was to provide technical advice to Chinese decision-makers. For VW, this was for instance done within the framework of a specially established unit called "Homologation, Standards and Lobby" (Saikawa 2010: 186).

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