



# BUILDING EUROPE'S STRATEGIC AUTONOMY VIS-À-VIS CHINA

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# 1.

## EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS

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In 2021, the Jacques Delors Institute set up a working group on EU-China relations that assembled researchers, academics, practitioners, and business representatives from several Member States.

After mutual sanctions paralysed relations between the EU and China, it seemed necessary to reflect on how to break out of this rut.

The fruit of these reflections, a mosaic of analyses, is contained in this report. It focuses on structural issues in the bilateral relationship and addresses specific themes, including cybersecurity, China's commitment along the new silk roads in Central Asia, Africa, the Middle East and Latin America, as well as the new Sino-Russian partnership. All contributions, under the responsibility of their authors, make specific recommendations.

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The European Union (EU) has long neglected China's rise to power and instead focused on its immediate environment or transatlantic relations. It started to acknowledge China's global importance at the turn of the millennium with the conclusion of a strategic partnership in 2003. Since then, Europe has gradually become aware that China's model presented unique challenges to the liberal international order. In 2019, the European Commission presented **a new strategy based on the tripartite definition "partner, economic competitor, systemic rival"**. China's ambitions raise fears that the international order, as defined by the victorious powers of 1945, has come to an end. The EU's tripartite definition of its bilateral relationship with China reflects both its complexity and the **difficulty of EU Member States to agree on a truly common strategy to address China coherently**.

The question has become more acute in the context of the multidimensional Sino-American confrontation—regardless of whether it amounts to a new Cold War—and was accelerated by the health crisis. The changing Chinese and American positions are accompanied by a geoeconomic and geopolitical shift towards the Asia-Pacific. This dynamic, which risks leading to a decoupling scenario initiated by the United States, will structure international relations for years to come. **The European Union must position itself and play its part if it wants to achieve strategic autonomy to defend its vital interests and values—in other words: to count in the world while making its own choices**. This should be one of the key elements of the Strategic Compass.

What are the key recommendations?

A shared observation is that the Chinese regime is hardening in regard to public freedoms and withdrawing into its shell, as reflected in the gradual return to the Maoist notion of self-sufficiency, which has shown its limits in the past. But is the drive towards isolation a lasting swing of the pendulum? Only four years ago, in Davos, Xi Jinping was the herald of the globalisation of the world economy, free trade and multilateralism. The situation will not become clearer until the 20<sup>th</sup> Communist Party Congress in October 2022 and Xi Jinping's re-election for a third term. However, **the European Union has nothing to gain from the emergence of closed antagonistic blocs, nor from aligning itself with one or the other.**

While pursuing the revival of the transatlantic dialogue with the Biden administration, the EU must be a balancing power. Of course, **there is no equidistance between Beijing and Washington. The EU has more in common with the US and would benefit from developing common digital standards that safeguard political rights.** Consultation with the United States is therefore highly desirable. But the EU must also be careful not to turn a summit of democracies into an anti-China circle. In any case, the EU must continue to build its strategic autonomy by continuing to develop relations with Beijing on its own terms.

**The French Presidency of the Council of the European Union, which began in January 2022, can help lay the foundations for a realistic, fair, and lasting relationship with China.** Beijing has been an interested and calculated supporter of the European project since its beginnings because it saw Europe as a counterweight to American and Soviet power and as a supporter of its own development. Now, however, Beijing sees Europe as divided, weakened, and aligned with Washington. It is up to the Europeans to prove that the EU can play an autonomous role.

This will naturally require close consultation with the new authorities in Berlin, which are somewhat disillusioned with China but whose industry is still more oriented towards the Chinese market than others. It is, therefore, crucial **to mobilise all Member States, as cohesion is a determining factor.** The loss of momentum for the 17+1 format, through which China tried to extend its Silk Road initiatives to Europe, while also sowing division among Member States, and the arrival of an Italian government less favourable to Chinese investment, will no doubt help to strengthen this cohesion.

The EU's principal asset is to be the world's largest stable market that is based on the rule of law. It is a normative power that exports its standards and values,

notably through the World Trade Organisation (WTO) and free trade agreements. China, which so far accounts for only 1.8% of international standards, aims to export its own standards and is developing an offensive strategy, particularly in the context of the Silk Roads with an unlimited geographical scope. **The EU must adjust its standards strategy to the resources invested by Beijing** and increase cooperation in this area with Asian, African, and Latin American countries, while also ensuring that it monitors more closely the compliance of its imports with such standards.

**The comprehensive agreement on investment (CAI)** came in response to European business demands that have been formulated for more than seven years by the EU Chamber of Commerce in Beijing and whose annual report serves as a reference. The agreement, concluded in principle in December 2020, guaranteed greater openness of the Chinese market in various sectors (health, telecommunications, maritime services, etc.), the end of forced technology transfers or joint venture obligations, and transparency on state aid in the services sector. The Commission also obtained a “commitment” from Beijing to ratify the International Labour Office (ILO) conventions on forced labour. In addition, and this is important, the agreement provided access to Chinese standardisation bodies. **We will have to find a way to implement all or part of this agreement –currently frozen by reciprocal sanctions–** which serves our interests and allows us to catch up with the concessions that have already been obtained by the United States in the context of the January 2020 *Phase One* deal. European companies are in favour of this. This impasse raises difficult questions about the relevance of sanctions to defend human rights. On the one hand, their effectiveness is unproven; on the other, they are economically counterproductive and exacerbate nationalist tendencies.

In a geopolitical environment that is becoming more conflictual, the European Union, like other powers in the world, is trying to reduce its dependence on strategic products. But **despite the stated desire to relocate production, it will remain limited to few products that are deemed essential**. Major European firms, which do not intend to give up on the Chinese market with its 1.4 billion inhabitants, will favour a diversification of their supplies. But the companies present on the Chinese market have also expressed their intention to increase their investments in 2022, bearing in mind that the Chinese middle class is expected to number 800 million people in 2030. Our approach should therefore be realistic and articulated with European economic interests in mind. We should also not forget that the United States is our competitor in the Chinese market, where US firms have further increased their profits in 2021, as they were little affected by restrictions that were mainly aimed at third-country companies. They will probably try to conclude other



trade agreements with China without consulting Europeans—even more reason for the EU to retain its autonomy.

Nevertheless, the European Union must strive to rebalance a relationship that is marked by a growing trade deficit (181 billion euros in 2020) –except in Germany– by **strengthening its trade defence instruments**. These are designed as non-discriminatory instruments, like the mechanism for controlling foreign investment in strategic assets. **The EU must combat discriminatory practices that distort competition**, *a fortiori* those of China, its second-largest trading partner, and first trading partner for goods since 2020. **Adopting an anti-coercion instrument** will be particularly important. It would allow the EU to arm itself against extraterritorial sanctions that both Beijing and Washington could impose on Brussels. The EU also has an interest in the proper functioning of multilateral institutions and must continue to call on the United States to return to the WTO negotiating table, not least to increase the pressure on China to abandon discriminatory practices.

However, the reciprocity for market access that the European Union is trying to defend should also be accompanied by **the pursuit of greater complementarity between the two economies**. While the Chinese Communist Party's calls for greater self-sufficiency in the medium term, particularly for China's digital infrastructure, it could make Chinese technology companies less competitive and cause the country to fall into the middle-income trap. This is not least because most economic growth will come from this sector in the future. With proper care not to create a competitor, European poles of excellence could usefully complement China's low productivity in some sectors, particularly finance (risk control), business services, or the health, environment, and industrial software sectors.

Europeans benefit from **maintaining cooperation with China and keeping it involved in global governance** to address common challenges like climate change. For the EU to join with other democracies in defending human rights and the rule of law also requires **the preservation of channels of cooperation so that China doesn't develop alternative modes of global governance**.

To avoid a global climate disaster, all the world's economies must drastically and rapidly reduce their greenhouse gas emissions. **A partnership with China is crucial to tackle climate change**. China is the world's biggest polluter and 60% of its energy still comes from coal. Since it has become aware of the problem, **it is also a major competitor in green technology markets, including for raw materials and standards**. The EU, which is at the forefront of the fight against climate change, must facilitate trade in environmental goods and services, including by

forging an international coalition. It should ensure that it maintains its social and environmental credentials and fair competition rules and that its trading partners work together to raise the price of carbon, starting with the implementation of the carbon border adjustment mechanism. The EU could also mobilise China to jointly promote the development of a global taxonomy for sustainable finance.

The technologies used for the green and digital transitions are rare-earth intensive, but **95% of Europe's rare-earth supplies come from China**, and China provides 85% of the world's processing capacity. This gives China concerning leverage if it again decides for political or economic reasons to restrict its exports, an issue on which the WTO has ruled against it in the past. **Securing the supply of rare-earths must be treated seriously**. On the one hand, there is some indigenous European capacity (including in Greenland) and potential to use technological innovations that reduce the environmental impact of rare-earth mining and processing to increase the social acceptability of relocation closer to home. On the other hand, the EU can develop alternative sources of supply, including from Canada and Malaysia. Furthermore, the EU's supply of strategic goods to China, such as food products, could help secure the import of rare earths into the Union.

The European Union is a world leader in agriculture and food security. Yet China must feed more than 18% of the world's population with only 9% of the world's arable land. Although it has dramatically increased its agricultural yields and purchased land on all continents, China's needs are considerable. Chinese consumers, affected by numerous food scandals, recognise the EU for the quality and safety of its food products. China and the EU could **develop their exchanges on trade and technological innovation** to reconcile the growing need for food with the adaptation of crops to climate change.

**The European Union needs to pay closer attention to the implications for the euro in the long term and accelerate its thinking on creating a digital euro.** The European Union is trying to transform the Euro into a real reserve currency, while China and Russia want to "de-dollarise" trade. Indeed, China already has more than a quarter of its reserves in the European currency. But a new competitor to the dollar could, in the long run, be the Yuan. **China is currently seeking to internationalise its currency by developing the digital Yuan.**

Another crucial aspect is that the emergence of China as a global scientific and technological power is compelling Europe to adjust its international cooperation strategy in this area. For several decades, scientific development and the mastery of key technologies have been at the heart of China's ambition to be a major

economic and military power. Now it intends to be the champion of the fourth industrial revolution, and the dynamism of its research and development (R&D) makes it an attractive partner. It is no longer the time for scientific partnerships to help modernise under the illusion of always being one technology ahead. Today, China is at the cutting edge of knowledge in many fields, from artificial intelligence to green technologies. **Scientific cooperation must continue in our interest to remain connected to Chinese R&D.** We should continue to welcome high-calibre students as they could be more ethical in their research and more cooperative with the European research ecosystem in their later positions. But bearing in mind Xi Jinping's words that "science has no borders, but scientists have a homeland", this must happen with vigilance. The risks of intellectual property theft are real, and the Chinese Communist Party (CCP) has increased its control over all sectors of society. Like other Member States and the EU, France is working to strengthen mechanisms to preserve European assets and frame scientific and technological collaboration with China to serve the collective long-term interest to achieve strategic autonomy. Given China's massive investment in research and global technology intelligence, Europeans must actively strengthen their own intelligence capabilities to take a more targeted approach to their cooperation with China, assess the costs and benefits of partnerships, and develop an instrument to frame non-reciprocal technology transfers beyond dual-use technologies.

As the world's centre of gravity has shifted to Asia, the European Union must be also present in the region. It will not do so with military means, of which it has very few. It must not do so with a logic of military alliances. But it has to develop its relations with the countries of the region that have long been neglected to the sole benefit of China. This includes India, but above all the countries of South-East Asia, where China has invested heavily and will continue to gain influence after the ratification of the Regional Comprehensive Economic Agreement (RCEP) in November 2020. These countries have an ambivalent relationship with Beijing, which remains the dominant power in the region, but it is based on both mutual interest and distrust. They do not want to be in frontal opposition, apart from the current Australian government which joined the AUKUS alliance –Beijing's price to pay for excessive sanctions against Canberra. The EU has developed a framework for dialogue with ASEAN over decades that needs to be treated with less flippancy. It has an interest in concluding its ongoing negotiations with Indonesia, which, with a population of nearly 300 million, will be the world's fourth or fifth-largest economy by the end of the decade. **As well as reinvigorating the bilateral negotiations with Malaysia, Thailand, and the Philippines, the EU should work to revive the project for an interregional agreement. Nor should the EU rule out the idea of joining the CPTPP agreement** that has been signed by eleven countries in the Pacific region

and **will make its weight felt with common standards**. It could be a potent instrument to influence Chinese trade practices.

Taiwan, which China considers a core interest, is a place of growing tension. Currently, all EU Member States follow a policy of constructive ambiguity. They signed up to the One China policy when the People's Republic of China gained diplomatic recognition, and both entities joined the WTO simultaneously in 2001.

**Our interest, which must be clearly expressed, is the maintenance of the status quo and freedom of navigation in the Strait while deepening the extensive economic and technological cooperation that exists with Taiwan**, including on semi-conductors, the fight against digital interference, and the fight against climate change. Moreover, on a global issue such as health, there can be no black hole on the globe, and Europeans are justified in recalling the general interest of Taiwan's participation in the World Health Organisation (WHO).

A new challenge has also emerged in recent years because of climate change: improved access to the Arctic, which shortens the travel time between Europe and Shanghai by fifteen days. Therefore, China is interested in the transport infrastructure needed for this route and the exploitation of natural resources in the arctic region. On the other hand, Russia wants to retain its control over the route. **The EU must actively address the trade and security issues of the polar route** by better anticipating the impact of China's increased use.

Mutual perceptions of Europe and China have recently deteriorated significantly. **Efforts must be made to restore a calmer climate and more constructive people-to-people relations**. China's assumed closure until the 20<sup>th</sup> Communist Party Congress in October 2022 will make this more difficult. But it is necessary to establish a *modus vivendi* and a peaceful coexistence with the Chinese authoritarian regime—a new *Ostpolitik*, as it were. The question of values arises. Should we try to impose our own? The balance of power and reality do not lend themselves to this. If the Charter of Fundamental Rights establishes the rule of law in Europe, this is not the case in the rest of the world, and the EU is already having troubles enforcing it within its own territory. The EU can defend the respect for human rights, recognised as universal by the United Nations, but should they be systematically linked to investment or trade issues at the risk of paralysing relations, which incidentally is ineffective?

It is in the EU's interest to maintain incentives for China to open up and engage in international fora because an autarkic China would also be more threatening. It must be convinced of this and therefore maintain the bridges. Europeans should

not delude themselves, nor should they limit themselves to a reactive posture to Beijing's initiatives and **try to get to know China better in all its diversity**. But the EU will better defend its interests vis-à-vis China through an "integrated" strategy that includes all policy areas and prioritises its objectives.

Each of the following contributions makes ambitious recommendations in this regard.



# 2.

## A GLOBALISED CHINA IS LESS DANGEROUS THAN AN AUTARKIC CHINA

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*Original version*

Sabres rattle in the South China Sea. Political sanctions scuttle a long-planned investment agreement between the EU and China. Wolf-warrior diplomats scorn their host countries. This short list of recent events illustrates why many Europeans have become wary of their links with China. Since 2019, the EU has tried to address its complex relationship with the country by following a formula that sees China simultaneously as a systemic rival, an economic competitor, and a partner to provide global public goods. While the EU has so far sought to find a balance between all three variables, the latest developments are pushing us into the arms of the United States, which—although rhetorically adopting a similar trifecta—primarily sees its relationship with China through a prism of confrontation. But isolating China further would be a mistake. While we must not be naive about Chinese intentions, **a globalised China is less dangerous for Europe and the rest of the world than an autarkic China.**

China's rise has triggered fears that the liberal international order is under threat. Strategic planners in Washington see China as a more significant long-term threat than the Soviet Union, whose centralised system, even at its height, was never more than half the size of the US economy.<sup>1</sup> While differing in style, the Obama, Trump, and Biden administrations have therefore all been trying to mobilise US allies to contain China's growing power. In Beijing, such efforts bring back memories of the so-called century of humiliation, stir up popular nationalist sentiment, and accelerate China's divergence from the West. Under Xi Jinping's leadership, the Chinese Communist Party (CCP) increased its control over the economy and society. The CCP, which celebrated its 100<sup>th</sup> anniversary in July, is effectively coming full circle back to its Maoist roots.

These developments stand in stark contrast to China's integration into the international system between the 1970s and early 2000s, which was triggered by Deng Xiaoping, and characterised by gradual domestic reform and opening up to the world. Observing an isomorphic change towards Western norms, Francis Fukuyama, in the early 1990s, famously declared the end of history; from now on, economic liberalisation would go hand in glove with political liberalisation. Such ideas informed Western decision-makers during the Clinton era when China was admitted to the World Trade Organisation in return for opening its market and reforming its domestic economy. The permanent most favoured nation status allowed China to become the world's manufacturing hub and, in turn, experience the expo-

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1. Mark Harrison, 7 November 2017, "[The Soviet economy, 1917-1991: Its life and afterlife](#)", VOX, CEPR policy portal.



nential growth rates that resulted in China becoming the world's largest economy by 2013<sup>2</sup> (in purchasing power parity).

**Predictions of concurrent political liberalisation, however, fell flat.** The failed Western interventions in Afghanistan and the Middle East further eroded any remaining faith that liberal democracy could be imposed from above. It has instead become clear that sustainable political change in China must come from within, something that is slipping ever further over the horizon. Instead, in light of the loathsome regression of domestic human and political rights in recent years, especially in Xinjiang and Hong Kong, and China's aggressive external posture in its neighbourhood, the West and China have increasingly been put on a path of systemic rivalry.

As a result, both China and the US are encouraging the diversification of their supply chains –in other words, a mutual decoupling to lessen economic interdependence. This has particularly been the case in the technology sector, where security issues, data regimes and competition dynamics are much more sensitive than in the old economy.

But **there is a mismatch between the political imperatives of economic decoupling and business reality.** This is particularly true for European firms, which are much more dependent on the Chinese market than their counterparts in the United States. Just before the pandemic, 9% of EU exports went to China, about half more than the share of US exports going to China, which was at 6%.<sup>3</sup> With a ratio of (extra-EU) exports to GDP of 15%, the EU is also nearly twice as dependent on exports as the US, which has an exports-to-GDP ratio of 8%.<sup>4</sup> Moreover, despite the mounting political tensions, European companies continue to increase their investments in China. According to a recent survey,<sup>5</sup> almost one-third of European companies operating in China increased their shares in joint ventures, and two-thirds took full ownership or a controlling stake in 2020.

**Whether or not China's "Sonderweg" outside of global liberal market capitalism is a sustainable model remains an open question.** A growing demographic burden, historically high levels of public debt, rising labour costs, and a real estate

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2. Edie Purdie, 16 October 2019, "[Tracking GDP in PPP terms shows rapid rise of China and India](#)", *World Bank blogs*.

3. All data for 2019.

4. Calculations based on data for 2019 from WTO for merchandise exports and World Bank for GDP.

5. European Union Chamber of Commerce in China, 2021, "[Business confidence survey 2021](#)".

bubble are all putting the system to the test. However, we must keep in mind that reports of the Chinese model's imminent death have been greatly exaggerated for years, while its GDP growth has continued to be about triple the OECD average. For now, a significant presence in the Chinese market clearly remains key to the international competitiveness of most large firms.

But there are qualitative differences depending on what is being traded. Goods are, for the most part, ideologically flat. The new drastic restrictions on China's technology sector, on the other hand, demonstrate that digital services are deeply intertwined with political values. Indeed, it has become clear that the free circulation of information and the open flow of data across borders are incompatible with authoritarian governance. The CCP's recent moves to increase control over China's domestic technology sector and the withdrawal of LinkedIn from the Chinese market are a case in point. But in the medium term, **the CCP's political compulsions may stall China's push to increase the export of digital services and make its technology firms less and less competitive.** China could fall into the middle-income trap, as most future economic growth will come from this sector.

Although such outcomes are speculative, **the EU would, in any case, be well-advised not to play into the hands of China's inward-looking coalitions that want to isolate China from the rest of the world.** Most Europeans have learned their lessons from the history of the 20<sup>th</sup> century and know all too well that a dark path lies ahead when countries fall into a jingoist frenzy and cut off their ties to the rest of the world. Norman Angell famously proclaimed that economic integration had made war a futile exercise. While he was, of course, right, the fact that "The Great Illusion" was published on the eve of World War One serves as a reminder that interdependence is not a sufficient condition for peace. Yet, history also shows that economic integration can be a vital guardrail whenever the tragedy of great power politics leads political leaders down a dangerous slope.

This does not mean that we should be naive about Chinese intentions. **We must not repeat the mistakes of 20<sup>th</sup>-century appeasement policies and stand shoulder to shoulder with other democracies to defend human rights and the rule of law.** But it is right to simultaneously continue on a path of cooperation with China to address shared global challenges. On crucial issues for the future of our planet, in particular climate change and the biodiversity of our oceans, any political solution would be meaningless without the participation of the world's largest economy. Moreover, reciprocal market access for goods, services, or capital, if exchanged on a level playing field, will not only continue to benefit EU consumers and industry, but will also strengthen the outward-looking forces in China that interact with the

rest of the world; they not only have a material stake in continued cooperation but are also more likely to interact with outside ideas and values. This remains the case for most of our trade with China. This does not mean that the EU should not encourage some firms to diversify their supply chains; but such efforts must be restricted to narrowly defined sectors of strategic importance, where it is absolutely **necessary to reduce one-way dependence. Due to the idiosyncrasies of the digital domain, the EU should also more expressly link its political values with cross-border data flows and consider offering digital market access only on a reciprocal basis.** This would incentivise China (and others) to rethink their current approach to data governance or risk becoming uncompetitive in the digital economy. Lastly, the EU should support China's equitable access to key mechanisms of global governance. This includes the long-overdue **quota reform at the International Monetary Fund, which would support China's socialisation into the existing international order instead of it seeking to establish or bolster alternative governance arrangements.** Taken together, these measures would help to support China's outward-looking coalitions over the nationalist forces that are the most likely threat to global peace and prosperity.



# 3.

## EUROPEAN UNION-CHINA RELATIONS: LESSONS FOR A POLITICAL OVERHAUL

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### 3.1 ■ Overview

Over twenty years ago, one of the best German experts on China, Konrad Seitz, described in a commentary on “China in 2020” that one of the major challenges facing Europe in the future would be to “integrate China peacefully as a new global power in the global order”, adding that “this presupposes that Europeans understand what is happening in Asia, the rise of a global power”.<sup>1</sup>

Joschka Fischer’s verdict in the spring of 2021 was just as scathing. He stated “political mistakes” in relation to China.<sup>2</sup> Against this backdrop, he observed that “China, with its 1.5 billion inhabitants, its culture and very ancient civilisation, its experience of a century of humiliation by Western powers and aggression from Japan prior to and during the Second World War, will not subordinate itself willingly and will not remain content with an inferior status and development in the long term. As a result, conflict appears to be on the cards”.

*Lessons learnt?* Have we Europeans learned from this? No. Europe is only just starting to come around slowly to this. However, since 2019, it has been calling China –using the same words as the Americans, but in a different order– a “partner, competitor and overall rival”! A threefold definition to be followed up by a new political direction? Not so far! This triad conveys the complex nature of the relationship, while betraying Europeans’ inability to agree on a common strategy.

The relations between Europe and China even seem to have reached a deadlock now. They are bogged down in a situation in which it seems difficult for either party to mark a change without losing face.

First and foremost, this “turmoil” stems from the different perceptions and interpretations of “values” as an integral component of the European trade and international policy. This concerns in particular the role of human rights in light of the condemnation of the treatment of a minority in China by the European Parliament and the mutual enforcement of sanctions.

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1. Konrad Seitz, 9 November 2020, “Aufstieg einer Weltmacht [Rise of a world power]”, *Wirtschaftswoche*, pp. 73-74 (in German).

2. Joschka Fischer, 17 March 2021, “Die Irrtümer der China-Politik [The mistakes of the China policy]”, *Tagesspiegel*, p. 6, (in German).

Furthermore, this assessment of the state of European policy towards China is heightened by the potential repercussions of the trade and political conflict that has broken out between China and the United States.

Not so long ago, Europeans and Chinese were praising the remarkable development of their relations. In 2020, China became Europe's leading trade partner for goods, ahead of the USA (€586 billion compared to €555 billion).

Europe and China highlighted a deep relationship "of political substance" and were hoping to further their "strategic partnership" launched in 2003. At the time, Europeans discussed an EU-China "strategic agenda" for 2020, and even an investment protection agreement and a partnership and cooperation agreement. The development of their relations has, conversely, highlighted a growing number of differences in multiple areas over the last decade.

**Until now, the European Union has not adopted an official common policy towards China, nor for the Indo-Pacific region.** The European policy towards Eastern and South-Eastern Asia has always been a combination of common elements and bilateral aspirations. Some Member States, including Germany and France, have gone their own way, at least to some extent, with the aim of securing greater advantages for their domestic economies.

China has pursued the same strategy, attempting to use the strengths and weaknesses of the different countries and trying to develop closer ties with some EU Member States, in particular in Eastern and South-Eastern Europe ("17 + 1" initiative) with a view to dividing Europeans. The criticism of a "naïve" European policy is a result of this.

For more than ten years, Europeans have observed that China, proud of its own progress and economic and political success, has gradually adopted a tougher style, set of actions and content of its regional and international policy. These tougher measures are viewed as aggressive in South-West Asia, in view of Taiwan and the democratic protests in Hong Kong. It is also clear on an international scale, in particular through the strategy for a new Silk Road and other initiatives in which it exerts its influence. This has been met with criticism and concern from Europeans as regards the future of their relationship with China.

Moreover, the change of tone and the gradual hardening of the United States' policy in relation to China have stepped up European scepticism and a growing feeling of insecurity regarding our Chinese partner, even though the validity of the US policy

can be called into doubt as it gives away a belated reaction to the US' growing dependence on China.

### 3.2 ■ Mistakes and misunderstandings

Any reassessment of a policy requires a sober analysis and for the relations to be placed in the context of reality, taking into account the perceptions of the other party –and above all the actual situation. There has been a whole series of mistakes and misunderstandings on the European side. Some issues have been underestimated and are worth being considered in greater detail.

Firstly, we continue to make a basic error with regard to the outside world. We are convinced that, not only China, but the rest of the world should accept our view and share our “values” and fundamental principles –democracy, rule of law, human rights, social rights. In practice, we Europeans are much less united regarding these values than we may think.

Yet, **the Chinese civilisation, whether communist or ancient, has developed with its own value system and social principles.** I was able to witness the intense discussions between the German Chancellor Helmut Kohl and the political leadership and the Chinese government on each party's understanding of human rights, minorities and democracy. We tried to understand each other and respect each position, without attempting to impose any views. The political leeway was limited under the political conditions, but real. In business circles, such discussions were also possible within a restricted framework.

Another mistake stems from the lack of “integrated” analysis of China's domestic situation, and of China's foreign policy, particularly as China's domestic policy is much more complex than many Europeans think.

A lot of Europeans unfortunately attempt to interpret major events of Chinese domestic policy by referring to or making comparisons with our European policy –an interpretation that does not take into account the other party's perception!

China's system is based on a strong centre and a balance between the different “regions”. At the centre, the Chinese Communist Party is tasked with ensuring the country's integrity, cohesion and development. This balance has made major development advances possible since the early 1980s, at a much faster pace than in other Asian nations. It is these achievements and performance of the Communist



Party that most of the population respects –an issue that is all too easily neglected in Europe.

Another example of our mistakes regarding China concerns in particular Hong Kong. From the outset, its integration was a specific challenge for the Communist Party and for the central government. In Europe we were –mistakenly– convinced that this city state and Taiwan and the policy of economic openness would naturally lead to a more democratic system that would be more in line with our convictions. For too long, Europe wrongly insisted on the paradigm of *Wandel durch Handel* (Change through trade), believing that China's openness would lead to a democratic system similar to that of Europe.

Beijing observed the development of Hong Kong until it deemed it dangerous for other coastal centres and deliberately stalled its development. **The country's unity and a certain "equal treatment" between regions is a key factor of Beijing's domestic policy.** This leads to concerns that any development that could spill over and become harmful, to the extent of being detrimental to the country's harmonious development.

This major change in China's domestic policy has been gradually enacted for more than a decade. Visible since the 2008 Olympic Games and Expo 2010, it was more clearly launched in recent years under the label of equality: the **Chinese-style market economy continues to be defended, but its form of "capitalism" is now deemed too "wild" as it threatens internal balances and the objective of equality, which is the reason behind the U-turn in 2020 to promote "common prosperity".**

Clearly, according to our criteria, China is not a democratic system, but it does have elements of deliberative democracy at each decision-making level. The difficult internal debates between different groups and movements prior to a decision on a central level or even from political head office are examples of this. Not only do these debates take place on central and regional levels, but also within major Chinese municipalities.

The other element that has up to now been insufficiently incorporated in European policy is a strategic analysis of the East and South-East Asia region. For some time now, this region has been undergoing far-reaching changes in connection to a series of different factors, such as China's policies and its growing rivalry with the US, which are an important but not exclusive aspect.

Until recently, the US was perceived as a power which exercised limited influence and control in Asia – certainly more so for South Korea and Japan, but more limited for other countries in the region. This influence has played out without a shared direction or doctrine, to the extent that certain countries, such as India, have marked their distance from US power.

China's rise and its growing hostility in the South China Sea are causes for concern, and even anxiety, in the region. These factors have pushed the US into once again playing a more active "protective" role in the region. This has led, not only to a certain "resurrection" of the old alliance between the US, Australia and New Zealand, but also to the creation of the "Quad" (a quadrilateral security dialogue between Japan, Australia, India and the USA), or more recently AUKUS, the defence pact aimed at protecting its partners from China's open or concealed aspirations and at mitigating the risk of a potential threat of Chinese attack.

At the same time, Europe's image in the region is that of a good trade and investment partner. For some, the European Union even represents a friend and model to be followed. However, a political partnership seems to be **unattainable. The countries in this region do not believe that Europe could actively contribute to their security and protection. Their trust in the European Union is extremely limited.**

### 3.3 ■ Conclusions

Europeans, in particular Germans and the French, who wish to protect their exports and investments, have remained on a conventional foreign policy line towards China, correctly defined by Joschka Fischer as "a lack of foreign policy, but blindness in terms of industry and foreign policy".

China's expansionary policy in terms of trade and international policy requires Europe to overhaul its policy. **The acknowledgement of our vital interests must form the "hard core" and act as the starting point for all common considerations and actions.** In short, we want to be and remain a good partner to China, while going further to defend our key interests in a committed manner.

**Against this backdrop, what are the key elements of a new European policy in relation to China?**

First of all, the EU's China policy needs an "integrated" vision including all policy areas and prioritising our own aims –with greater consideration of Asia as a whole.

The first key element is “reciprocity”, the watchword for relations, including in the definition of the areas that Europeans must retain under their control. The framework and limits must be clearly defined. This means:

- defining European vital interests as the basis for all action,
- refusing to accept any form of interference in European internal affairs,
- ensuring that China respects the integrity and interests of our partners in the Indo-Pacific area, which is why it is important to politically reassure our long-term partners of the ASEAN,
- expressing a clear European stance in relation to Taiwan, that states that any attempt to take control by military or other illegal means would result in serious consequences for diplomatic and trade relations, which could even constitute a freezing or significant reduction in relations,
- including key elements from our security policy, such as the protection of sea trade routes and borders, and the commitment to resolve any disputes peacefully with the assistance of international institutions,
- refusing double standards, i.e. fair treatment of our companies, in particular in relation to State-run companies, transparent subsidies and no forced technology transfers, as provided by the investment agreement signed in December 2020.

Under these conditions, the European Union must renegotiate the foundations and key elements of our relations with China, including to protect investment, but not at any cost and in strict compliance with our vital interests.

The guiding principle of the future European trade policy must be “strategic autonomy”. Europe can no longer allow itself to be dependent on the USA or on China, in particular for key cutting-edge technologies (such as IT, robotics, energy, mobility, aeronautics and space, medical technologies, biotechnologies). Moreover, this requires a far-reaching revision of our internal research procedures, including in the field of European and international cooperation.<sup>3</sup>

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**3.** In particular the creation of certain funds including DARPA procedures with a view to stimulating disruptive research (proposals introduced by the J.E.D.I. initiative — Joint European Disruptive Initiative).

The EU's new China policy should also define the priority areas in which relations must be deepened, such as environmental research, the fight against climate change and health.

Europe must adopt a common response to China's strategy regarding its new Silk Road project, which includes trade aspects and reflects the nation's global aspirations, creating relationships of dependence on China.

On a regional level, this future European policy in relation to China must be incorporated into the future European strategy for the Indo-Pacific region, presented by the Commission last September. This sets out a strategic shift which steps up our relations with ASEAN countries, India, Australia and New Zealand.

A comprehensive revision of the EU's Africa policy should also be incorporated, as China has become a dangerous rival on this continent where our policy remains rooted in past situations.

Multilateral bodies such as the WTO and the G20 must take up their place in this redefinition of the EU's Asia policy. Lastly, it must pay specific attention to the relationship between Beijing and Moscow, as, back in his day, Henry Kissinger was already working to ensure that these two nations did not become allies.

The overhaul of the European Union's external trade policy must also include a comprehensive revision of its relations with the USA. The need for a major reset must obviously also include the common foreign and security policy –and as a result the policy conducted within and through the Atlantic Alliance. It is clear that Europe will observe a number of differences and/or divergent or even contradictory approaches to those of the USA, but this should not hinder constant dialogue, or even coordination between Brussels and Washington that also extends to elements of foreign and security policy.

As regards AUKUS and the Quad, Washington should have informed Paris of these agreements in a timely manner, not only due to the submarine contract signed with Australia, but also to France's commitment and interests in the region. One solution may have been to invite France to these agreements under observer status, in which case Paris could have spoken for and represented Europeans.

This full assessment of the revision of the EU's Asia policy should be introduced by the French Presidency, in close cooperation with the Commission and with Berlin. Germany is a long-standing driving force of European policy in China and in Asia.

The future German government now appears receptive to this in-depth consideration and realignment.

France and Germany have a specific responsibility in this policy overhaul given that they are the only two countries in Europe to be taken seriously by Beijing. They should not be afraid to relaunch the formation of a new policy by a group of “open pioneers”.<sup>4</sup>

Furthermore, it is in the interest of the Commission and of Member States to include businesses in this exercise. It is particularly important for German companies which, unlike French companies, enjoy broad autonomy in external trade.

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<sup>4</sup>. See the suggestions of Tim Rühlig, November 2021, “Action Plan for China and Foreign Policy”, German Council on Foreign Relations (DGAP), report, Berlin.



# 4.

## **RIISING TO THE CHALLENGE: PROMOTING BRUSSELS-BEIJING ECONOMIC RELATIONS WHILE FOSTERING A TRANSATLANTIC DIALOGUE ON CHINA**

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*Original version*

Following the arrival of Joe Biden in the White House, a structured dialogue on China has been established and transatlantic relations have improved, while Sino-European relations are at a low point, in particular after the imposition by Beijing of sanctions on European individuals and organisations in March 2021. These developments, coupled with growing tensions between China and the US, are having an impact on Sino-European ties which have grown in quantity and quality over the last decades.

The EU-China relationship is fraught with both opportunities, and challenges —but also conditioned by the US, Europe's traditional ally. Washington seeks, in fact, to influence the evolution of Sino-European relations in a direction more favourable to its strategic interests. As a result, the EU tends at times to lean more towards the transatlantic alliance, while other times Brussels fosters relations with Beijing, at the expense of the US. The development of Sino-European ties is helped by Chinese leaders' long-standing support for Europe's key integration initiatives —such as Galileo (the EU global navigation satellite system) and the European common currency, as well as aspirations for “strategic autonomy”—, a dynamic which has the potential to divide the US and the EU. **China has traditionally exploited relations with Europe to drive a wedge inside the transatlantic alliance and weaken US' power.**

The EU is increasingly torn between growing calls towards enhanced transatlantic cooperation on China and the pull of the Chinese market. This conundrum is exemplified by the formal conclusion of the EU-China Comprehensive Agreement on Investment (CAI) at the end of December 2020, though it faces an uncertain future. If ratified, the CAI would boost trade and investment relations between the EU and China as well as it would have profound implications for Washington which is actively working to create a common front with the European allies to counter Beijing's increased self-confidence and assertiveness. The deal was announced only a few weeks before the Biden administration entered into office, as a sign of Europe's determination to promote its “strategic autonomy” and a message to the US that transatlantic cooperation on China cannot be taken for granted.

Should the EU follow the US to enforce a containment policy towards Beijing, joining efforts undertaken by the administrations of former US President Donald Trump —and continued by Joe Biden— who has unleashed a trade and technological war against Beijing with the aim of permanently subordinating the Asian giant to the West? Or should the EU continue its engagement policy towards Beijing and even seek to maximise Sino-European ties to promote Europe's economic interests and its aspirations towards “strategic autonomy”?



#### 4.1 ■ Are the EU and the US aligned on China?

On the surface, the EU's and the US' China policy seem to be aligned. In the economic realm, both Washington and Beijing accuse China of withholding its domestic market for its national champions and restricting foreign companies' access to it; subsidizing domestic competitors; and failing to protect intellectual property rights. Moreover, both the EU and the US have voiced criticism on issues ranging from China's Belt and Road Initiative (BRI) and Chinese investments into the West, to the challenge posed by Beijing state-backed companies to America's and Europe's competitiveness and prosperity.

In the political realm, the transatlantic allies are committed to making China a responsible stakeholder in the global system, while promoting the respect of human rights and fundamental freedoms, good governance, and the rule of law in China. The EU and the US tend to focus their cooperation on advancing a set of rules and principles dear to Western public opinions. For instance, in March 2021 the US and the EU —along with Canada and the United Kingdom— placed sanctions on Chinese officials because of the violation of human rights in the autonomous region of Xinjiang.

**Alongside many similarities and a natural tendency to align their China policy, the transatlantic allies also show some important differences** —not to mention the existence of EU-US diverging interests and competition for China's market shares. It suffices to analyse the words employed by the US and the EU when describing their China policy to see how different their approach is. For instance, members of the Biden administration have declared that Washington would confront, compete and cooperate with China, depending on the issue. Kurt Campbell and Jake Sullivan —respectively National Security Council Coordinator for the Indo-Pacific and US National Security Advisor in the Biden administration— laid down the concepts of “challenge and co-existence” with regard to China in an influential article published in *Foreign Affairs*.<sup>1</sup>

The words used by members of the Biden administration bear resemblance to the China policy of the EU enshrined in its last paper *EU-China: a strategic outlook* published in March 2019. In it, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy put forward an approach towards

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1. Kurt Campbell & Jake Sullivan, September / October 2019, “[Competition Without Catastrophe: How America Can Both Challenge and Coexist With China](#)”, *Foreign Affairs*.

Beijing based on cooperation, competition and rivalry.<sup>2</sup> More specifically, the EU defines China as a partner (with which to cooperate), an economic competitor (with which to coexist), and a systemic rival (a challenge), given the authoritarian nature of the Chinese regime.

**The EU, however, never uses confrontational terms with regard to China, in stark contrast to the US** which has, instead, openly used hostile terms when defining its policy vis-à-vis Beijing. For instance, in June 2021, US Defense Secretary Lloyd Austin issued a directive declaring China to be the “number one” focus of the US military.<sup>3</sup> At the beginning of October 2021, the Central Intelligence Agency announced the formation of a new China Mission Center and issued a statement that referred to the Chinese government as a “key rival”, underscoring the Biden administration’s focus on Beijing as a top foreign policy priority and a formidable global competitor to the US.<sup>4</sup> While Brussels has hardened its position towards Beijing in the last years, stepping up criticism of China’s unfair trade practices and violation of human rights, Brussels has never confronted Beijing the way Washington does.

Since Trump, US policy towards China is based on the assumption that Beijing is pursuing a long-term strategy to displace, if not replace, the US-led global democratic order by a Communist China-led global authoritarian order.<sup>5</sup> To this perceived challenge, Trump responded by unleashing a trade and technology war, seeking to subordinate Beijing to US interests —an approach which has not changed with the arrival of Joe Biden in the White House.

On 4 October 2021, the Biden administration unveiled its China trade strategy. The US Trade Representative (USTR) Katherine Tai declared that key elements of Trump China trade policy will remain intact and that the US will not take any tools off the

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2. European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *EU-China: A strategic outlook*, JOIN (2019) 5 final.

3. Jim Garamone, 9 June 2021, “Austin Signs Internal Directive to Unify Department’s China Efforts”, *DOD News*.

4. Julian E. Barnes, 7 October 2021, “C.I.A. Reorganization to Place New Focus on China”, *The New York Times*.

5. Rush Doshi, *The Long Game: China’s Grand Strategy to Displace American Order* (Oxford: Oxford University Press, 2021). See also: Clyde V. Prestowitz, *The World Turned Upside Down: America, China, and the Struggle for Global Leadership* (New Haven, CT: Oxford University Press, 2021).

table, including the possibility of additional tariffs in the future.<sup>6</sup> Core elements of the Biden administration's strategy will include enforcement of China's existing trade obligations, including in the US-China Economic and Trade Agreement or "phase one" agreement negotiated under Trump.<sup>7</sup>

The US is essentially asking China to substantially cut its bilateral trade deficit, reduce tariffs on US goods and diminish subsidies for emerging industries. Washington also wants to restrict China's ability to invest in, or acquire, US companies and start-ups in sectors such as robotics, aerospace and artificial intelligence identified by Beijing in its so-called Made in China 2025 plan.<sup>8</sup> China has responded by imposing tariffs on US products and by blacklisting some US companies from doing business in China. Washington has adopted a tough approach vis-à-vis Beijing, seeking to change China's practices in order to boost US exports, protect intellectual property and technological edge, and counter discrimination against overseas investors. The more hawkish elements in Washington want to decouple the US economy from China, through the imposition of tariffs, barriers to cross-border investment and initiatives that would compel companies to break supply chains.

**The US' tough approach towards China goes hand in hand with a deepening hostility among ordinary citizens to a rising China which challenges US primacy**—an hostility which enjoys, to varying degrees, bipartisan support in Congress. On 8 June 2021, the US Senate adopted the *Innovation and Competition Act*, a bipartisan legislation designed to counter China by investing roughly \$250 billion in US technology, science and research. The bill labels China a strategic competitor in a number of areas, including trade, technology and security.<sup>9</sup> The piece of legislation offers the Biden administration a host of recommendations for how to work with Washington's allies on trade, technology, export controls, investment screening and more. The Senate passed the legislation a week before President Joe Biden met with EU leaders in Brussels to repair transatlantic ties which had been severely damaged when former President Donald Trump was in office.

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6. "Remarks As Prepared for Delivery of Ambassador Katherine Tai Outlining the Biden-Harris Administration's "New Approach to the U.S.-China Trade Relationship"", Washington D.C., 4 October 2021. See also: "Fact Sheet: The Biden-Harris Administration's New Approach to the U.S. – China Trade Relationship".

7. <https://ustr.gov/phase-one>

8. US National Counterintelligence and Security Center, 21 October 2021, "NCSC Fact Sheet - Protecting Critical and Emerging U.S. Technologies from Foreign Threats", Washington D.C..

9. *United States Innovation and Competition Act of 2021*, 117<sup>th</sup> Congress (2021-2022).

## 4.2 ■ Transatlantic cooperation on China

The US-EU Summit Statement, issued on 15 June 2021, was largely devoted to China.<sup>10</sup> A concrete outcome of the summit, a Trade and Technology Council was formally launched with the aim to foster transatlantic cooperation on digital issues, technology and supply chains, as well as work on international standards development and support collaborative research efforts.<sup>11</sup>

**Support for transatlantic cooperation on China-related matters is found among public opinions on the two sides of the Atlantic.** *Le Transatlantic Trends 2021* —a project by the Bertelsmann Foundation and the German Marshall Fund which includes the results of surveys conducted in 10 countries and the US— shows that there is a strong foundation for transatlantic cooperation on China-related challenges.<sup>12</sup>

**It remains to be seen whether the above dynamics will initiate an era of cooperation between relatively equal partners, as the Europeans hope, or be mostly led, and determined, by the US.** The unilateral moves by the US in its withdrawal from Afghanistan as well as the signature of the AUKUS pact (a trilateral security pact between Australia, the United Kingdom and the United States, announced on 15 September 2021 for the Indo-Pacific region) without informing France —and the EU— do not bode well in this regard.

While the EU collaborates with the US in the framework of the Trade and Technology Council, it also seeks closer economic ties with China through the CAI.<sup>13</sup> The announcement of the deal triggered an intense debate, as the CAI has found both supporters, but also opponents, inside Europe. It was hailed as a highly beneficial accord for world trade by China, and as a break-through in locking-in China's hitherto opening-up and its concessions in the areas of "market access", "level playing field" and "sustainable development" by the European Commission —but met with harsh criticism from the US, where the new Biden administration had yet

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10. U.S.-EU Summit Statement, 15 June 2021.

11. EU-US launch Trade and Technology Council to lead values-based global digital transformation, 15 June 2021.

12. *Transatlantic Trends 2021*, 7 June 2021. See also: Bonnie Glaser and Garima Mohan, "Poll Shows Increasing Transatlantic Convergence on China", *The Diplomat*, 17 June 2021.

13. Commission européenne, 30 December 2020, "EU and China reach agreement in principle on investment".

to be inaugurated and saw in it a victory by China in trying to divide the transatlantic allies.<sup>14</sup>

To be ratified, the CAI needs unanimous support from EU Member States and a favourable vote by the European Parliament. In mid-July 2021, the European Parliament underlined the conditions to be met before the legislative gives its consent to the CAI. The conditions have been listed in a report prepared by the foreign affairs committee of the European Parliament which calls for using the CAI as a leverage instrument to improve the protection of human rights and support for civil society in China.<sup>15</sup> The pre-ratification commitments listed in the report include a timetable for China's ratification and implementation of key labour laws and concrete measures towards putting an end to human rights violations against the Uyghur minority in the country. It also demands a recommitment by China to uphold its international commitments to Hong Kong. Moreover, the report takes into consideration the new transatlantic climate on China made possible by the arrival of the Biden administration.<sup>16</sup>

#### 4.3 ■ Policy recommendations

These policy recommendations are addressed to France which will hold the Presidency of the Council of the EU in the first part of 2022.

##### a ■ Engage in negotiations with China with the aim to ratify the CAI, ideally during the French Presidency of the Council of the EU in 2022

CAI addresses some of the criticisms that the EU has levied at China in the last years. Joerg Wuttke, President of the European Union Chamber of Commerce in China has argued that the CAI makes marginal, though measurable, improvements in market access, recognising that the biggest gains are the meaningful expansions of the provisions on a level-playing field for the thousands of European companies already in China, while setting a legal foundation at the EU-China level that is currently absent.<sup>17</sup>

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14. Nicola Casarini and Miguel Otero-Iglesias, December 2021, "Assessing the pros and cons of the EU-China comprehensive agreement on investment: an introduction to the special issue", *Asia Europe Journal*, Volume 19, Issue 4.

15. European Parliament, 15 July 2021, *MEPs set out their vision for a new EU strategy for China*.

16. European Parliament, 26 July 2021, *Report on a new EU-China strategy* (2021/2037(INI)).

17. Joerg Wuttke, July 2021, "The EU-China CAI-perspectives from the European business community in China", *Asia Europe Journal*.

**The demands of the European Parliament –at least some of them– can be met by engaging in negotiations with Beijing. Concessions will need to be made by both sides.** The US is likely to be less vocal in criticising the CAI, following the recent deterioration in transatlantic relations after the US' withdrawal from Afghanistan and the signature of the AUKUS pact. Moreover, differences between Washington and Brussels on China can be now discussed –and a compromise found– in the framework of the US-EU Trade and Technology Council.

#### **b ■ Promote a EU strategy towards China independently from Washington**

Since transatlantic relations are back on track and the US and the EU have established a structure dialogue mechanism on China, it is the right time to repair relations with China and promote Europe's economic interests and strategic autonomy *vis-à-vis* the Asian giant. Such a policy would be ideally promoted during the French Presidency of the Council of the EU in 2022.

France is the only European country that has traditionally promoted closer ties with China also when this was opposed by Washington. For instance, France recognised the PRC in 1964, almost a decade before the US and the rest of the West would establish diplomatic relations with Beijing (occurred in the first half of the 1970s). In the early 2000s, the French government spearheaded EU-China space cooperation (including Galileo), notwithstanding US strong opposition to it. More recently, it was French President Emmanuel Macron who agreed with former German Chancellor Angela Merkel to push ahead negotiations on the CAI and that the deal should be sealed before President-elect Biden came into office.

**The French Presidency of the Council of the EU in 2022 would thus be a unique opportunity to promote Brussels-Beijing economic relations, while continuing to have a structured transatlantic dialogue on China.**







# 5.

## **ECONOMIC COOPERATION: REPLACING THE PRINCIPLE OF RECIPROCITY WITH COMPLEMENTARITY**

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The notion of reciprocity is at the heart of European trade discussions with China. Although it is good idea as a matter of principle, it is coming up against a hard reality. The President of the European Chamber of Commerce in China, Jörg Wuttke, sums up this failure in one phrase: “The Chinese open the station doors once the train has left the platform”. China applies this strategy either when a market has already reached its peak cycle, as in the case of the automobile industry, or when Chinese firms have established an unassailable domestic leadership position, as in renewable energy.

The result is a cumulative level of European direct investment in China of less than 200 billion euros, which is very limited compared to the size of trade flows between the two regions. Similarly, Chinese direct investment in Europe continues to account for only less than 5% of total foreign investment, far below the global economic weight of the Middle Kingdom.

This quantitative limitation is coupled with a qualitatively negative perception, reproaching Chinese investors either for not having kept their promises, as in the case of Toulouse airport, or for having appropriated European technology, as in the case of the robotics company Kuka in Germany –even though the Chinese prefer to point out that its stock market price collapsed by almost 75% just after the takeover by the Chinese giant Midea.

Finally, it should be noted that the most remarkable European success stories in China were not achieved because of reciprocity, but because of the entrepreneurship of groups with family capital, such as Germany's BMW, Italy's Luxottica, and France's LVMH, Kering, Pernod, L'Oréal, SEB, JC Decaux and BioMérieux.

Without abandoning the principle of “equality of opportunity”, we must recognise that **the Chinese are not looking for reciprocity but for complementarity of what they do not possess or master**. Today's objective is very precise: obtaining productivity gains, both in capital and labour and in energy or environmental intensity.

This Chinese desire comes up against the European **fear of damaging technology transfers**. The example of Airbus, in China for nearly twenty years, shows that the complementarity as seen from Beijing, does not necessarily mean a loss of European know-how, if headquarters take the strategic threat sufficiently into consideration in the organisation of the local structure. This vigilance is likely to become increasingly important after the Chinese government's shift in the summer of 2021 to push for the increased “localisation” of European supply chains in China. Europeans are now increasingly facing this condition to access the Chinese market.

The risk inherent in the announced slowdown in Chinese growth is **increasing closure to foreign players, including European firms**. It is due to a longstanding view of Chinese leaders, which can be summed up in a simple question: Why open up a market of 1.4 billion Chinese consumers compared to access to a market of 450 million European consumers?

Europeans must demonstrate to the Chinese the outdated nature of this view, which is based on the notion of competitive advantage through economies of scale. A splendid illustration of this would be the renewable energy industry, where the wind and solar sectors have seen China conquer world leadership in almost two-thirds or three-quarters of the value chain after ten uninterrupted years of brutal dumping (for European or American competitors). The reality is that this approach, although quite effective over time, only works for relatively unsophisticated industries.

The same approach applies to Beijing's belief that Chinese Big Data has an intrinsic superiority. This is particularly the case in the critical area of artificial intelligence, thanks to machine learning and, until recently, more lax regulations when compared to European Smart Data. Again, the presumed advantage of size must be seen in light of the risk of low-quality unstructured data or the statistical danger of "regression to the mean" due to potential diseconomies of scale.

Therefore, we can see that **success in the industries of the future, which will be based on ecosystems, depends less on a volume effect than on the flexibility of personalised offerings** that can be supplied in the platform economy. This is the case in the Chinese automobile market, where the new entrants in the electric field see their future less in a significant increase in the volumes of the industry than in the flexibility of their production, which will allow more rapid development of small series for targeted niches.

China's stated objective is to become a "self-sufficient technological powerhouse", which by definition excludes collaboration with Europe. Therefore, it appears to also contradict the ecosystem industries that create most future value. Success can be achieved by mastering the bottlenecks –the key stages– of the value chain, as in the semiconductor industry, where control of the whole by a single player remains unattainable, even if it is an entire country. This explains China's repeated failures in this industry after spending 250 billion USD in public subsidies over the past decades.

**The task for Europeans is therefore to draw up an exhaustive list of Chinese weaknesses in the context of ecosystem-related sectors, highlighting:**

- The lack of trust in China between local customers and suppliers prevents secure collaboration, especially when they are located in different provinces.
- China's obsession with the hardware industry, although future productivity gains come from "soft skills", which are vital for the service sector. Here, Beijing lags South Korea and Taiwan by almost 10 and 20 GDP points, respectively.
- Chinese tropism in the industry for equipment ("Capex") and intellectual property (R&D) comes at the expense of process control and human capital training.
- Weaknesses in the Chinese software sector, where spending represents only about 0.1% of China's GNP, or one-tenth of the US level; hence Europe has a card to play in industrial or environmental software, which is decisive for the future reduction of carbon intensity.
- The inconsistency between the recent nationalisation of education for five to eighteen-year-olds, which reinforces a compartmentalised educational approach, and the stated ambition to develop future disruptive technologies.

**Therefore, the European approach will benefit from showing the Chinese authorities that the future cost of non-cooperation will be higher than the cost of cooperation through complementarity.**

An example is the cost of non-cooperation on health policy between Europe and China during the Covid crisis. Beijing's "zero COVID" policy in 2021 will cost significantly more than a single day of China's GNP –more than the German company BioNTech's messenger RNA vaccination would have cost for the entire Chinese population.

This approach will be even more efficient if Europe can **identify its centres of excellence in the main sectors of lower Chinese productivity**, such as technologies for complex ecosystems; process control, e.g., in the financial sector (risk control); and services to companies and individuals, typically health; industrial software, such as in B2B Internet or environmental technologies.

In conclusion, **Europe should not fear complementarity with China but must promote it at a time when the China has probably never needed European productivity gains as much as it does now to escape the “middle-income trap”.**<sup>1</sup>

Europe will have to avoid a double trap: underestimating China's readiness to open up and complement each other abroad and overestimating China if it remains closed to external cooperation.

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<sup>1</sup>. Ed note: The middle-income trap refers to developing countries that experience a levelling from high growth and then stagnation after reaching a plateau in average income.



# 6.

## EUROPEAN COMPANIES ARE FACING THE DECOUPLING OF CHINA AND THE UNITED STATES

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## 6.1 ■ The state of play

**The trade and technology war between the US and China directly impacts European companies.** Their value chains are exposed to the tremors created by export restrictions and other non-tariff barriers on both sides. The US *Bureau of Industry and Security's Entity List*, which restricts exports to certain foreign companies, already includes 59 Chinese companies accused of supporting Beijing's military activities. It has prompted the Chinese side to introduce a similar list in September 2020, the *Unreliable Entity List*, and a new export control law that came into force in early December 2020. Also China has just strengthened its regulations on the security and protection of critical information infrastructures, imposed data localisation requirements and urged Chinese companies to avoid using foreign technologies, particularly in the strategic priority sectors of the 14<sup>th</sup> Five Year Plan, notably infrastructure, to ensure "more autonomous and controllable" value chains. Finally, in June 2021, China responded to US measures that have extraterritorial reach with its own extraterritoriality strategy, which could equally target European companies.

As national security concerns take hold of economic policy, both sides are striving to reduce their mutual dependence on technological goods, even to the point of aiming for "self-sufficiency" on the Chinese side. If Xi Jinping is exposed to the economic cost of a more significant closure of the Chinese market, which risks limiting productivity, the EU's growing dependence on intra-EU trade and the deficit in the European trade balance with China (181 billion euros in 2020) are becoming more problematic and prompt European companies to adapt.

European firms cannot give up access to one of its two most strategic markets for exports.<sup>1</sup> The Chinese middle class, which will likely double to 800 million hyper-connected consumers in 2030, represents an unparalleled market that European companies cannot do without. The 2021 survey by the European Chamber of Commerce in China (EUCCC) shows that 60% of European companies in China plan to invest more in the Chinese market (up 4% from the 2019 pre-Covid survey).<sup>2</sup> The gradual decoupling of the United States and China in the technology sector is nevertheless **calling into question the development models of companies, which**

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1. In 2019, 9% of European exports of goods, excluding intra-European trade, went to China and 18% to the US. By comparison, the US exported 6% of its goods to China and 16% to the EU the same year. IMF data, 2020.

2. *Business confidence survey 2021*, EUCCC.



**are forced to segment their offerings and processes between China and the rest of the world.<sup>3</sup>**

## **6.2 ■ A costly adaptation for European companies**

European technology companies, particularly in the information, communication, and financial services sectors, will have to make strategic choices about both the use of Chinese or American technologies and compliance with country-specific standards and norms. This is problematic for companies operating in both countries and the collection, storage, transfer, and use of data.

Companies are forced to adapt as best they can by offering one set of products for China and another for the rest of the world to avoid falling foul of Chinese and American legislation. The EUCCC mentions two adaptation strategies. Companies with a large share of global sales in China can set up a specific supply chain and R&D system for the local Chinese market in parallel with the system for the rest of the world: this is the “**dual system**” approach. Alternatively, they can adopt a “**flexible architecture**”, which consists of maintaining international operations with value chains that cover China and the rest of the world, locating in China only what is strictly necessary to comply with new Chinese legislation. **Both strategies have a negative impact on economies of scale and innovation.** The reorganisation of company structures leads not only to investment and job losses but also to higher costs.

In addition, European companies (especially in the automotive, consumer goods, consulting, and financial sectors) face competition from US companies that are also not intending to give up the Chinese market.

The Biden Administration is investing heavily in building domestic manufacturing capacity while compartmentalising its conflictual geopolitical posture with China and the engagement of US companies in the Chinese market. Denouncing China’s policies on the international stage (Xinjiang, Hong Kong, Taiwan, and unfair trade practices) while sanctioning large Chinese companies, has not prevented successive administrations, from Donald Trump to Joe Biden, from being flexible when it comes to US investments and doing business in China. For example, 95% of

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**3.** Bilateral trade between the US and China is already down sharply from the 2017 baseline used for the Trump administration’s Phase One deal, and two-way foreign direct investment is at a ten-year low. China Center, US Chamber of Commerce, 2021, “Understanding EU-China decoupling. Macro trends and industry impacts”, p. 11.

US companies operating in China that participated in the June 2021 *US-China Business Council* survey believe that they are likely to further increase their profits from operations in China compared to 2020 and pre-Covid historical levels.

At the same time, the European Parliament, which is a target of Beijing's sanctions, is struggling to accept the multifaceted strategy that the European Commission has championed since 2019, declaring China not only a "systemic rival", but also a "competitor" and "partner", that European companies should continue to engage with. In fact, strengthening economic ties with China offers better leverage for the EU to defend its values than an isolation scenario.

Furthermore, the limitation of travel reduces physical meetings with Chinese partners. This creates **an additional decoupling of "perceptions" and "reciprocal opinions"**, detrimental to the development of European business in China. The workforce on the ground in China is increasingly operating in isolation and no longer shares, necessarily, the vision of those in European headquarters. The health and economic situation also continues to be different on each side and influences the way of working.

Without the right levers to respond to the challenge of accelerating the decoupling between China and the United States at the technological and normative level, companies are calling for a European strategy that engages the weight of the EU-27 to establish fairer conditions of competition with their partners. They support the search for a European third way that would allow them to avoid being caught in the pincer movement of Sino-American rivalry.

This approach, described by the European Commission as "open strategic autonomy", aims to **strengthen the resilience of the Single Market by reducing Member States' strategic dependencies while ensuring that the European market is open** and that trading partners are called upon to do the same on the basis of a fair competition agenda.

**The EU is defending this agenda first and foremost at the multilateral level by supporting a reform of the World Trade Organisation**, which, nevertheless, is currently paralysed by US inertia. Indeed, the absence of the US from the negotiating table limits the pressure that could be exerted on China to minimise the distortions to competition that its state-owned enterprises create. At the trilateral level, i.e., between the European Union, Japan, and the United States, it has become ever more pressing to advance the joint initiative from early 2020 to regulate industrial subsidies. However, as the pandemic and the race for technological leadership are

attracting more state aid everywhere, this has become a much more complex exercise.

At the unilateral level, through the establishment of a legal arsenal of autonomous defence instruments, the EU can still, in the short term, most actively defend European companies. In line with the mechanism for controlling foreign investment in strategic assets adopted in October 2020, the adoption of instruments for **controlling foreign subsidies**, e.g., the introduction of greater reciprocity in public procurement and an anti-coercion instrument, aim to provide the EU with an autonomous decision-making and reaction capacity. They are in support of the multilateral legal framework, even more so as the persistent blockade of the WTO Dispute Settlement Body requires a margin of strategic autonomy through unilateral measures that remain in conformity with international trade law.

Given the asymmetry in the openness of the two markets, their demographic weight, and economic growth, the EU cannot base its entire strategy on reciprocity, which the Chinese government does not want. But the EU cannot equally cease to exert pressure to obtain greater reciprocity in market access conditions. Therefore, the EU would benefit from showing strong cohesion by rapidly adopting autonomous defence instruments. Moreover, although China's consumer spending was 5.6 trillion US dollars in 2019, consumer spending in the EU and the United States amounted to 8.3 trillion and 14.4 trillion dollars respectively, and can still provide leverage for the West when it tries to obtain reciprocal market access. Indeed, this is even more the case if one considers the combined weight of all OECD members, which have a consumer market worth 32.3 trillion US dollars.

### 6.3 ■ Recommendations

- The major European business federations agree that dialogue with China should be maintained at all costs, whether at the level of companies or at the political level.
- The coordination of European players between major national federations and their European counterparts, as well as with European institutions, is essential to make the specific needs of businesses heard. This is true for both bilateral EU negotiations and discussions at the WTO, considering the diversity of interests that must be defended depending on the sector, and the issues to be resolved in terms of location of international value chains and data governance.

- Assessing the risk of exposure to territorial sanctions and being caught between the US and China is becoming so complex **that companies need to be assisted in the examination of their value chains. A single desk could be set up by the European Commission, similar to the implementation of trade agreements. This would help companies to assess the risks, costs, and benefits of decoupling value chains with either a “dual system” model or a “flexible architecture”.**
- Businesses support the **ratification of the** December 2020 **EU-China Comprehensive Agreement on Investment (CAI)**, or even a re-engagement of negotiations to strengthen reciprocity. While CAI remains contingent on the lifting of reciprocal sanctions between the EU and China, it would allow for catching up on the investment terms obtained by the US in the Phase One agreement and, on some points, even go further. The freeze on ratification should not prevent Europeans from re-engaging in dialogue by taking advantage of the implementation of the autonomous defence instruments to negotiate more reciprocity.

In particular, the agreement would allow European companies to participate in Chinese standardisation bodies, something that neither the Phase One deal nor RCEP (signed between 15 Asian countries, including China) are helping to do. As the competition of regulatory models increases and China becomes more ambitious in promoting its standards, in particular for 5G technology and Artificial Intelligence, and investing more resources to increase its influence in European and international standardisation bodies, it is essential that European companies can, in turn, gain access to Chinese bodies. Furthermore, beyond the mobilisation of companies within these standardisation bodies, according to their market shares and means, **Europeans would benefit from developing a more offensive joint strategy to promote European standards** in third countries (as China does along the Silk Road) and within international bodies.

- The use of the EU’s autonomous defence instruments is the subject of much debate among Member States as the dialogue negotiations between the Commission, the Council, and the European Parliament begin in early 2022. Dependence on the Chinese market varies from one Member State to another and between economic sectors. This diversity of interests is reflected in the heterogeneous positions that have been taken by the most important business

federations.<sup>4</sup> They diverge on the balance to be struck in the way these instruments operate, particularly between the need to preserve the attractiveness of the European market and avoiding to restrict market access for protectionist purposes, as well as the need to adopt instruments whose defensive nature is sufficiently credible to serve as a lever for opening up third-country markets. To defend a European third way between the United States and China, the calibration of these instruments is as necessary as the cohesion that the EU-27 will display in their use.

Under pressure from the Federation of German Industries (BDI), the end of Angela Merkel's mandate was marked by a shift in Germany's position towards China, with **an alignment of German and French positions favouring** the autonomous defence agenda. **The consolidation of this dynamic with the new coalition on the other side of the Rhine** could be decisive in rallying the other Member States, starting with the Netherlands and Sweden. The key is to develop a shared conception of an autonomous defence that aims to increase market access and will act as a guarantee against protectionist temptations or excessive dependence on China.

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4. BDI, January 2019, "Partner and Systemic Competitor —How Do We Deal with China's State-Controlled Economy?" • Confindustria, 12 April 2019, "Italia, Europa e Cina: Analisi e proposte per un rinnovato modello di cooperazione" • Swedish Enterprise, September 2020, "Confederation of Swedish Enterprise's Agenda: For Free and Sustainable Trade" • Ministry for Foreign Affairs of Finland, 14 June 2021, "China and the United States —A challenge to companies" • BusinessEurope, January 2020, "The EU and China —Addressing the systemic challenge, A comprehensive EU strategy to rebalance the relationship with China".



# 7.

## **BOLSTERING EUROPE'S NORMATIVE POWER AMIDST CHINA'S GLOBAL AMBITIONS IN TECHNICAL STANDARDS**

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European Union Member States remain key players in international standard setting. The United States, Great Britain, Germany, France and Japan have blazed the trail for 90% to 95% of the standards currently referenced by the International Organisation for Standardisation (ISO) and the International Electrotechnical Commission (IEC).<sup>1</sup> But China has bold plans. President Xi Jinping stated that China will work “with all sides to promote “hard connectivity” of infrastructure and “soft connectivity” of rules and standards”.<sup>2</sup> Furthermore, China’s growing participation in international standards bodies is often construed as a sign of its aspirations to “rewrite international rules”.<sup>3</sup>

Technical standards are critical as they enable the use and interoperability of technology. The economic stakes are clear for European companies. Not only are they paid substantial royalties when competitors use their patents,<sup>4</sup> but international technical standards serve as an important reference point when determining technical barriers to trade.<sup>5</sup> In addition, the ability to set international standards is both a mark and an instrument of international competition between major powers.<sup>6</sup> It is therefore essential for Europe to draw a distinction between China’s postures—and the concerns they raise abroad—from real risks.

China has only spearheaded 1.8% of currently referenced international standards. However, the country’s main objective is to develop its relations with emerging markets—an often-disregarded aspect in many studies and commentaries. China is attempting to get its standards adopted by developing countries through bilateral and minilateral approaches, thereby dodging international organisations, all the while convincing these emerging nations to help facilitate future technical committee chair appointments in those same international organisations.

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1. “China becomes the world’s largest contributor to international standardisation over the last five years” (中国成为近五年在国际标准化领域全球贡献最大国家), CCTV, 12 August 2020..

2. China’s State Council Information Office, 20 April 2021, [Keynote speech by Chinese President Xi Jinping at the opening ceremony of the Boao Forum for Asia Annual Conference 2021](#).

3. Naomi Wilson, 3 June 2020, “China Standards 2035 and the Plan for World Domination – Don’t Believe China’s Hype”, *CFR*.

4. Jeffrey Ding, Paul Triolo, Samm Sacks, 28 June 2018, “Chinese Interests Take a Big Seat at the AI Governance Table”, *New America*.

5. Björn Fägersten et Tim Rühlig, 2019, “China’s standard power and its geopolitical implications for Europe”, *Swedish Institute of International Affairs*, No. 2.

6. John Seaman, 2020, “China and the new geopolitics of technical standardization”, *IFRI*, Vol. 25, No. 3.



## 7.1 ■ Growing participation by China in international standardisation organisations but its influence should be put in perspective

China's global ambitions in standardisation are nothing new. The 1989 Standardisation Law (in Article 4) already encouraged China to actively adopt international standards but also to play a bigger role in standard setting. This intent was reiterated when the law was updated in 2017. Article 8 explicitly states that “[t]he State shall promote participation in international standardisation activities, engagement in international cooperation and exchanges on standardisation, adoption of international standards in the Chinese context, and harmonisation of Chinese and foreign standards”.

China has made its ambitions apparent to international organisations, particularly since the time it became a permanent member of the ISO in 2008 and the IEC in 2011. Pivotal moments also included several appointments of Chinese officials to preside over standardisation organisations: Houlin Zhao at the International Telecommunication Union (ITU) in 2015, Zhang Xiaogang at the ISO in 2015 and, more recently, Shu Yinbiao at the IEC in 2020.

To assess China's level of influence, the media often looks at its degree of participation on technical committees at the ISO and IEC (as participating and observing members). Using this approach, China ranks first at the ISO (tied with the United Kingdom) and second at the IEC (behind Germany and ahead of Japan). Such a yardstick, however, is deficient as it does not take into account the number of technical committee secretariats held by different countries or the distinction between active participation (P) and observation (O) in the committees. For instance, the Czech Republic ranks eighth in terms of participation (P+O), but does not lead any technical committees and has active participation in only 200 technical committees.

By factoring in the number of secretariats allocated to different countries, China falls to sixth place at the ISO and seventh place at the IEC. Despite seeing its responsibilities increase at the IEC in 2020, China holds only 5% of secretariats and 4% of technical committee chairs,<sup>7</sup> behind Italy. These positions are highly coveted for the clout they carry when deciding agenda items, topics of discussion, speakers, etc. We are therefore far from Chinese hegemony in international

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7. “Baromètre international 2021: Position française dans la normalisation internationale [2021 global barometer: French position in international standardisation]”, *AFNOR (French national association for standardisation)*.

organisations. Consequently, European and American companies remain the most influential participants owing to their leadership, technical expertise, comprehensive understanding of standardisation processes and rules, valuable contributions and consistent participation over time.<sup>8</sup>

## 7.2 ■ Europe's legitimate concern over China's approach centred on high government intervention

While standardisation can theoretically be self-administered by industry participants, China's approach has the greatest degree of government involvement and direction. This has fuelled legitimate concerns in the United States and Europe, including: possible abuse of dominance whereby Chinese authorities could promote certain proposals without any consensus or block others for economic and political reasons; voting pressure exerted by Chinese political authorities even if the proposed standards contravene the optimisation of global standards; and the proliferation of substandard proposals in order to meet quantitative targets set by Beijing, which impairs the general functioning of these organisations and reduces the amount of time that can be devoted to more serious proposals.<sup>9</sup>

Importantly, in spite of its increased participation and accession to the WTO in 2001, China also continues to promote national standards that contradict the WTO's commitments on technical barriers to trade. In addition, China grants foreign companies less time than recommended by the WTO (60 days) for the public and international assessment of proposed Chinese standards.<sup>10</sup> As a result, **the rate of adoption of ISO and IEC international standards in China has continued to decline, from an already-low level of 35% in 2010 to 24% in 2019.**<sup>11</sup>

In addition, China could try to claim itself as the spokesperson for developing countries, to the detriment of European countries, in order to facilitate future technical committee chair appointments while making it easier for its proposed standards to be adopted. For example, among the IEC's 88 members (particularly the 27 associate members), many new members are part of the Belt and Road Initiative (BRI), commonly referred to as the New Silk Road: Côte d'Ivoire and Bangladesh (2018), Ghana (2019), Uganda and Ethiopia (2020). This is especially noteworthy given

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8. Naomi Wilson, 13 March 2020, "Hearing on A 'China Model?' Beijing's Promotion of Alternative Global Norms and Standards", *U.S. China Economic Security Review Commission*.

9. "China in International Standards Setting", *The U.S.-China Business Council*, February 2020.

10. Naomi Wilson, 13 March 2020, "Hearing on A 'China Model?' Beijing's Promotion of Alternative Global Norms and Standards", *U.S. China Economic Security Review Commission*.

11. Gerhard Steiger et Steffen Donath, 25 August 2020, "New standardization strategy China Standards 2035", *ETMM*.

that many developing countries are not able to get involved in these organisations. As a result, one could argue that China is seeking to expand its role of intermediary, allowing for wider adoption of its standards and greater influence on developing countries.<sup>12</sup>

### 7.3 ■ China's strategy to sidestep international organisations and gain acceptance of its standards in developing countries

China's efforts in standardisation are also unfolding within the framework of the BRI (launched by Xi Jinping in the fall of 2013) by way of the initiative's "Digital Silk Road" iteration, introduced in 2015 by an official Chinese government white paper. According to China's State Council, **the objective is to build a "hard mechanism" for cooperation and "interconnection" using the "soft connectivity" of standards.**<sup>13</sup> In 2017, the steering group promoting the construction of the BRI published an "Action Plan for Connectivity on Standards to Build the Belt and Road Initiative" for the period 2018-2020. The plan proposes to "expand channels of cooperation on standardisation", illustrating the BRI's gradual geographical extension particularly into Western Asia and Arab countries.<sup>14</sup>

The Chinese government's various objectives on normalisation announced since 2015 led to the creation of a sub-forum dedicated to the issue of policy coordination at the first "Belt and Road Forum for International Cooperation", held in Beijing in May 2017. There, 12 countries (Belarus, Cambodia, Ethiopia, Greece, Kazakhstan, Malaysia, Mongolia, the Philippines, Russia, Serbia, Switzerland and Turkey) co-signed a document with China entitled "Strengthening cooperation on standardisation to promote joint efforts to build the BRI".<sup>15</sup> The document includes a number of agreements to promote standardisation in the fields of science, technology and trade.

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12. Maria Farrell, 5 December 2019, "Now Any Government Can Buy China's Tools for Censoring the Internet", *Medium*.

13. State Council of the People's Republic of China, 2017, "Action Plan for Connectivity of Standards on Joint Efforts to Build the Belt and Road Initiative (2018-2020)" (标准联通共建 "一带一路" 行动计划 [2018-2020 年]).

14. David Sacks, 24 March 2021, "Countries in China's Belt and Road Initiative: Who's In and Who's Out", *Council on Foreign Relations*.

15. YE Xiaonan (叶晓楠) et ZHANG Shuai (张帅), 3 July 2017, "Chinese standards strengthen to build standards connectivity along the New Silk Road" (中国标准加快走向世界推动 "一带一路" 标准联通), *People's Daily* (人民网).

These efforts continued at the Second Belt and Road Forum for International Cooperation in April 2019 in Beijing, attended by ISO President John Walter of Canada. In his speech, Mr Walter stressed that international standards provide the foundations for the joint construction of the BRI.<sup>16</sup> According to a State Council document dated September 2019, China had signed 92 agreements on standardisation cooperation with national institutions and international organisations in 52 countries and regions.<sup>17</sup>

In 2018, the BRI spawned a university alliance on standardisation education and research, based in Hangzhou, in the province of Zhejiang, which brought together 105 universities from 30 different countries.<sup>18</sup> China has also partnered with several countries and regions to establish 12 research centres on standardisation,<sup>19</sup> that promote international cooperation as well as bilateral and multilateral exchanges between standardisation experts. China has gone on to sign bilateral standardisation agreements with Kenya (railways), Laos (agriculture), Pakistan (audiovisual sector) and Russia (civil aviation).

## 7.4 ■ Conclusion

China has certainly made its ambitions in standardisation clear, and its efforts are well underway. However, the international community often overestimates the potential fruits of China's labour. **While China has managed to move into the ranks of countries with real influence in international standards organisations, the country is still far from dominating the international standards ecosystem.**

Chinese participation in international organisations receives substantial media coverage. **It would be wise, however, to take a much closer look at China's**

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16. "Deepening Strategic Linkages to Achieve Complementary Benefits – Report from the sub-forum at the Second Belt and Road Forum for International Cooperation" (深化战略对接 实现优势互补——来自第二届“一带一路”国际合作高峰论坛分论坛的报道), *People's Daily* (人民网), 26 April 2019.

17. State Council of the People's Republic of China, 11 September 2019, "Strengthening exchanges and cooperation to continuously improve standardisation's capacity to serve the construction of "One Belt, One Road" (加强交流合作 不断提升标准化服务“一带一路”建设的能力).

18. 18. State Council of the People's Republic of China, 11 September 2019, "Strengthening exchanges and cooperation to continuously improve standardisation's capacity to serve the construction of 'One Belt, One Road'". (加强交流合作 不断提升标准化服务“一带一路”建设的能力).

19. State Administration for Market Regulation of the People's Republic of China, September 2020, "China Standardisation Development Annual Report (2019)" (中国标准化发展年度报告 2019).

**considerable BRI-related activities in developing countries.** China's actions are perfectly consistent with its political and economic strategy of dual circulation, which aims to strengthen trade and coordination with developing countries. Along these lines, it is essential for the European Union and its Member States to:

- **More carefully consider Chinese ambitions so as to continuously adapt the 2030 standards strategy** (published by the European Committee for Standardisation [CEN] and European Committee for Electrotechnical Standardisation [CENELEC]) as well as the ongoing negotiations for the European Union's next standards strategy.
- **Share perspectives and feedback on China's international standardisation strategy within the EU-US Trade and Technology Council's Working Group on Technology Standards**, established in October 2021.
- **Continue to invest in the Europe-China Standardisation Information Platform (CESIP)**, which maps out the Chinese and European standardisation landscapes and informs users on the role of standards for market access.
- **Emphasise EU and Member State cooperation with developing countries on standardisation through targeted initiatives** such as, in particular, training for African, Caribbean and Pacific States (ACPS) and Member States of the Association of Southeast Asian Nations (ASEAN).
- **Replicate the Seconded European Standardisation Expert projects currently in place for India (SESEI) and China (SESEC)**, with Brazil (under development) and Southeast Asian countries.



# 8.

## CHINA'S RISING TRADE ACTIVISM IN ASEAN: IMPLICATIONS FOR THE EU

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*Original version*

Over the past few years, China has become increasingly active in Southeast Asia, primarily through Xi Jinping's flagship Belt and Road Initiative (BRI), but its footprint in the region dates back as far as the late 1990s.

**China's activism in this part of the world is particularly notable in the economic area, with trade as the main instrument through which China seeks to enhance its influence.** Although China's rising weight in the region may become increasingly problematic and risky, it also be seen in a more positive light as it stimulates other countries' interests in the region, offering potential alternative partnerships.

### 8.1 ■ State of play: ASEAN's rising economic dependence on China

China's interest in Southeast Asia<sup>1</sup> is nothing new; the region has always been perceived by Beijing as its backyard, but it took some time before Beijing was in a position to launch a charm offensive. The 1997-98 Asian Financial Crisis (AFC) provided such opportunity. At the time, although the devaluation of the renminbi (in 1994) was thought by some to have been one of the trigger events leading to the crisis, Beijing told a different story, stressing that it had refrained from devaluing its currency in 1996 so as to protect its Southeast Asian neighbors. Ever since, China's engagements and initiatives in the region have been more proactive. For instance, in 2000 China gave full support to the Chiang Mai Initiative,<sup>2</sup> which it viewed as a more balanced framework than the Japan's initiated Asian Monetary Fund proposal to which it had been opposed. This change in Beijing's attitude was a clear indication of its willingness to play a more active role in the region.

Shortly after the crisis, the possibility of a China-ASEAN free trade agreement (CAFTA) was proposed by Beijing, and official negotiations started in November 2001. The framework agreement on Comprehensive Economic Cooperation was signed a year later, formally launching the process of establishing a CAFTA. The agreement was signed in November 2004 and entered into force in 2005, with full implementation in January 2010 for China and ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and 2015 for Cambodia, Laos, Myanmar and Vietnam. CAFTA was revised in 2015 so as to be better adapted to changing circumstances (a standard procedure for ASEAN FTAs).

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1. China is interested both in extending its influence in Southeast Asia as a region and in tightening its relations with ASEAN as a group.

2. A series of bilateral swap agreements signed by ASEAN+3 in 2000 in Chiang Mai, Thailand, to exchange national currencies into US dollars and thus secure liquidity without having to turn to the International Monetary Fund.



Through this agreement China was trying to placate **its weakest (and most vulnerable) neighbors' concerns that it is swooping up the lion's share of regional foreign investment** by allowing them to export their goods to the expanding Chinese market.<sup>3</sup> But through this agreement China was also pushing its strategic and political interests in the region. Indeed, at the time Chinese officials made quite clear their desire to extend cooperation with ASEAN into the security sphere.

CAFTA provides a sound basis for increasing trade and investment flows between ASEAN and China. In the wake of the 2008 global financial crisis, China took actions to respond to ASEAN's economic and development needs via bilateral and regional initiatives. As a result, the bilateral economic relations between China and ASEAN have become increasingly intense. In 2013, the launch of the Belt and Road Initiative (BRI), of which Southeast Asia is a major target, helped to further deepen the relationship, with many investment projects giving rise to deeper and more diversified trade flows.

According to ASEAN statistics, trade in goods between ASEAN and China has more than doubled since 2010, from \$235.5 billion to \$507.9 billion in 2019. While global merchandise trade shrank significantly as a result of the Covid-19 pandemic, bilateral trade between China and ASEAN increased in 2020. **As a result, ASEAN countries have jumped to be the number one trading bloc with China (surpassing the EU), with trade volumes hitting \$684.6 billion. Whether this situation will persist in the coming years remains an open question.** While ASEAN became China's largest trading partner for the first time in history in 2020, China has been ASEAN's largest trading partner for 12 years in a row. On the investment front, ASEAN has become one of China's major outbound investment destinations and sources of foreign direct investment.

Next to the dramatic rise in total volumes, an interesting feature of the relationship is the change in the nature of trade between the two partners. In particular, semi-conductors have been a major contributor to their growing trade relationship, with shipments from ASEAN to China increasing 24% and those from China to ASEAN increasing 29% in yuan terms on the year.

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**3.** China adopted the policy of "reassuring, enriching and befriending neighbors.", as explained in Kuik, Cheng-Chwee, 2000, "China's Evolving Multilateralism in Asia: The Aussenpolitik and Innenpolitik Explanations", Kent E. Calder and Francis Fukuyama, 2008, eds, *East Asian Multilateralism: Prospects for Regional Stability*, The Johns Hopkins University Press, pp. 109-140.

The conclusion of the regional Comprehensive Economic Partnership (RCEP), which involves both parties on top of four other countries, namely Japan, South Korea, Australia and New Zealand, will undoubtedly allow China to further deepen its engagement with ASEAN.

## 8.2 ■ What can be expected in the coming years and the challenges it poses

There is no reason to believe that the current trends will not continue. The coming into force of RCEP is likely to facilitate the further deepening of bilateral trade relations. Although RCEP was not a Chinese initiative but an ASEAN one, the negotiation would never have taken off the ground without China's approval. More importantly, although Beijing may not have been a very active negotiator, now that the agreement is in place (and will enter into force in early 2022), thanks to its large size, China is in an ideal position to make the best of it. Moreover, given China's central role in some important value chains, it can benefit from the arrangement but also leverage its influence.

Over the past year, China also launched a new offensive in the context of the Covid-19 crisis through a proactive vaccine diplomacy vis-à-vis ASEAN countries. As a result, China is perceived by a large share of the population in ASEAN (44%) as having provided the most help to the region.<sup>4</sup>

Further signs of China's activism in the region could be observed in the past few months. One such sign was Beijing's recent announcement that it wishes to join the CPTPP, to which four ASEAN countries are signatories. In this respect, **the absence of the US from any trading arrangement involving the region (and its unlikely return to the CPTPP<sup>5</sup>) undoubtedly gives an advantage to China.**

The countries in the region are increasingly interdependent but this interdependence tends to be asymmetrical. ASEAN's dependence on China is larger (and more critical) than China's dependence on ASEAN. As a result, there is a definite risk of weaponisation of this unbalanced dependence by China. Such a strategy could be observed in other similarly unbalanced bilateral relationships, as with Korea following the establishment of the *Terminal High Altitude Area Defense* (THAAD) in 2017, or with Australia following Canberra's call for an investigation into the origins

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4. ISEAS, January 2021, "State of Southeast Asia: Survey report 2021", Singapore.

5. Interestingly, US activism in the region has been concentrating on the security sphere but not on the trade and economic sector.

of the Covid. In these two cases China leveraged its position as the number one trading partner to exert coercion on its partners.

**ASEAN countries' traditional strategy has been to hedge so as to avoid being irresistibly attracted by China and absorbed in its sphere of influence.** Alongside their expanded economic engagement of China, ASEAN Member States, ever concerned about autonomy, have also continued to reach out to other partners and develop other relationships as a way to guard against overly dependent relations with their increasingly powerful neighbor. It remains to be seen, however, whether they will be in a position to maintain such a strategy in the future.

Despite the win-win narrative pushed by Beijing, there is an increasing concern and distrust vis-à-vis China in ASEAN. By way of illustration, according to the ISEAS Survey Report mentioned earlier, China is overwhelmingly regarded as the most influential economic power (by 76% of the respondents), a trend that has held consistently since 2019. But at the same time, China has raised the region's anxiety over China's economic heft. Among those who see China as the most influential economic power, 72.5% are worried about its economic influence.

But the concerns are not exclusively felt within most ASEAN countries' public opinions. **Similarly, business circles in the region there is a rising concern that ASEAN's overdependence on China is a risk.** The Chinese initiatives highlighted earlier, while demonstrating China's increased economic attractiveness, have also been fueling concerns about how such initiatives can open the door for Chinese leverage. Although no ASEAN country would wish to offend China, several ASEAN countries' governments have sought to keep their distance from China's connectivity "carrots", in the context of the BRI.<sup>6</sup> In other words, while interdependence has clearly grown between China and ASEAN, this has not led to the establishment of a Chinese sphere of influence in the region.

### 8.3 ■ What all this means for the EU

A degree of great power balance is sought by ASEAN, not just militarily but also economically for the stabilising effect it may have.

While uncertainties about the US (in particular under the Trump presidency) made ASEAN countries closer to China, now with rising concerns about China and with

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6. Cheng-Chwee Kuik, 15 June 2021, "[Irresistible inducement? Assessing China's Belt and Road Initiative in Southeast Asia](#)", *Council on Foreign Relations (CFR)*, Blog post.

the lack of US commitment in some areas such as trade, there is definitely scope for non-US partners such as the EU to play a more important role in the region.

European countries further afield may have interests in Southeast Asia but they tend to be easily distracted by developments elsewhere and in their own historical and geographical spheres of interest.

Several bilateral FTAs are already in force with some ASEAN partners (Singapore and Vietnam) and negotiations are ongoing with Indonesia, but **it is important to give new momentum to the negotiations with Malaysia, Thailand and the Philippines, and perhaps to contemplate relaunching a region-to-region agreement.** The situation has changed significantly since the negotiations between the two regions had to be dropped in the mid-2000s. ASEAN countries have proven that they are ready and willing to raise their level of commitment, as exemplified by the successful conclusion of the RCEP as well as the participation of four ASEAN countries to the more demanding CPTPP.

The UK is trying to play its own card in the region as exemplified by its application to join the CPTPP earlier this year. And it is important for the EU to offer further options to ASEAN partners who are likely to receive these alternatives very warmly.

**Since the CPTPP entered into force, several Asian countries (China, Indonesia, Korea, the Philippines, Thailand, and Taiwan) have expressed interest in joining the agreement. In this expanded version, the agreement would be of even higher interest to the EU. Applying to the CPTPP is an option that should not be dismissed lightly.**

To be sure, China's accession to the CPTPP would be a real game changer but, despite Beijing's repeated manifestations of interest which led to its formal application to join the deal, it remains a highly hypothetical scenario. As it is an accession process, China would be expected to accept the existing rules of the CPTPP in full and this may prove to be highly problematic for rules regarding state-owned enterprises or labor standards, for instance. Moreover, China's candidacy has to be approved by all CPTPP members, and this will probably not be an easy task given the current tensions between China and some CPTPP Member States such as Australia.

Lastly, it is worth noting that CPTPP can be seen as a rule setting mechanism and as a normative power, the EU has an interest in contributing to writing the rulebook.





# 9.

## **INTERNATIONALISATION OF THE RMB THROUGH ITS DIGITAL CURRENCY: CONSEQUENCES FOR THE DOLLAR AND THE EURO**

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*Original version*

## 9.1 ■ China's economic rise strengthens the renminbi (yuan)

Past experience shows that a sudden loss of trust in a reserve currency is unlikely unless there is another currency, with a much stronger economy and very liquid financial markets to take the baton. This is where China enters the equation and could threaten the dollar's position as reserve currency.

In fact, among the external factors that might affect the future of the dollar, China's economic rise is surely the most relevant. Thanks to the positive overall population growth rate and the rural-urban population migration, the GDP size of China has massively grown even before its accession into the WTO, with the GDP size expanding from \$0.3 trillion as of 1980 to \$1.2 trillion as of 2000. Since stepping into the 21<sup>st</sup> century, China has sustained its growth at a rapid pace boosted by international trade. **In other words, China's convergence with the US in terms of GDP per capita has been obvious.** History shows that an economy's rise should eventually be accompanied by a much wider international use of its currency. However, this has not yet happened for the renminbi (RMB), with **only 2% of global cross-border payments being conducted in RMB, as opposed to almost 40% in USD. In the same vein, only 2% of global foreign exchange reserves are denominated in RMB, versus over 60% in USD.** But in fact, no hegemon has ever been dependent on the currency issued by the previous hegemon and this is what China would need to end up doing once its GDP surpasses that of the US.

First and foremost, this is because the RMB is not convertible, which means that it cannot move freely in and out of China. Secondly, China's financial markets, especially the Treasury market, are not yet as liquid as U.S. dollar markets, and there is no expectation that this will be the case any time soon. The question is whether such reasons might no longer be important enough when compared to China's economic clout and, most importantly, China's renewed interest to foster the internationalisation of the RMB.

## 9.2 ■ China's desire to internationalise the RMB

**While internationalising the RMB has long been an important objective for Chinese policymakers, other more pressing issues, such as high growth, have taken the driver's seat.** However, America's resistance to China's rise has shifted from the trade arena to tech, to the extraterritorial use of the dollar. The U.S. administration has imposed sanctions on a large number of Chinese targets, whether military-related companies or the so-called entity on which the U.S. imposes export controls on relevant technology. These sanctions would not be possible if the dollar



was not the world's reserve currency. This is why Chinese policymakers are more eager than ever to reduce China's dependence on the dollar as a financing or investment vehicle, which can only be achieved through the wide acceptance of the RMB as international currency.

### 9.3 ■ China should accept full convertibility

The first attempt by China to internationalise the RMB was centered on facilitating Hong Kong as the global hub for offshore RMB business, then extended to other offshore centers, which did not work out well after the 2015 Chinese equity and currency shocks.

Now China is trying again by fostering cross-border acceptance of its digital currency (e-CNY), the first digital currency among major central banks in the world, which can profit from a first-mover advantage. At the current stage, the e-CNY is only designed to partially replace the physical cash in circulation domestically as its usage has markedly declined. But **China's ambition is obviously beyond that. The collaboration with the Hong Kong Monetary Authority (HKMA), the Bank of Thailand (BOT) and the Central Bank of the United Arab Emirates (CBUAE) to experiment the cross-border use of the e-CNY in these three jurisdictions is a good example.** On top of that, a joint venture was set up with SWIFT, which points to China's aspirations to facilitate the global use of its new digital currency and, possibly, have the RMB become a reserve currency one day. This is not only important in the long run but also immediately as it can help China bypass the use of the dollar when and if needed.

But the internationalisation of a currency needs more than just technical preparations. It also requires **certain conditions** to be fulfilled for its global acceptance, namely **preserving its value through price stability, offering a large pool of highly liquid assets, and allowing full capital account convertibility for money to instantly flow in and out of RMB.** This means that the Chinese government will need to take additional steps toward the liberalisation of the capital account so as to enhance the full convertibility of the RMB.

### 9.4 ■ Will a digital renminbi make the difference?

A key question is whether the digital renminbi, the e-CNY, may help Chinese authorities to square the circle, namely to allow for more capital account openness while still being able to trace capital flows and act accordingly. This explains why e-CNY's traceability under the design of "controlled anonymity" is key, as it allows China to

control seemingly free financial flows. In other words, **the digital currency could offer a way to promote RMB as an international currency, while still keeping control of cross-border flows.**

However, the technical barrier for a cross-ledger solution and the institutional differences make it easier said than done. Data sharing of financial transactions is also an important stumbling block. Another important factor that needs to be improved is the liquidity of RMB financial assets. While the size of the bond market has grown rapidly since the global financial crisis, it is dominated by corporate and financial institutions' credit. More liquidity on central government paper is needed with a longer yield curve and clearer benchmarks. But whether the E-CNY can help on this front remains a question.

## 9.5 ■ The risks to the dollar

Clearly, the dollar remains the world's largest reserve currency, but it is facing both domestic and external risks. The domestic risk is really about the need to finance a huge debt fed by monetary and fiscal stimuli, particularly after COVID. The jury is still out as to whether the U.S. will remain productive enough, and thus grow enough, to repay the debt.

On the external front, it is really all about China and its quest to elevate the RMB to the podium of reserve currencies but also to bypass the dollar. To that end, the current plan is to step up the cross-border use of China's digital currency, but it is easier said than done. **China's huge economic size will help, but as long as the currency is not fully convertible, it will take time for the currency to be fully accepted beyond its borders.**

## 9.6 ■ How about the euro?

**For the same technical and institutional constraints, the digital yuan will find it hard to substantially challenge the Euro's position as the second most important currency in the international monetary system.** But this may be less true in the cyberspace, which enjoys very large non-European players. Also **the potential launching of a digital Euro, which is still in an embryonic phase, though, could change matters.**

All in all, the introduction of a Chinese central bank digital currency (CBDC) could be a game changer for the RMB as international currency. but the race might only start then since others may follow, including in Europe. For China, the key is to ensure

that the opening of the capital account continues so that the RMB —whether digital or not— can really be considered a fully convertible currency so as to extend its use, not only as cross-border means of payments but also as an international investment/borrowing currency.



# 10.

## **GLOBAL WARMING: A COOPERATION ISSUE TO AVOID THE FREEZING OF EU- CHINA RELATIONS?**

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## 10.1 ■ The state of EU-China relations on climate-related issues

Scientists established a link between the concentration of carbon dioxide in the atmosphere and the warming of the earth's surface temperature as early as 1896 when the Qing dynasty still ruled China.<sup>1</sup> The issue of global warming appeared on the political scene in 1979 with the presentation of the Charney Report in the United States and the mobilisation of international scientists, including the Soviet Mikhail Boudyko.<sup>2</sup> In 1985, the Montreal Protocol highlighted the possibility of successful cooperation on another global environmental challenge: the ozone layer. The 1992 Rio Summit was the first *Conference of Parties* (COP), whose most recent, 26<sup>th</sup> edition (COP 26), took place in Glasgow in November 2021. This international conference, in which both the EU and China participated, led to the first adjustments, including in China, which was the first country to publish a document aimed at implementing the Rio Summit's Agenda 21.<sup>3</sup>

In 2021, China is the world's most populous country and the largest emitter of greenhouse gases. To avoid a global climate disaster, China's climate neutrality is necessary.<sup>4</sup> Stepping up climate action would require Beijing to **limit its heavy reliance on coal, the most polluting fossil fuel, which still accounts for 60% of China's energy mix.**<sup>5</sup> China's current climate goals and policies show that it is not

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1. Svante Arrhenius, April 1896, "On the Influence of Carbonic Acid in the Air upon the Temperature of the Ground", *Philosophical Magazine and Journal of Science* 5(41).

2. Jule G. Charney, Akio Arakawa, D. James Baker, Bert Bolin, Robert E. Dickinson, Richard M. Goody, Cecil E. Leith, Henry M. Stommel and Carl I. Wunsch, 23-27 July 1979, "Carbon Dioxide and Climate: A Scientific Assessment", Report of an Ad Hoc Study Group on Carbon Dioxide and Climate.

3. Barbara Finamore, 7 June 2011, "One Year to the Earth Summit: How China Can Advance Sustainable Development Globally", NRDC.

4. Valérie Masson-Delmotte, Panmao Zhai, Hans-Otto Pörtner, Debra C. Roberts, James Skea, Priyadarshi R. Shukla, Anna Pirani, Wilfran Moufouma-Okia, Clotilde Péan, Roz Pidcock, Sarah Connors, J.B. Robin Matthews, Yang Chen, Xiao Zhou, Melissa I. Gomis, Elisabeth Lonnoy, Thomas Maycock, Melinda Tignor and Tim Waterfield (eds.), 2018, "Summary for Policymakers. In: IPCC Special Report on the Implications of Global Warming of 1.5°C above Preindustrial Levels and Associated Global Greenhouse Gas Emission Trajectories in the Context of Enhancing the Global Response to Climate Change, Sustainable Development and Poverty Alleviation", Intergovernmental Panel on Climate Change (IPCC).

5. International Energy Agency, Country Profile, China.

**ready to do what is necessary to maintain the Paris Agreement's 1.5°C target.<sup>6</sup>**

At the same time, however, Beijing is positioning itself as a key player in shaping the rules for the transition to a clean economy and a major competitor in green technology markets.

China wants to prevent a geopolitical rapprochement between the European Union (EU) and the United States. It uses the climate crisis to achieve this strategic goal. At the September 2020 UN General Assembly, President Xi welcomed European climate diplomacy by announcing that China would aim for carbon neutrality. Xi's declaration came shortly after President von der Leyen had proposed this as a benchmark for credible Chinese climate action.

The common EU approach to climate diplomacy gives the Member States an entry point to forge a common and constructive policy towards China.<sup>7</sup> It is also an issue that enjoys broad public support across the EU—even though a majority of citizens are suspicious of China.<sup>8</sup>

**An EU strategy towards China is therefore essential to (1) ensure the EU's leadership in the race to develop green economy products and services, (2) ensure the integrity of the Green Deal and the support of Member States over time by protecting it from the risks emanating from international dynamics, and (3) encourage China to engage in its energy transition to reduce its greenhouse gas emissions rapidly.**

## 10.2 ■ The challenges of the EU-China relationship on climate issues

**Climate has been an area of constructive engagement and cooperation between the EU and China, despite the more global developments in bilateral relations.**

In 2019, climate cooperation managed to withstand the jolt caused by reframing the EU's strategy towards China by declaring it to be a "systemic partner, compe-

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6. The IPCC's 1.5°C report, published in 2018, reminds us that in order to limit global warming to 1.5°C, it would be necessary to rapidly reduce greenhouse gas emissions at the global level and achieve carbon neutrality by 2040. China's objective is not to reduce its emissions in the short term, but from 2030 onwards, to reach carbon neutrality in 2060.

7. Council of the European Union, 25 January 2021, "Council conclusions on Climate and Energy Diplomacy — Delivering on the external dimension of the European Green Deal", 5263/21.

8. E3G, June 2021, "Polling European citizens on the role of climate change in the EU's China relations".

titor and rival”.<sup>9</sup> Climate remains a pillar of engagement with a mutual interest for cooperation. For example, the EU and China announced a high-level dialogue on environment and climate at the 2020 EU-China Summit.<sup>10</sup> The joint communiqué of the second dialogue underlined the importance of collaborative work on climate change and marked the first joint statement since the EU sanctions and China’s countersanctions in March 2021.<sup>11</sup>

**Climate cooperation will have to cope with the rebalancing of the EU-China relationship in line with the EU’s multifaceted approach** to China’s growing international assertiveness and the increasing geopolitical tensions in China-US relations. Tensions over the treatment of Hong Kong, human rights abuses in Xinjiang, and Chinese investment in 5G infrastructure in Europe have peaked with mutual sanctions. Concerns about the use of forced labour in Chinese solar panel supply chains may also cast a shadow over future EU-China climate engagement.<sup>12</sup>

**Climate will remain a pillar of EU-China relations.** But the EU will increasingly have to balance growing competition over the green economy with the need to coordinate with China to achieve ambitious climate goals. As the EU and China decarbonise their economies, they not only face similar challenges that cooperation could help overcome (e.g., climate risk and resilience governance), but they are also competing for leadership in green economy sectors, raw materials for green economy products and the standards that govern them (e.g., batteries for electric vehicles).

### 10.3 ■ Recommendations

The main challenge for the EU is to develop a successful “coopetition” agenda, i.e., the concomitance of cooperation in international and national climate action and competition between the EU and China in the development, innovation and

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9. European Commission, High Representative of the Union for Foreign Affairs and Security Policy, 12 March 2019, “Joint Communication to the European Parliament, the European Council and the Council on EU-China Relations — A Strategic Vision”.

10. European Council, 22 June 2020, “EU-China Summit: Defending the EU’s interests and values in a complex and vital partnership - Press release by President Michel and President von der Leyen”.

11. European Commission, Directorate General for Climate Action, 10 October 2021, “Joint Press Communiqué following the Second EU-China High Level Environment and Climate Dialogue”.

12. Aitor Hernández-Morales, Karl Mathiesen, Stuart Lau and Giorgio Leali, 10 February 2021, “Fears over China’s Muslim forced labor loom over EU solar power”, *Politico Europe*.



deployment of green energy and agricultural solutions. To this end, the EU's climate diplomacy strategy towards China should be built around the following actions.

### **a ■ Understanding the risks of climate change**

Like any other country, China is more likely to accept rapid decarbonisation of its economy if it better understands the risks to its interests from unchecked climate impacts. The EU needs to strengthen its high-level dialogue on climate risks, particularly on the role of climate impacts on regional security, through multilateral channels such as the UN Security Council and the UN Framework Convention on Climate Change. Policy dialogues should complement the interaction with EU partners in the Indo-Pacific region, Africa, and other climate-vulnerable countries.

This dialogue can be based on exchanges between the scientific and foresight teams of the governments concerned, including the recent work of the International Panel on Climate Change (IPCC, August 2021), which stresses that in the event of a scenario of high greenhouse gas emissions, they cannot rule out a rise in sea level of more than 15 metres over the next two centuries.<sup>13</sup> Such dialogues should lead to concrete European and Chinese decisions to act in specific areas.

### **b ■ Climate and international trade**

Facilitating trade in green transition products and services between China and the EU would accelerate the development and deployment of the energy and agricultural solutions necessary for the transition of both partners to climate neutrality in a limited timeframe (<30 years for the EU, <40 years for China).<sup>14</sup> However, the ratification of the Comprehensive Agreement on Investment (CAI) signed between the EU and China in December 2020, which notably facilitated European investments in environmental services by removing the obligation of a joint venture with a Chinese partner, is suspended. Its future depends on the lifting of the sanctions that the two signatories have imposed on each other concerning the respect of human rights.

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**13.** Valérie Masson-Delmotte, Panmao Zhai, Hans-Otto Pörtner, Debra C. Roberts, James Skea, Priyadarshi R. Shukla, Anna Pirani, Wilfran Moufouma-Okia, Clotilde Péan, Roz Pidcock, Sarah Connors, J.B. Robin Matthews, Yang Chen, Xiao Zhou, Melissa I. Gomis, Elisabeth Lonnoy, Thomas Maycock, Melinda Tignor, Tim Waterfield, Sophie Berger, Nada Caud, Leah Goldfarb, Mengtian Huang, Katherine Leitzell, Özge Yelekçi, Rong Yu (ed.), 2021, "Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change". *GIEC*.

**14.** The EU is aiming for climate neutrality by 2050, and China for carbon neutrality by 2060.

A reassessment of the way forward is needed to ensure that European investment can support China's energy transition on the basis of a level playing field, starting with fair participation in renewable energy tenders and removing technology transfers in critical areas such as electric vehicles and hydrogen. The EU should also push for creating an international coalition to facilitate trade in energy transition products.

European market access for its green industries relies on open, rules-based markets, including the introduction of an EU border carbon adjustment mechanism from 2026,<sup>15</sup> which could provide an incentive for China to ensure that its new carbon market<sup>16</sup> achieves similar or even higher scope and price levels than the EU carbon market.<sup>17</sup> **For this to happen, the calibration of the trade defence instruments that Europeans put in place will be essential to maintain a level playing field and preserve supply chain resilience**, while avoiding weakening Chinese incentives to decarbonise. Failure to do so would risk a repeat of the 2012/2013 EU-China trade row over solar panels.<sup>18</sup>

As the clean economy becomes more central to its economic prosperity, the EU needs to address climate issues in all existing dialogue formats with China. Whether engaged on climate, digitalisation, trade or energy, these various dialogues need to be coordinated so that any potential for conflict is flagged and managed by a wider group of stakeholders. The EU should also ensure the integrity of the European Green Deal by preserving the social and environmental credentials of green economy goods and services. This could include the integration of greenhouse gas emission standards and the protection of human rights in the production of goods that are essential for the energy transition (as in the case of the battery regulation<sup>19</sup>).

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15. Pascal Lamy, Geneviève Pons & Pierre Leturcq, July 2021, "GT6– Towards a Border Carbon Adjustment Mechanism: Three 'Ds' to overcome the EU's first mover disadvantage", Europe Jacques Delors.

16. Bianca Nogrady, 20 July 2021, "China launches world's largest carbon market: but is it ambitious enough?", *Nature*.

17. Johanna Lehne, Eleonora Moro, Phuc-Vinh Nguyen, Thomas Pellerin-Carlin, April 2021, "The EU ETS: from cornerstone to catalyst – the role of carbon pricing in driving green innovation", E3G – Institut Jacques Delors.

18. Jonas Parello-Presner et Agatha Kratz, 12 March 2013, "How can the EU promote its economic interests with China?", Institut Jacques Delors, *Policy Paper 85*.

19. Carole Mathieu, 12 April 2021, "La batterie verte: un avantage compétitif pour l'industrie européenne du véhicule électrique?", *Études de l'Ifri*.

### c ■ On connectivity

To deliver on the promises of the EU's *Global Gateway*, initiative to develop the infrastructure that enables trade between the EU and the rest of the world, and to make it an attractive and competitive offer, **the EU needs to work with other major development aid providers and third-country investors, including China.** Mobilising the Green Pact as an engine of economic prosperity that is tailored to local needs benefits EU interests abroad. Moreover, it is only an attractive offering if it delivers. China has recently announced an end to its export subsidies for coal-fired power plants, and increased investment in green energy in developing countries through its *Belt and Road* initiative. It has also signalled willingness to coordinate with the EU and the G20 on connectivity strategies. The EU, in coordination with the G7's *Build Back Better World* initiative, should prioritise securing a portfolio of financially sound projects in developing countries, particularly those where the EU can exert influence through geographical proximity and deep historical or economic ties, such as in Africa. This would lead to competition in environmental development and energy infrastructure and encourage China to deliver on its promise to green its New Silk Road initiative.

### d ■ A normative strategy for goods and services

The EU should leverage its market power to **engage China in bilateral dialogues on green economy standards in trade, technology, and sustainable finance.** A joint group could develop proposals to promote harmonisation of standards and establish strong social and environmental safeguards along the supply chains of green economy goods and services. Priorities for this dialogue should include areas where China is already a leader, such as battery standards, or where the EU is already investing heavily in innovation, such as green hydrogen and reducing methane leakage. **The EU and China could also develop a global taxonomy for sustainable finance and work with the US to adopt common standards within the G20.**

### e ■ A European research and innovation strategy to remain competitive with Chinese green technology sectors

Despite ambitious political rhetoric on long-term European climate targets, all 27 EU Member States have decreased their public investment in research for the energy transition over the 2010-2018 period. Meanwhile, China has tripled its public investment in research for the energy transition, far surpassing European

levels both in absolute terms and as a percentage of GDP.<sup>20</sup> As 80% of the world's economic output takes place in China, the EU and the US, which are all aiming for carbon neutrality,<sup>21</sup> European policymakers should **no longer see the challenge of European public investment in green technologies as a climate issue alone, but also as a vital dimension for Europe's technological sovereignty, its economic prosperity and its ability to develop, produce and export clean energy solutions worldwide.**

#### f ■ On US-EU cooperation on China-related issues

Coordinating with the US remains crucial to creating strong incentives for China to take climate action. It should build on the EU's role as a standard-setter, notably in supply chain governance and sustainable finance regulation. The EU benefits from focusing its cooperation efforts with the US on areas where their mutual interests are aligned while striving for US acceptance of the EU-China bilateral dialogue if interests diverge, especially in the event of a victory of a "climate-negative" majority in the 2022 US midterm elections and the 2024 US presidential race.

**One way to consolidate transatlantic cooperation on China's climate engagement would be to agree on a set of criteria and red lines on what does and does not constitute a credible Chinese commitment to the Paris Agreement.** Where China meets these criteria, the EU should, in coordination with the US, act as an intermediary and facilitate China's participation in multilateral discussions on decarbonisation (e.g., at the G20). The EU can also use the recently established EU-US Trade and Technology Council to coordinate its dialogues with China with the US.<sup>22</sup>

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<sup>20</sup>. Thomas Pellerin-Carlin, February 2021, "Europe needs to innovate to become a front-runner in the global green economy race", Jacques Delors Institute.

<sup>21</sup>. Camille Defard *et al.*, 2 November 2021, "COP26: Europe leads the way towards climate neutrality", Jacques Delors Institute.

<sup>22</sup>. European Commission, 15 June 2021, "EU-US launch Trade and Technology Council to lead values-based global digital transformation", Press Release.





# 11.

## THE CHALLENGES OF COOPERATION WITH CHINA IN SCIENCE, TECHNOLOGY, AND INNOVATION

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China's emergence as a global science and technology power requires the European Union (EU) to rethink its international cooperation strategy in this area. While China is an attractive partner today, the specificities of its international science, technology, and innovation (STI) policy pose many challenges. We propose four avenues for developing a balanced and proactive approach to STI collaboration with China, which could complement the efforts by the European Union and its Member States.<sup>1</sup>

## 11.1 ■ State of play

### Chinese ambition

For several decades, scientific development and the mastery of key technologies have been at the heart of China's ambition to become a leading economic and military power. The indigenous innovation policy, the *Made in China 2025*, programme and the first thematic chapters of the 13<sup>th</sup> and 14<sup>th</sup> Plans, reflect China's determination to use science and technology as a powerful lever to modernise China and ensure its independence. Relying on massive investments in the ICT, green energy and biotech sectors, the dynamism of its population and its high level of education, the Chinese leadership, strengthened by its ability to govern the markets, is betting on a technological shortcut effect (*leapfrogging*) to make China the champion of the fourth industrial revolution.

### An attractive partner

China's performance makes it an increasingly attractive partner.<sup>2</sup> The CNRS Beijing newsletter gives a monthly insight into the wealth of scientific activity in China and Hong Kong.<sup>3</sup> Indeed, **China is at the knowledge frontier in artificial intelli-**

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1. This paper is based on research by Irène Hors (MERICS, France China Foundation), Rebecca Acersati (MERICS) and Sylvia Schwaag Serger (Lund University) ("Sharpening Europe's Approach to Engagement with China in Science, Technology, and Innovation", forthcoming, MERICS). It also benefits from the comments of the Jacques Delors Institute's EU-China working group, led by Sylvie Bermann and Elvire Fabry.

2. See "Global Innovation Index 202": China (12), France (11), Germany (10); share of global R&D expenditure: 24% (2019); China's ranking by number of publications in the top 10%: 1 since 2019 (Scival).

3. Newsletter of the French Centre National de la Recherche Scientifique (CNRS) in Beijing..



**gence (AI) and green technologies.**<sup>4</sup> For private players, market access is a crucial factor. Still, cost and skills considerations and the possibility of benefiting from government support also motivate the onshoring of R&D in China and developing partnerships with local universities or research centres. **Despite flaws in protecting intellectual property rights and the control of data transfers out of China, 40% of respondents to the EU 2020 Business Confidence in China survey say that China's innovation and R&D environment is more or as favourable as the global average.**<sup>5</sup>

Although indicators such as the number of co-publications,<sup>6</sup> co-patents or student and researcher exchanges give an idea of the growing cooperation in STI between China and Europe, they are insufficient to provide a clear picture, both for France and other EU countries.

### **Different problems**

However, STI collaboration with China poses problems of different kinds. Firstly, there is a lack of transparency and reciprocity in partnerships and repeated infringement of intellectual property rights. In terms of industrial competitiveness, negative medium-term consequences accompany the short-term benefits for the teams or companies involved. Under pressure from shareholders and competition, companies give up technologies for short-term gains. From aeronautics to high-speed trains and nuclear power plants, economic partnerships with a technological dimension to achieve at market access, have contributed to the emergence of internationally competitive Chinese firms. For example, through its partnership with Europe on Galileo, China has acquired fundamental knowledge that has enabled it to develop its Beidou navigation system and pursue its ambitions in space. Dependencies on the Chinese innovation system could also arise, e.g., in value chains. There are furthermore ethical problems when the integrity of the research is threatened, or the applications are contrary to European values. The social sciences are another field where the systemic rivalry between competing paradigms is at play. Finally, there are national security issues involved, as

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4. Ranking of China, according to the number of publications in the top 1% cited in the fields of renewable energy, sustainable development and environment: 1 since 2013; AI: 1 since 2014 (Scival). Thanks to Sylvia Schwaag Serger (Lund U.) for suggesting these data.

5. European Union Chamber of Commerce in China, 2021, "[European Business in China. Business Confidence Survey 2021](#)".

6. According to publications listed by NatureIndex between May 2020 and April 2021, 20% of US co-publications are written with China; 9% with Germany, Sweden and the UK; 6% with France.

research projects can contribute to the modernisation of the Chinese army and the influence of the Chinese Communist Party (CCP) abroad. **Structurally, the influence of the CCP on European research and higher education institutions, such as the opening of a campus of Fudan University in Budapest, increases the risk of unbalanced cooperation,** but also raises questions about the influence of the Chinese model on Europe's partner countries.

## **The European response**

International S&T cooperation policy is a shared responsibility between the EU and the Member States. In the last five years, the EU has developed a series of measures which, on the one hand, set limits to the *open by default* strategy and protect European STI assets, and on the other hand, help to clarify the conditions for cooperation with China (see Table 1). For the Member States, government control of technology exchanges with foreign countries is not new. But additional measures have been introduced in recent years, in conjunction with actions at the EU level and as a response to the changing relationship with China.

### **11.2 ■ Main challenges**

The current context does not lend itself well to predictions, as there are many sources of uncertainty: financial instability, economic slowdown, corporate take-overs, the Taiwan crisis, and border closures. However, we propose to focus on the following challenges.

**Europe lacks information on the extent of cooperation with China, especially the private sector, scientific and strategic benefits, and costs.**

A shared understanding of the situation is essential for balanced joint action. Under the influence of anti-China political games and American voices, going too far could lead to a counterproductive over-reaction and closure.

TABLEAU 1 ■ Measures taken by the European Union

Non-China-specific measures			
<ul style="list-style-type: none"><li>• The European screening mechanism for foreign direct investment (March 2019)</li><li>• The regime for the control of exports, brokering, technical assistance, transit and transfers in respect of dual-use items (September 2021)</li></ul>	<ul style="list-style-type: none"><li>• Communication on the global approach to research and innovation (May 2021) <i>Renewed commitment to openness while stressing the need to promote reciprocity, a level playing field and the defence of European values in the light of new geopolitical realities; emphasises the importance of concrete framework conditions and benchmarks for any cooperation with third countries.</i></li></ul>	<ul style="list-style-type: none"><li>• Horizon Europe Regulation (April 2021) <i>Article 22(5) limits or excludes the participation of specific legal entities based outside the EU or associated countries, or entities controlled by non-associated countries, in exceptional and justified circumstances to preserve strategic assets, interests, autonomy or security.</i></li></ul>	<ul style="list-style-type: none"><li>• Guidelines on combating foreign interference in higher education institutions and research organisations (to be published in 2021) <i>Guidelines for safeguarding academic freedom and research integrity, written with China in mind, but without mentioning it specifically.</i></li><li>• Code of Practice for the Intelligent Use of Intellectual Property in an International Context (to be published in 2022) <i>Aims to raise awareness in universities, research organisations and businesses, in line with the IP Action Plan</i></li></ul>

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China-specific measures			
<b>Negotiation of a joint roadmap (ongoing)</b> <i>Principal canal pour The main channel for selecting risk-free areas and projects for cooperation; negotiating conditions that allow to ensure rules-based cooperation and reciprocity.</i>	<b>Comprehensive Agreement on Investment (CAI)</b> <i>The text of the political agreement includes strict rules on forced technology transfers, but its ratification and enforcement remain uncertain.</i>	<b>Europe-China R&amp;I Network (EU-KnoC)</b> <i>Launched by DG Research and Innovation (RTD) and SFIC to share existing knowledge on China and promote common approaches among Member States</i>	<b>Financing innovation in China</b> <i>European funding for researchers and industry on innovation funding programmes in China.</i>

*Source: Adapted from a table by Rebecca Acersati, MERICS, in Acersati, Hors, Schwaag (2021).*

**Public and private actors in contact with China are not always aware of the specificities of China's international STI policy and its governance.**

"Science has no borders, but scientists have a homeland".<sup>7</sup> This statement by Xi Jinping, addressed to researchers at the Chinese Academy of Sciences, gives a brief glimpse of the specific nature of China's international science and technology policy (see box). It can pressure private actors engaged in R&D partnerships with European players. Indeed, serving national objectives is the very nature of the party and the Chinese state. On the other hand, the extent of efforts to acquire and transfer foreign technology and talent through various channels remains poorly understood in Europe.<sup>8</sup>

<sup>7</sup>. Rogier Creemers, Elsa Kania, Graham Webster & Rhui Zong, 22 September 2020, "Xi Jinping's Sept. 2020 Speech on Science and Technology Development (Translation)", *New America*.

<sup>8</sup>. Thanks to Rebecca Acersati (MERICS) for these two points.

The Chinese approach differs from the European approach in fundamental ways. **The Party governs the STI sphere similar to how it governs the market.** State intervention at both national and local levels to plan, guide and support research and innovation is pervasive, while private initiative, competition, and experimentation are encouraged through different policy channels and tools. **This mode of governance structurally integrates the STI sphere with other spheres of public policy,** notably in the industrial and economic domain. Vice Premier Liu He heads the party committee in charge of financial and economic strategy and the *State Council's Leading Group of State S&T Reform and Innovation System Construction*. **Inspired** by the *Defense Advanced Research Projects Agency* (DARPA), China's civil-military fusion' strategy demonstrates the vital link between military and civilian innovation. Finally, **a sophisticated system, built up over several decades for collecting information on patents, various communications, talents, and research programmes, both Chinese and foreign** supports public and private players. Finally, an offensive international strategy plays a key role.

Beyond the "open S&T cooperation" among research institutes that the 14<sup>th</sup> Plan promotes, China's international STI strategy is deployed through various types of transactions, aiming to 1) acquire foreign knowledge, technology and assets (e.g. mobility programmes, patent purchases, FDI); 2) attracting mobile STI inputs (e.g. high-tech research and development (R&D), foreign funding, foreign talent); and 3) protecting Chinese assets and ensuring their circulation (e.g. regulatory lobbying, international patenting, cooperation with developing countries).

This deployment with foreign actors is done through decentralised initiatives but with centralised advice and support. These include:

- According to the CSET, **Science and technology advisors in Chinese embassies** monitor host country technology breakthroughs and identify investment opportunities for Chinese companies.<sup>9</sup> They mainly focus on **priority technologies** relevant to China's development goals. A series of articles published in *Science and Technology Daily* identified thirty-five technologies whose lack of mastery hinders China's industrial development.

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9. Ryan Fedasiuk, Emily Weinstein & Anna Puglisi, May 2021, "China's Foreign Technology Wish List", Center for Security and Emerging Technology.

- A **system for monitoring and analysing open sources** (patents, publications, press releases etc.) provides strategic information to decision-makers and supports the acquisition of foreign technologies for domestic industries.<sup>10</sup> At the heart of this system's civilian (non-military) sphere is the Institute of Scientific and Technical Information of China (ISTIC), which compiles and analyses information on domestic and foreign S&T sources, trends, and achievements.

### **China is developing strengths in the STI sphere that could leave Europe lagging.**

Three factors could give China a unique comparative advantage in the future: massive investment in large and very large research infrastructures, a scale effect enabled by large teams of well-trained researchers and technicians, and access to large databases. Moreover, China's capacity to transform scientific advances into industrial applications is far superior to Europe's.

### **China knows much more about European STI assets than Europe knows about Chinese assets (and its own?).**

China set up a system of monitoring and analysing foreign and domestic scientific and technological open sources 60 years ago, involving some 100,000 S&T intelligence workers and mobilising AI techniques. Europe has no equivalent system. Without data with a certain level of granularity, it is difficult to define a fine-grained cooperation agenda.<sup>11</sup>

### **Implementing European and national measures that involve selection (partnership, export, FDI etc., allowed or denied) involves coordination problems.**

Cooperation vs non-cooperation decisions have a margin of interpretation, especially as such decisions may involve divergent interests and require political arbitration. This leads to coordination challenges, which may, for example, arise between different levels of government, ministries, and Member States.

### **Alignment of framework conditions (including IPR) is essential, but regulatory tools do not have the same value in China as in Europe.**

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<sup>10</sup>. William Hannas & Huey-Meei Chang, January 2021, "China's STI Operations. Monitoring Foreign Science and Technology Through Open Sources", Center for Security and Emerging Technology.

<sup>11</sup>. William Hannas & Huey-Meei Chang, January 2021, "China's STI Operations. Monitoring Foreign Science and Technology Through Open Sources", Center for Security and Emerging Technology.

For example, despite the *Foreign Investment Law* (January 2020), which prohibits illegal technology transfers, “European companies must resort to technology transfers to maintain market access”.<sup>12</sup> In the tradition of European states, regulatory tools are designed to define and combat illegal practices (such as intellectual property theft); our states are not designed to manage engagement with entities that operate in inherently grey and non-transparent areas. Negotiations on framework conditions, transparency or reciprocity guarantees are therefore necessary but not sufficient; expecting too much could be strategically counterproductive.

### 11.3 ■ Recommendations

European countries, including France, are working to strengthen the mechanisms to preserve European assets and conduct scientific and technological collaboration with China to serve their collective long-term interest, in a spirit of strategic autonomy. EU Member States continue to exchange information through the *EU KNoC* network,<sup>13</sup> to compare and coordinate practices and better understand the Chinese innovation system.<sup>14</sup> There is a growing awareness of the importance of broadening the scope of thinking on STI engagement with China beyond the remit of the European Commission’s Directorate-General for Research and Innovation (DGRI) and the Ministries of Research and Higher Education, by strengthening coordination with the Ministries of Economic Affairs and Industry and the intelligence community. For example, the work of the European Commission’s Directorate-General for the Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) on the assessment of strategic dependencies should be extended to the STI sphere. This could be an opportunity to document the comparative advantages that extensive infrastructure and databases give to China. Strict criteria for access to European funding are being put in place, echoing the negotiations on the framework conditions of the *Joint Roadmap for Future Science, Technology and Innovation Cooperation* entre between Europe and China. Finally, discussions are underway to resume the dialogue with China on investments, particularly forced technology transfers and the issue of data transfers.<sup>15</sup>

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12. European Union Chamber of Commerce in China, 2021, “*European Business in China. Business Confidence Survey 2021*”.

13. *EU Research and Innovation Knowledge Network on China*.

14. See the survey of European expertise on China’s STI policy and the ten or so papers prepared for this network. For example: “Opportunities and challenges for EU-China STI collaboration stemming from China’s 14<sup>th</sup> Five-Year Plan”.

15. The Comprehensive Agreement on Investment includes a chapter on forced technology transfer.

Several complementary avenues could be considered for a balanced and proactive approach.

**1. Improve the documentation of Europe-China STI collaboration, its scientific and strategic benefits, and challenges for a shared European vision**

It is essential to better understand the challenges and benefits of collaboration with China. A survey conducted by the G6-China group members among its researchers could produce a more accurate picture of risks, challenges, motivations, and benefits. Further research would also be welcome to document the risks associated with new forms of cooperation (PPP, open innovation). Finally, adopting an EU-level methodology (with indicators) to describe EU Member States' collaboration with China would allow for analysing trends in different European countries and comparison with US engagement with China and between the EU and the US.

**2. Better understand the international strategy of the Chinese innovation system**

Further research on China's STI open-source intelligence system and its use would complement the work carried out by the *Center for Security and Emerging Technology* (CSET).<sup>16</sup> Chinese strategies for acquiring technology from European small and medium-sized enterprises should also be better identified through case studies.

**3. Develop a European instrument to regulate technology transfers to China and other non-democratic countries**

Reflections are underway to develop practical recommendations for private actors involved in research. But a European instrument could be envisaged to regulate technology transfers to China and other non-democratic countries that would be detrimental to Europe's strategic autonomy (beyond dual use).

**4. Develop tools for a more targeted approach to collaboration with China through a greater understanding of European and Chinese assets**

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<sup>16</sup> It would be useful to develop a European vision, complementary to the one proposed by this research centre linked to Georgetown University. See, for example: William Hannas and Huey-Meei Chang, January 2021, "China's STI Operations. Monitoring Foreign Science and Technology Through Open Sources", Center for Security and Emerging Technology.



Lessons can be learned from China to strengthen European innovation. Building a mapping tool of scientific and technological advances based on existing public and private initiatives (e.g., the tool developed by Agoranov, an ongoing initiative of the Observatoire des Sciences et Technologies, the NLP Proxem tool, or Datenna) could help to elaborate an equivalent of the Chinese list of foreign technological targets. This may lead to a more proactive and strategic approach to joint cooperation programmes and projects.<sup>17</sup>

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**17.** Such a tool could also strengthen the governance of the European STI system. For example, it could help to 1) identify disruptive research and innovations with a potentially high economic impact; 2) identify innovative startups and SMEs that could contribute to the emergence of European technology giants; 3) monitor foreign investment and R&I/R&D collaborations in high-tech sectors; and 4) guide the allocation of funds (e.g. Horizon Europe).



# 12.

## **AGRICULTURE, CLIMATE AND FOOD SECURITY: AREAS OF SUSTAINABLE COOPERATION BETWEEN CHINA AND THE EUROPEAN UNION**

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The unprecedented demographic and climatic changes that the planet is experiencing have a tremendous impact on agriculture and its support structure. They also have an equally strong influence on the resources that sustain agriculture and, by extension, food. Agriculture and food are part of the dynamics of power. In this context, the power of states is not only a "capacity to do" (food production), but also not to depend on others ("capacity to refuse" by feeding oneself) and, on the contrary, to have an influence on others ("capacity to make others do" by also providing food).

The EU is one of the world's leading centres of excellence in agriculture and food security. It is also at the forefront of climate issues and multilateral governance, capable of promoting convergent agendas for its environmental objectives. China, the world's most populous country, is not self-sufficient in food (water and land are limited, and climate change is unfavourable), even though it has considerably increased its agricultural production over the past half-century and drastically reduced hunger in its society. China's population is not only consuming ever more, it is also demanding ever more quality.

## 12.1 ■ State of play

### a ■ Feeding itself: the Chinese obsession

- **With nearly 1.4 billion people, China accounts for more than 18% of the world's population** and is the most populous country in the world. Its population has grown by 10% since 2005 and the food challenge is therefore increasing. In addition to this quantitative demand, there is a qualitative demand. The Chinese want to eat more, better, and live healthier for longer (**500 million Chinese will be over the age of sixty in 2050, i.e., an elderly age group equivalent to the entire population of the EU**).
- Chinese agriculture is still constrained by a complex and sometimes hostile geography. **Arable land is becoming scarcer as urbanisation progresses and soils are degraded.** Water resources are not becoming more plentiful, and the national policy towards Tibet must also be linked to the quest for water security through the Himalayan reservoirs. Climate change and air pollution aggravate the sustainability of Chinese agriculture.
- Nevertheless, China remains one of the world's leading producers of most agricultural commodities, including rice, wheat, corn, potatoes, tomatoes, goat's milk, eggs, pork and mutton, pears, peaches, apples and table grapes. The agricultural sector still accounts for 10% of GDP and the central government

considers it strategic for national security. This obsession has ancient and recent roots. For example, Mao's Great Leap Forward, a policy of forced collectivisation, resulted in famines that caused the death of fifteen to thirty-six million people between 1958 and 1961.

- The reforms Deng Xiaoping introduced in the late 1970s made agriculture a crucible for economic recovery and it has continued to be a development priority ever since. Scientific and technical progress improved agricultural yields, while income growth lifted millions of farmers out of poverty. China is no longer amongst the countries most affected by hunger. The government pushed back the spectre of quantitative food insecurity by mobilising domestic forces at the end of the 20<sup>th</sup> century.
- Since the beginning of the century, agriculture has been systematically prioritised by authorities, both for the territorial dimensions it entails (an indirect means of control and stability in the country's rural interior), and to provide overall security for the needs of the wider population. Xi Jinping has reconfirmed these views on several occasions in 2021: for the happiness and balance of the Chinese people, agriculture and food security are a necessity.
- Domestic constraints are increasing because of limited natural resources and the impact of climate change. There are also other obstacles to Chinese agricultural production, such as farm structure and the variable health quality of its products. China is therefore operating at all levels to satisfy its domestic needs. Its food security, a pillar of socio-political stability, nevertheless requires an increasing internationalisation of supplies and geopolitical strategy.

## **b ■ On the road to an agricultural sino-globalisation**

- The food and agricultural dimensions have thus been central to developing the Belt and Road Initiative (BRI) in recent years. To maintain stability and grow its power, China must also develop its rural interior, provide food in quantity for all and ensure the sanitary quality of the products placed on the market.<sup>1</sup> Therefore, all the world's agricultural players—governments and private companies alike—are looking to the Middle Kingdom, as it is the country that is polarising interests. The EU and its Member States are no exception to this trend.

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**1.** The inclusion of China's rural west, notably the irredentist and heavily guarded Xinjiang, remains the first pillar of this strategy: the Silk Roads must promote growth in these territories that do not yet fully benefit from the supposed Chinese dream. This concerns more than half a billion people.

- In addition to the logistical and commercial dimensions, China has also invested in other areas, both on land and at sea. It employs science and innovation to strengthen national food security. In fact, **in the agronomic domain, China filed more patents between 2010 and 2020 than the EU and the US combined!** The country seeks to influence normative issues and become a standard setter and regulator. China has invested in agricultural industry and technology abroad. It is also increasing its influence within international organisations, including the Food and Agriculture Organisation of the United Nations (FAO), where the Director-General has been Chinese since 2019 (at the time, he beat out a European candidate from France). Lastly, China is shaping digital markets through its e-commerce companies.
- These dynamics are taking place in a particular domestic policy environment: foreign companies operating in China in the agricultural and food sector must abide by the very robust legal rules and procedures that prevail in the agricultural market. Increasingly, it is also apparent that companies selling into China must also monitor their statements about China and business practices in China to continue doing business. The social credit and resulting rating systems also affects companies.

#### c ■ China's food dependence is growing

- China's engagement at the international level has been multidimensional and determined, particularly towards the EU, which has been in Beijing's sights in many areas of the agricultural and food sino-globalisation, which have meshed. However, we must be aware of China's fragility for supply and demand. **A national production response alone is no longer sufficient. Imports supplement abundant national harvests.**
- The agricultural trade balance turned negative in the mid-2000s, plunging to average yearly deficits of 40 to 50 million USD since 2010. Since then, purchases have exceeded 100 million USD per year (compared to just 16 million USD in 2000). In 2019, agricultural supplies amounted to 135 million USD, representing a volume of 185 million tonnes (Mt). **Brazil and the United States each account for 20% of these imports. Australia, Canada, New Zealand, and Ukraine are also key suppliers to China, not to mention the EU, which has accounted for an average of 7% to 9% in recent years.** Africa, which is not currently in China's food basket, could play a more significant role in the future.

- China has balanced trade for basic foodstuffs (e.g., wheat, corn, and rice) but imports protein on a massive scale. **Soy alone accounts for a third of the country's agricultural supplies, with 100 Mt per year, ten times the volume at the beginning of the century.** China accounts for 75% of the world's soy-bean trade and feeds its livestock, especially its hundreds of millions of pigs. Stricken by African swine fever (ASF) since 2019, the country must rebuild its pig herd and revive the production machine for the white meat that is prized by Chinese consumers. China is therefore importing record quantities of soy-beans and corn. And since the national cereal harvests have been affected by climatic accidents and the government in Beijing wanted to inflate the country's strategic food stocks in the uncertain international trade context of Covid, China purchased nearly 150 Mt of grain for the 2020-2021 period! Hence, the current surge in agricultural prices on the world markets and on the Chinese domestic market where the authorities in Beijing watch food inflation (especially for fruits and vegetables) with concern. In fact, the government just called on the population not to waste food and to stockpile precautionary stocks, as the sanitary, economic, and logistical unknowns remain significant for the current and future period.
- For many countries and companies in the world, the size of the Chinese market is considerable, and many export flows are therefore directed towards it. This creates a double dependency: China needs supplies while exporters are increasingly linked to changes in Chinese demand. Changing demand redraws the volumes, the geography of flows and the formation of international prices. It is essential to consider the benefits and risks of putting all your eggs in one Chinese basket. Similarly, not being attentive to China's food and agricultural needs would be a sign of remarkable strategic short-sightedness. **There is therefore a delicate balance to be found. China's food security challenges reveal the extent to which the decoupling of economics and politics is difficult to achieve.** This is even more so if Beijing creates this link, as it happened recently with Australia when agricultural exports to China were sanctioned in retaliation for the Canberra government's strong comments on the Covid pandemic.

## 12.2 ■ Challenges

- China's food strategy for several years has been the result of a compromise between its desire to adapt its supply to long-term domestic demand and a recognition of its import needs. Post-COVID-19 investments could give the government the tools to reduce food vulnerability, notably by restructuring and optimising specific sectors, such as seeds, cereals, livestock, dairy products,

and biocontrol. **The EU has assets in these areas that it can put forward in terms of technical cooperation and the sharing of its experience.**

- The Chinese authorities are also seeking greater confidence from the Chinese consumers, who seem to be changing their habits, particularly through food e-commerce and the replacement of pig meat by poultry and beef. They also remain wary of local products and, conversely, are very attracted to food from Europe, particularly, but not exclusively, food for children. The quality of European food products and their distinctive attributes are recognised by Chinese consumers with high purchasing power or the upper middle class. **The EU has assets it can exploit from this perspective, both in terms of agricultural exports and economic performance.**
- Internationally, the future of the Silk Roads could be in jeopardy, not so much because of their potential role in the spread of the pandemic, but because of the ability of countries to repay their loans. **But the BRI will remain strategic for agricultural and food supplies.** Commercial activity and the flow of trade rely on a diffused infrastructural network and China has incidentally based the BRI on sound logistical reasoning. The route must be intermodal, with a land-sea pairing that is particularly decisive in the case of agricultural and food products. **The EU has assets to put forward in this respect in terms of shared connectivity (towards a super-green rail sector) but also of blue economy.**
- Regarding trade, China wants to diversify its partners and supplies to move away from excessive dependence on American products. This represents an opportunity for the EU, which already sends an average of 15% of its agricultural and food exports to China—even if it is perhaps Russia, and maybe in the future African countries, that could be the biggest winners. Several Southeast-Asian countries (Vietnam, the Philippines, Thailand, and Indonesia) may also seize the opportunity, as they are significant agriculture and food exporters and are interested in the Chinese market, especially when the regional trade agreement (RCEP) is implemented. **But the EU has assets to put forward in terms of trade and the regularity of its supply, given its own stability, reliability, and productive capacity.**
- From a geopolitical perspective, the post-Covid period is characterised by a hardening of China's relations with the world, particularly with Washington and its allies. It is thus essential to follow the behavioural changes that are at work in China. After copying, China has recently started to innovate while capitalising on knowledge and R&D transfers. Similarly, after a period of discretion, China



has revealed is global ambitions, while cultivating dialogue and benevolence. China now advocates production and innovation *Made in China, designed by China*. Similarly, it seems to sanction commercial partners without hesitation if they criticise China's political regime a little too much (e.g., sanctions against Australia or individual companies). But can the CCP mobilise its demographic mass and call for boycotts of foreign products in the future? The answer could have considerable implications for foodstuffs, which are easily manipulated in such circumstances. Finally, and most worryingly, while the development of Chinese power remains highly likely within the next decade, there is no sign of a strengthened leadership capacity in the world. It is a scenario of strategic autism, of a China that knows how to learn from others and from abroad but no longer listens to the outside world. This displeases Chinese private sector actors, who are worried about the authoritarian drift of the CCP and power in Beijing. **The EU therefore needs to be more vigilant in its economic diplomacy regarding trade, climate, science, and standards.**

### 12.3 ■ Recommendations

- Agricultural and food security issues deserve a higher profile on the strategic agenda of EU-China cooperation. Like climate change, they can feed a mutually beneficial dialogue. However, such an upward shift requires a combination of environmental, scientific, normative, economic and trade dimensions. This would guarantee a sustainable and pragmatic dialogue, where the business dimension should not be taboo. **Agricultural and food trade between the two sides contributes to a “positive geopolitics”: if China suffers from growing food insecurity in the future, it would be a more unstable China both inside and outside its borders; if the EU exports less agricultural and agri-food products in the future, it would be more inward-looking and less influential in the world, given that these products are among the most important in the EU's trade balance.**
- It is therefore essential that the European Green Deal, which has numerous implications for the future of Member States' agriculture, remains attentive to geopolitical issues, especially if the European Commission intends to play on the 2Gs—Green Deal and Geopolitics—to formulate a strategy. There can be no dialogue with China on the Green Deal, agriculture, and food security without geopolitical software to accompany any initiative or cooperation. **In other words, it would be risky to have a herbivorous Europe in a carnivorous world! And faced with China, a partner, the EU is also in competition and even rivalry, included in the climate, agricultural and food sectors. The EU**

**must change its policy towards China because the latter does not expect any lessons or exclusivity in its partnership with Europe.**

- Between adapting crops to climate change and developing increasingly sophisticated production to meet consumer expectations, the EU and China have much to gain by working together in agroecology and technological innovation. This ranges from agricultural equipment to robotics, digital solutions, or nutritional breakthroughs with research on microbiota. Another central area of cooperation is new genetic techniques (NGTs), particularly concerning plants. **In this context, the EU cannot leave the impression that it wants to disarm agriculture, particularly to produce and export less. On the other hand, China wants to continue producing just as much (or even more) in a deteriorating climatic and geographical context and is banking on science, technology, and risk-taking.**
- If the EU does not plan to include agricultural and food products in its carbon border adjustment mechanism (CBAM), France, pushed by several professional agricultural organisations and environmental associations, is currently considering the implementation of “mirror clauses” in trade agreements, which would require imported agricultural products to progressively comply with more European environmental, health and social standards (knowing that it is challenging to enforce all of this, even if a principle is set). But from this perspective, is the EU ready to handle the retaliatory measures that certain countries and powers in the world could potentially take? Will we withstand, avoid, or counter them if the EU fails to strengthen its geopolitical character? **What about China in this context? Will it align with European policies, as it seemingly does on climate with its carbon neutrality goals for 2060? Or will it do what the EU intends to do? Will it implement a “Green Deal” before the EU and erect a new trade regulatory framework that is defined by Beijing and imposed on the rest of the world, including the EU?**





# 13.

## **REDUCING THE EU'S DEPENDENCE ON CHINESE IMPORTS OF RARE EARTHS AND OTHER STRATEGIC MINERALS**

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New technologies consume a significant amount of rare earths and other strategic minerals, which are almost exclusively imported from China. For thirty years, the EU, like the United States and Japan, has abandoned the production of these minerals in favour of importing them from China. This dependence on imports makes Europeans vulnerable because, in addition to the defence and space sectors, the dual digital and green transition of the European economy requires technologies that consume an ever-increasing quantity and variety of these minerals.

China, which has embarked on a race for technological leadership with the objective of self-sufficiency in production capacity, now has powerful leverage over its competitors if it decides to restrict its exports. Ensuring Europe's strategic autonomy in a conflictual geopolitical context calls for reducing dependence while securing supplies of critical minerals through a pragmatic dialogue with China about its reliance on some European imports, particularly agricultural raw materials and foodstuffs.

### 13.1 ■ State of play

- **The digital and ecological transition consume a great amount of strategic minerals.** Light rare earths,<sup>1</sup> which have exceptional magnetic, electronic, optical and catalytic properties, are as abundant in the earth's crust as the base metals (Zn, Cu, Pb, Ni, Co). However, heavy rare earths,<sup>2</sup> which are as scarce as rare metals (Sn, W, Ta), are more strategic.<sup>3</sup> The EU consumes about 10% of the rare earths produced globally<sup>4</sup> and is a promising market for electric mobility and the installation of offshore wind turbines, which should contribute to a surge in global demand for rare earths, which could double in the next ten years.<sup>5</sup> The need for minerals such as graphite, lithium and cobalt is also expected to increase by almost 500% by 2050.<sup>6</sup>

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1. La-Ce-Pr-Nd-Sm-Eu-Gd.

2. Tb-Dy-Ho-Er-Tm-Yb-Lu-Y.

3. Dushyantha *et al.*, July 2020, "The story of rare earth elements (REEs): Occurrences, global distribution, genesis, geology, mineralogy and global production", *Ore Geology Reviews*.

4. *Idem*.

5. Nicolas Charles *et al.*, 2021, "Ressources en terres rares de l'Europe et du Groenland : un potentiel minier remarquable mais tabou ?", ISTE Science Publishing Ltd ; Wiley.

6. "Minerals for Climate Action: The Mineral intensity of the Clean Energy Transition", World Bank, 2020.

- **Critical dependence on China.** The reserves of rare earths that were discovered in Europe in the 18<sup>th</sup> century could still meet European needs. But in the 1990s, like most countries in the world, Europeans began to relocate the extraction and dirty processing of rare earths to China for economic and environmental reasons. **China now accounts for almost 85% of global production.** While there are no longer any rare earth mines operating on its territory, **the EU is 95% dependent on Chinese imports.**<sup>7</sup> Similarly, while in 1998 the US, the EU and Japan accounted for 90% of magnet production,<sup>8</sup> China today accounts for 90% of global magnet production.<sup>9</sup>

Indeed, China's leverage is substantial as the processing market is even more concentrated than the extraction market. China has invested heavily to access third country mineral reserves and built up its processing capacity. While almost 70% of the world's cobalt production comes from the Democratic Republic of Congo, China has taken control of 70% of these mines<sup>10</sup> and provides 72% of the world's cobalt refining capacity.<sup>11</sup>

In 2008 the European Commission began to list critical raw materials (CRMs) for the European economy. The United States launched a similar initiative in 2010, but the EU's 2011 list of 14 CRMs has been updated every three years to take account of changes in production, markets and needs created by technological innovation; the 2020 update now includes thirty CRMs. China is the majority supplier for six of them and one of the leading suppliers of four others. There are only three critical raw materials for which the EU sources 50% of its needs from its own territory.<sup>12</sup> For 17 other critical materials, the EU is 80% dependent on imports (including lithium for electric car batteries, indium for semiconductors, and cobalt for jet engines).

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7. "Does China pose a threat to global rare earth supply chains?", CSIS, 2021.

8. European Commission, Magnus Gislev and Milan Grohol *et al.*, 2018, "Report on critical raw materials and the circular economy".

9. Sophia Kalantstakos, 2018, "China and the geopolitics of rare earths", Oxford Scholarship Online.

10. 80% of lithium comes from Australia, Chile and Argentina and 60% of manganese from South Africa, China and Australia. Tsisilile Igogo *et al.*, August 2019, "Supply Chain of Raw Materials Used in the Manufacturing of Light-Duty Vehicle Lithium-Ion Batteries", Golden, CO: National Renewable Energy Laboratory.

11. "Global and China Cobalt Industry Report, 2018-2023", PR Newswire, 26 March 2019.

12. Marcin Szczepański, May 2021, "Critical raw materials in EU external policies Improving access and raising global standards", European Parliamentary Research Service, PE 690.606.

## 13.2 ■ Challenges

- **Chinese rare earth export restrictions are a Sword of Damocles.** China cut its rare earth export quotas by more than 50% between 2005 and 2010, causing global prices to rise more than sevenfold. Its exports to Japan were even suspended in 2010. The complaint that the US, the EU, and Japan filed at the WTO in 2012 was won in 2015. But the multilateral legal framework of GATT Article XX, allowing WTO members to apply only temporary and non-discriminatory export bans to protect natural resources or alleviate shortages of essential goods, is not sufficient to prevent the proliferation of export restrictions on critical raw materials. In early 2021, the Chinese Ministry of Industry and Information Technology hinted at renewed restrictions on the export of rare earths. It is possible that beyond growing domestic demand, these restrictions could also target countries critical of China's political regime.
- **The EU's strategic leap.** In 2020, the European Commission launched an alliance of 180 industrial players, the European Raw Material Alliance (ERMA). It promotes partnerships between private and public investment to diversify the supply of rare earths with a European production that can compete with Chinese imports, and to initiate the recycling of rare earths, currently almost non-existent in Europe.
- **A reluctant European public.** Unlike the United States, which is adopting an offensive strategy towards China and prioritising the development of domestic resources,<sup>13</sup> the redevelopment of European capacities is limited by the reluctance of the European public to relocate productions with high environmental impact. Moreover, few companies want to invest in a sector where China has a virtual monopoly. The EU's commitment to carbon neutrality pushes it to favour recycling and substitutes for rare earths. But this would not be enough to significantly reduce the dependence on imports in the short term. As the major powers mobilise to consolidate regional economic, normative, digital, and industrial geographies,<sup>14</sup> the EU must actively engage to reduce its dependence on strategic imports, particularly rare earths and other strategic minerals.

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**13.** The USICA (U.S. Innovation and Competition Act) adopted in June 2021 and endowed with 250 billion dollars is intended, among other things, to revive these mining activities on American soil.

**14.** Cyrille P. Coutansais, 2021, *La (re)localisation du monde*, CNRS.



### 13.3 ■ Recommendations

A robust political mobilisation within the EU is needed to ensure public support and the coordination of industrial actors that will allow to:

#### a ■ Increase internal resources

- Build up strategic reserves.
- Commit the necessary means to ensure the relocation of extraction and processing in Europe, including in Greenland; by increasing **economic studies on the most promising deposits, coordinating R&D and technological innovation efforts to reduce pollution from mines and increase social acceptability**, developing eco-design to reduce mineral consumption, finding substitutes, and developing recycling and reuse capacities. At the forefront of the circular economy, the EU has already increased its use of secondary raw materials (more than 50% of some metals, such as iron, zinc, or platinum, are recycled, and they account for more than 25% of EU consumption).<sup>15</sup>
- Coordinate the many initiatives launched at the national<sup>16</sup> and European<sup>17</sup> level to avoid duplication or gaps and establish a strategic view of the entire supply chain from exploration to reserve storage.
- Further refine the triennial review of European strategic dependencies by pooling geological data, production and refining capacities, investment levels, reserves, various economic and technological scenarios (supply and demand, prices), and analysis of the impact on mineral supply.

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<sup>15</sup>. European Commission, 3 September 2020, "Critical Raw Materials Resilience: Charting a Path towards greater Security and Sustainability", (COM2020) 474 final.

<sup>16</sup>. As in France, the COMES (Comité pour les Métaux Stratégiques), in Denmark the MiMa (Centre for Minerals and Materials) or in the Netherlands, the government programme on the circular economy.

<sup>17</sup>. The EU co-finances networks and expert platforms on mineral resources with ERA- MIN (Network on the Industrial Handling of Raw Materials for European Industries), ERECON (European Rare Earths Competency Network), EIP (European Innovation Partnership), ETP (European Technology Platform on Sustainable Mineral Resources), AdWG (Ad hoc Working Group) and SCRREEN (Solutions for Critical Raw Materials - A European Experts Network), as well as research and database projects with EuRare (Development of a sustainable exploitation scheme for Europe's Rare Earth ore deposits), Minerals4EU or Promine.

## b ■ Diversify sources of supply with other partners

- Multiply alliances with third countries, such as the June 2021 agreement with Canada, to ensure the supply of critical minerals; and notably with Malaysia, which has developed a rare earths processing hub. Also, pay specific attention to this issue when negotiating new trade agreements, and to the **political support given to their conclusion and ratification, such as with Chile, which has extensive lithium reserves.**
- Support diversification by joining the *Energy Resource Governance Initiative* (ERGI), launched in 2019 by the US, which now includes nine other countries,<sup>18</sup> to promote the extraction and processing of rare earths outside China, while respecting good governance principles and a level playing field. The EU could ensure that sustainable development principles are respected.
- Ensure that the EU-US Trade and Technology Council initiates close cooperation on the resilience of strategic mineral supplies by ensuring greater transparency on needs and supply capacities by sector and measures adopted.
- Create an international minerals agency to organise a dialogue between producers and consumers and develop multilateral regulation (a role that could be assigned to the International Energy Agency).

## c ■ Engage in a dialogue between China and the EU on their respective dependencies and possible complementarities in supplying certain strategic goods: rare earths versus arable land?

- Examine the extent to which the EU can tactically balance its dependence on critical minerals against China's dependence on European products, which should be further identified and exploited in a strategic dialogue.
- China has a structural fragility in its food security, which is increasingly based on imports. The EU could strengthen its role in supplying the Chinese market with agricultural raw materials (particularly cereals and other products, depending on the economic situation), or processed foodstuff, to secure strategic Chinese minerals.

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<sup>18</sup>. Australia, Botswana, Peru, Argentina, Brazil, Democratic Republic of Congo, Namibia, Philippines, and Zambia.





# 14.

## **STRENGTHENING COOPERATION IN THE TAIWAN STRAIT WHILE MAINTAINING THE STATUS QUO**



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Europe is becoming increasingly aware of Taiwan's importance as the Old Continent begins to lift the veil of "invisibility" it had cast over the island. As recently as September 2021, Taiwan was included in the EU Strategy for Cooperation in the Indo-Pacific and, a month later, the European Parliament adopted an unprecedented resolution on issues concerning Taiwan with a sweeping majority of votes.

The small island nation is capturing attention from around the world as it sets an example on how to fight the COVID-19 pandemic, sustain its growth model, promote democratic values, fight cyber interference, and invest in emerging technologies, including semiconductors.

Meanwhile, China has ratcheted up its political, economic and military pressure on Taiwan since President Tsai Ing-wen came to power in 2016. While the risk of war should not be exaggerated, it is in the European Union's best interest to help maintain stable cross-strait relations by preventing any unilateral change in the status quo and further deepening its ties and cooperation with Taipei.

#### 14.1 ■ Strengthening economic and technical cooperation with Taiwan

The European Union remains the largest source of foreign investment in Taiwan. In 2020, it ranked first in the island nation's total foreign direct investment stocks (25.7%) and flows (38.8%). Outward investment flows from Taiwan to the EU doubled in a year, reaching \$1,5 billion in 2020. Taiwan has become Europe's 14<sup>th</sup> largest trading partner (and fifth largest in Asia), accounting for €49.3 billion in bilateral trade. Inversely, the European Union is Taiwan's fourth largest trading partner, behind China, the US and Japan.<sup>1</sup>

Despite pandemic-related restrictions, the European Union and Taiwan have carried out a number of bilateral projects over the past two years, and co-organised the second EU Investment Forum, which was held virtually on 14 October 2021.<sup>2</sup> The Forum served as an opportunity to promote investment in Europe, particularly in the European Green Deal and Digital Europe flagship programmes.

**The European Union and Taiwan continue to cooperate in several areas**, such as industrial and digital transformation policies, human rights, gender equality, social

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1. European Economic and Trade Office in Taiwan, 27 September 2021, "[EU-Taiwan Relations 2021](#)".

2. Attendees included Taiwan's President, Tsai Ing-wen, and Minister of Economic Affairs, Wang Mei-hua, the Head of the European Economic and Trade Office, Filip Grzegorzewski, and the Director-General for Trade at the European Commission, Sabine Weyand.

issues, climate change, education and culture. Europe is also keen to continue the debate on industrial policy, the digital economy and the 2020 EU Taiwan Judicial Exchange Programme, which facilitates exchanges on justice and related practices concerning human rights.

**Increasing the resilience of supply chains and of critical value chains as well as combating foreign cyber interference are high-ranking priorities from both sides that seem well suited for 2022.** Regarding the former, the Executive Vice-President of the European Commission, Margrethe Vestager, stated in a speech to the European Parliament on 19 October 2021 that Europe “hope[s] to see Taiwan as an important partner to achieve the goals of the European Chips Act”.<sup>3</sup> Additionally, the European Commissioner for the Internal Market, Thierry Breton, held discussions with the President of TSMC Europe on the proposed European Chips Act (designed to boost semiconductor production), although he has yet to visit Taiwan, the company’s home turf. Mr Breton had previously travelled to Washington DC, Tokyo and Seoul on a “Tech & Chips Tour” in October 2021.

As for the latter, all companies—whether Taiwanese or European—share a common goal: to safeguard the democratic debate by uncovering threats of cyber interference, in close coordination with digital platforms, in order to respond through legal or diplomatic measures. Faced with significant meddling in the January 2020 presidential election campaign, Taiwan’s authorities stepped up initiatives to accelerate the detection of interference. Civil society was invited to provide its input on designing appropriate responses, boosting Taiwan’s already-extensive know-how in tackling disinformation. France shares best practices with Taipei from its newly created (by decree in July) national service for vigilance and protection against foreign digital interference (Viginum) while the EU intends to expand the scope of the East StratCom Task Force (ESCTF) mandate which will also contribute to robust knowledge exchange.

Europe must go above and beyond these examples and explore all forms of cooperation. While the European Union already works with Taiwan as part of their joint framework on Gender Equality Cooperation and Training (GECTF), **it would be in the EU’s interest to become a full partner in the Global Cooperation and Training Framework** (GCTF), a platform co-launched by the United States and Taiwan in 2015 to “utilize Taiwan’s strengths and expertise to address global issues of mutual

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3. “EU-Taiwan political relations and cooperation: Speech on behalf of High Representative/Vice-President Josep Borrell at the EP plenary”, Strasbourg, 19 October 2021.

concern".<sup>4</sup> (Japan became a full partner in the initiative in 2019 and Australia followed suit in 2021). Many Member States already participate in the GCTF's workshops on a variety of topics ranging from public health and energy efficiency to cybersecurity and media literacy.

## 14.2 ■ Confronting China's economic coercion against the EU-27

In less than a year, **Taiwan's diplomatic network has grown by two missions in Europe, one in Aix-en-Provence and the other in Vilnius**. Lithuania also announced in the spring that it would open a representative office in Taiwan, joining the 19 Member States with diplomatic missions on the island.<sup>5</sup> However, Lithuanian authorities unilaterally decided to set up the representative office in Vilnius under the name "Taiwan", a departure from the standard practice of using "Taipei" in other European countries. Although this does not in any way call into question the EU's one-China policy, Beijing was irked by the move which put a spoke in the wheel of its strategy to isolate Taiwan diplomatically.

In addition to official criticism from the government, China's state-controlled media also weighed in. The Global Times called for economic sanctions, declaring that Lithuania "must pay price for openly playing 'Taiwan card'" and suggesting that "Chinese trade authorities carefully examine China's imports and exports with Lithuania", adding Chinese trade authorities should "make plans to sever ties with the country".<sup>6</sup> The sanctions, which have since taken effect, take specific aim at Lithuanian agricultural products exported to China. In doing so, China elected to manage a political dispute by deploying its arsenal of coercive economic measures, turning a bilateral dispute with Lithuania into a dispute with the European Union.

Europe and its Member States spoke up immediately. The Commission's spokesperson reiterated that it "did not violate the EU's one-China principle". Meanwhile, 13 chairs of foreign affairs committees from 11 European countries issued a statement in strong support of the Baltic state.<sup>7</sup> As Ms Vestager recently stated,

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4. *Global Cooperation and Training Framework (GCTF)*.

5. Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Spain and Sweden. In addition to these diplomatic missions, the European Union also has a representation in Taiwan.

6. Editorial, 22 August 2021, "Lithuania must pay price for openly playing 'Taiwan card'", *Global Times*.

7. Sophia Yang, 28 August 2021, "14 EU, US foreign affairs leaders back Lithuania against Chinese bullying", *Taiwan News*.



Member States who find themselves coerced for taking decisions that China finds offensive “need support and our solidarity”.

The European Union must continue to push back at these threats of coercion and adopt appropriate tools of deterrence. Some suggest the need to enact a policy on economic coercion, akin to Article 5 of the North Atlantic Treaty, to make it clear that “an attack on the economy of one democracy would be an attack on all”.<sup>8</sup> Such measures, however, would risk to result in an escalation without any guarantee that countries would effectively coordinate a response among one another. **An appropriate way to deter China from using economic coercion would be to “soften the blow to one nation by spreading out the cost of sanctions among all [Member States]”.**<sup>9</sup>

The public consultations opened in March by the European Commission to design an anti-coercion instrument are a step in the right direction. Initial discussions were primarily focused on American extra-territorial sanctions, which had significant repercussions on French and European companies. Careful consideration must also be given, however, to the wide range of risks that come along with confronting Chinese coercion by heeding the lessons of South Korea, Australia and, most recently, Lithuania.

Accordingly, the European Union should also develop a **“sponge strategy” where Member States team up to absorb the cost of economic sanctions** rendering them effectively void of any political value and disincentivising China (or any other country with similar machinations for that matter) from taking measures that will have almost no impact. The strategy would protect Member States targeted by sanctions using a European coordination mechanism to avoid a disruption in their imports coupled with strong political will at the European level to compensate for lost exports.

### 14.3 ■ Promoting sustainable peace in the Taiwan Strait

Since 2021, the European Union and several Member States have fully and, most importantly, publicly recognised “the importance of peace and stability across the

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8. Jonas Parello-Plesner, 11 February 2021, “An “Economic Article 5” to Counter China”, *Wall Street Journal*; Franklin D. Kramer and Hans Bennedijk, 22 September 2021, “The China-Lithuania Rift Is a Wake-Up Call for Europe”, *Foreign Policy*.

9. Lindsay Gorman, 16 September 2021, “Pineapple War Shows Taiwan Won’t Be Bullied by Beijing”, *Foreign Affairs*.

Taiwan Strait” and encouraged “the peaceful resolution of cross-strait issues”. France, Germany, and Italy did so at the G7 in June; but also the European Union in a joint declaration with the United States that same month; and France, moreover, during its political and military dialogue with Australia in August; finally, the European Commission in a joint communication on the EU Strategy for Cooperation in the Indo-Pacific in September.

As Taiwan’s veil of “invisibility” disappears from political discourse in the EU and its Member States, Europe is beginning to take stands and reaffirm its interests. In passing, it is worth noting that the mention of stability in the Taiwan Strait is surprisingly absent from both the French Ministry of Armed Forces’ “2021 Strategic Update” and France’s July 2021 “Indo-Pacific Strategy”. This could leave room for a lack of coherence in French political discourse, which should be appropriately addressed.

Strengthening Europe’s declaratory diplomacy is critical as tensions in the Taiwan Strait keep on mounting. Since President Tsai Ing-wen was elected in 2016, China’s pressure on the island, be it diplomatic, economic, or military, has not ceased to increase. In October 2021 alone, China sent a record number 196 warplanes, including H-6 bombers, into Taiwan’s Air Defence Identification Zone (ADIZ). While there is certainly more than one plausible scenario for conflict in the Taiwan Strait (not just the prevailing caricature across Europe portraying a massive Chinese invasion of the island), it is necessary to relativise the risk of short-term military conflict.<sup>10</sup>

However, many Europeans have not always recognised that **any unilateral change in the status quo that is brought about by force would have far-reaching consequences**. Far from remaining local, any conflict would be much more global in scope.<sup>11</sup> It would at least involve the United States, possibly Japan, as well as other traditional American allies in the region—all of which are key economic and security partners to Europe. A conflict would endanger the lives of more than 15 000 European citizens residing in Taiwan, cause severe disruptions in global value chains, and threaten European foreign direct investment in the island.

It is also critical for the European Union and its Member States to recognise that their role is first and foremost to prevent a sudden escalation in tensions or even

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10. Chen-wei Lin, April 2021, “Taiwan is dealing with an adversary that is fighting a war on the physical, psychological and cyber fronts with much bigger resources”, *Fondation pour la recherche stratégique (FRS)*, *FRS Taiwan Program on Security and Diplomacy*.

11. Antoine Bondaz & Bruno Tertrais, 23 March 2021, “Europe Can Play a Role in a Conflict Over Taiwan. Will It?”, *World Politics Review*.

the breakout of war in the strait. Europe should adopt a visible and credible strategy to deter China from unilaterally and forcibly changing the status quo by making it clear that such a move would not only be too risky, but much too costly.

Accordingly, the European Union should **prepare contingency plans for conflict scenarios** given the lengthiness and decision-making processes concerning crisis response matters at the European level. This coordination effort should include Europe's partners in the region and give an important role to civil society, including think tanks, which create more informal venues for discussion and debate.

#### 14.4 ■ Key recommendations

##### **Strengthen economic and technical cooperation with Taiwan**

- Prioritise supply chain resilience and the fight against foreign cyber interference.
- Make the EU a full partner in the Global Cooperation and Training Framework (GCTF).

##### **Push back at China's economic coercion against Member States**

- Take into account Chinese coercion, notably against Lithuania, in the the creation of an anti-coercion instrument.
- Engage in consultations on the development of a "sponge strategy" whereby the cost of economic sanctions is collectively absorbed.

##### **Promote sustainable peace in the Taiwan Strait**

- Strengthen declaratory diplomacy and the role of the EU to prevent a sudden escalation in tensions or even the breakout of war in the strait.
- Work with civil society, including think tanks, to foster discussion and debate in order to identify different conflict scenarios and related contingency plans.



# 15.

## CHALLENGES FOR THE EUROPEAN UNION AMIDST CHINA'S GROWING ARCTIC PRESENCE

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China's presence in the Arctic is stoking fear and fantasy. The hallmarks of China's significant engagement in this expansive region of 21 million km<sup>2</sup> include investments in natural gas projects across Russia (Yamal-LNG, iterations of Arctic-LNG, etc.), the dispatch of a few seafaring vessels a year on the Northern Sea Route (container ships, icebreakers), and expressions of interest in large infrastructure projects (mining in Canada and Greenland, port infrastructure in Iceland, railways in Norway and Finland, etc.). Political and economic partnerships with Norway, Iceland, Sweden and Denmark, established between 2001 and 2010, have weakened in recent years owing to China's more aggressive diplomatic and economic stances (e.g., Chinese pressure on the Faroe Islands to use Huawei to build 5G infrastructure in 2019) and increasingly hostile public perception of China across the Nordic countries.

Notwithstanding the contraction in China's Arctic footprint (apart from dynamic cultural diplomacy as seen in Iceland), **its presence in the High North makes the near-total absence of major regional players, including the United States and the European Union all the more conspicuous.**

In a speech on the eve of the 11<sup>th</sup> Arctic Council Ministerial meeting in May 2019, Mike Pompeo sharply condemned China's presence in the Arctic and rejected its claim to be a "near-Arctic state", which Beijing has proclaimed since 2018. Donald Trump's proposal in August 2019 to purchase Greenland from Denmark, which prompted many puzzled reactions, should not be dismissed as a simple political blunder. It can also be viewed, in step with Mike Pompeo's statements, as an aspiration to boost American engagement in the Arctic to fill the void that could otherwise serve the interests of China, particularly in Greenland and Iceland.

China's extension of the Silk Road to the polar region (using the Northern Sea Route along the Russian coastline), backed by various official documents (2018 Arctic policy white paper, 12<sup>th</sup> through 14<sup>th</sup> Five-Year Plans, etc.), secures a backbone for its Arctic policies that the European Union lacks. **Although the EU is not entirely idle in the region (funding for research, support for Greenland's education system, cooperation with northern Europe's regional authorities, etc.), it suffers from a lack of visibility and consistency in its actions.** China is poised to capitalise on these shortcomings and increase its foothold in the Arctic.

The European Union published an update to its Arctic policy in October 2021, although its release took two years despite the appointment in April 2020 of a Special Envoy for Arctic Matters, Michael Mann, and Finland's takeover of the

Presidency of the Council of the EU in 2019. The policy's laborious publication is attributable to several factors, two of which are addressed here.

First, Arctic interests appear to diverge among different European actors. European Union institutions (the European Commission, European Parliament and European External Action Service —EEAS) focus on environmental issues and are **less concerned with economic matters**. European countries with an interest in the polar region as well as those with observer status in the Arctic Council (including France, Germany and Italy) have a more moderate stance on environmental policy in the region, leaving more room to consider potential economic factors. Lastly, European countries that are also Arctic nations —namely Denmark, Sweden, and Finland— are mostly interested in capitalising on economic opportunities. Some of these opportunities, particularly those relating to resource extraction and industrial projects, are not vulnerable to encroaching Chinese influence.

**Strengthening Europe's presence in the Arctic will also require a thawing of relations with Russia**, which have deteriorated since the onset of the Ukrainian conflict in 2014. The EU's Northern Dimension, a joint policy that aimed to promote cooperation among local and regional authorities in European countries, Norway and Russia, was seen as a highly valued initiative by its participants until it was suspended in 2014. Relaunching the programme would strengthen European legitimacy at and around its northern and Arctic borders. While Sino-Russian relations are highly opportunistic, they do not appear to be a hindrance for the European Union. Russia is pursuing international investors to build up its northern territories as it does not intend to team up exclusively with China. Japan, South Korea and India are potential partners, in addition to the EU. In a January 2021 interview,<sup>1</sup> Nikolai Korshunov, then Russia's Ambassador-at-Large for Arctic Cooperation (now Russia's Senior Arctic Official to the Arctic Council), hinted at the fact that the EU's status in Arctic bodies could hinge on a softening of European sanctions. While Mr. Korshunov stated that the question of granting the EU observer status is not on the Arctic Council's agenda, he went on to say that Russia "would welcome the responsible approach of [the EU] to facilitating the financing and the exchange of technologies for the implementation of investment projects in the Arctic, in particular, for the elimination of accumulated environmental damage (...)".

China's growing economic and industrial footprint in the European Arctic and the EU's Nordic region is encountering significant distrust from local populations and

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1. Yelena Chernenko, 15 January 2021, "В Арктике нет проблем, требующих военного решения", *Kommersant*, N°5 от.

public opinions. China's foreign expansion strategy is mostly implemented at the local level in regions with greater political autonomy, the national scene being considered too politicised and polarised against China. Even for local elected officials, however, the symbolic and political costs become prohibitive when it comes to supporting Chinese investments, particularly in the resource extraction, energy and high-tech sectors (e.g., Huawei, etc.). This distrust has intensified in recent years, as revealed by an international Pew Research Center survey<sup>2</sup> in October 2020, which reports highly unfavourable public opinion on China across Western countries.

Since Finland took over the presidency of the Council of the EU, the European Commission has seemed to be emphasising a new line of policy, in addition to the traditional pillars that generally garner broad consensus (environmental protection in the Arctic, climate change and sustainable development): Arctic security.<sup>3</sup> However, the European Commission then faces the dilemma of either contributing to the **process of strengthening security in the Arctic**, which would incite Russia and China to form an even stronger bloc against NATO countries, or finding a middle ground that promotes greater trade but possibly weakens its security alliance with the United States and Canada.<sup>4</sup>

The former perspective was addressed by the European Commission and the EEAS in a joint communication,<sup>5</sup> released on 13 October 2021. The new Arctic policy assesses the security dimensions of the High North and identifies the role that the EU must play in strengthening security in the region. Europe has both "strategic" and "day-to-day" interests in the Arctic and "[t]he EU's full engagement in Arctic matters is a geopolitical necessity". The document makes almost no mention of China, apart from two passages. The first notes China's growing interest in areas such as "ownership of critical infrastructure, the construction of sea cables, global

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2. Pew Research Center, 6 October 2020, "[Increasingly negative evaluations of China across advanced economies](#)".

3. Proposal by Marie-Anne Coninx (then EU Ambassador-at-Large for the Arctic) to the Arctic Circle Assembly in October 2019 to create a new body, independent from the Arctic Council, focused exclusively on security cooperation issues in the region.

4. Policy Department for External Relations, Directorate-General for External Policies of the Union, European Parliament, November 2020, "[No way back: Why the transatlantic future needs a stronger EU](#)", 34 p.

5. European Commission, 13 October 2021, High Representative of the European Union for Foreign Affairs and Security Policy, "[Joint Communication on a stronger EU engagement for a peaceful, sustainable and prosperous Arctic](#)", JOIN(2021) 27 final.



shipping, cyberspace and disinformation".<sup>6</sup> The second highlights China's monopoly over the production of rare-earth elements, and **the potential for the eight Arctic states to be significant suppliers of critical and other raw materials**. In their joint communication, the European Commission and the EEAS articulate the importance of remaining vigilant towards China. However, they mainly take aim at Russia<sup>7</sup> in their security-related remarks, which will likely not help ease tensions with Moscow. The document states, for example, that the EU will cooperate with NATO to develop strategic foresight on security challenges, and that Europe will push for oil, coal and gas, on which the Russian economy is heavily dependent, "to stay in the ground, including in Arctic regions".

Ultimately, **China does not appear to be a competitor or a hindrance to the EU's growth in the Arctic**. Apart from the state of its relations with Russia, Europe's presence in the Arctic remains in the hands of the EU and its Member States. The amount of resources allocated to execute the EU's new Arctic policy will help to better assess the level of European ambition in this polar region over the next few years.

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6. The European Parliament, in a resolution dated 7 October 2021, calls on EU institutions and Member States to be more vigilant towards China and more proactive in the region: "(...) the EU should avoid losing important ground to third countries in this field; expresses concern over China's investment attempts in the seaports along the Northern Sea Route and its attempts to obtain mining rights, inter alia, as a way to establish its presence in the Arctic, and urges the Arctic states to carry out a thorough screening of foreign investments in their entities and infrastructure of strategic importance".

7. It is also worth noting the rather undiplomatic tone used to discuss Svalbard's legal status and absence of any mention of Norwegian sovereignty over the archipelago.



# 16.

## **POWER STRUGGLES, SOFT POWERS: WHICH CHINA SHOULD WE PREFER TO DEAL WITH? WHICH EU SHOULD CHINA PREFER TO DEAL WITH?**

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*Translation from French by the author*

A look at EU-China relations over the last years with a specific focus on “influence and soft power” leads to point to an important turnaround, which became apparent in early 2021.

The then ongoing talks on the comprehensive agreement on investment (CAI) had indeed seemed to be aimed at reaching a consensus. A preliminary announcement concerning an apparently positive conclusion to protracted negotiations was made in late 2020. This happened just before Germany stepped down from the Presidency of the Council of the European Union.

Thanks to the subsequent turmoil and the temporary (or final) upholding of the project, it has become easier to spot (in a “mirror image”) which China Europe would prefer, as well as which EU would China prefer. As a matter of fact, instead of a match, the expected *rendez-vous* turned out as a miss. When the time came for the agreement, neither party found itself facing its counterpart of choice, but rather the opposite. On the one hand, China found itself facing a hostile Europe. On the other hand, Europe started to face a revengeful China, which launched a spate of sanctions against institutions and people in Europe as a price tag for reactions voicing criticism of CAI within Europe.

This makes it a challenge to take an inverted point of view and find which party either one would prefer to face. Room for mutual understanding is limited. Chances to find the appropriate match are slim. Yet the wording enables us to assess the impact of Chinese soft power in Europe. Conversely, it makes it easier to **identify the potential for Europe to keep a minimum exchange channel with an unavoidable partner.**

Needless to say, China is currently showing its least friendly face to Europeans. When confronting this growingly ugly truth, one could feel content with an approach limited to “patience, criticism, waiting and seeing” until the inversion of the ongoing cycle. Alternatively, one could dream of a regime overthrow in a not-too distant future. Both scenarios would make it useless to look for “the China we should/would prefer”. It would equally make it useless to try and identify which characters European corporates or diplomatic bodies could deal with now. There is none remaining for now. Be it for “old China hands” or “eleventh-hour companions”, be it for younger generations who, until the previous decade, had considered a position in Shanghai or elsewhere in China as being a “must” or a springboard to become a global citizen in the XXI<sup>st</sup> century world, China is now failing in its efforts to win friends in Europe and hearts everywhere in the world. It could even sound as a

bad joke. Arguably, “wolf warriors” intended to play hard to a point where the only consequence for the world would be to eventually pay respect to China at long last.

Possibly, in their minds this was the only way leading to the long-awaited recognition of China’s past, present, and future grandeur. However, the outcome can only look disheartening to their 外交部<sup>1</sup> or 中南海<sup>2</sup> bosses, provided their sight is fair enough. China’s achievements, a relatively pleasant way of life in China, and an apparent openness to dialogue could have been considered until 2012 as key elements of a victorious Chinese soft power. But this ability to influence or convince has almost totally faded away now.

Still, “hawks” within the People’s Liberation Army, chest-stomping about Taiwan and recurring “assertiveness”, could well reinforce China’s voice and win it an unexpected credit instead of just making friends. Past Chinese rhetoric of persuasion was playing soft keys. It could now become more efficient because of the changing tone. It just happens as if the previous question “which China should we prefer?” had become “which China do we love to hate?”. Coherent as it has become in its hard tone, convinced as it is of its legitimacy, China seems to win the fight on the minds while losing the empathy race. There seems to be no willingness to change this situation, however unheard of as it is in Chinese history, and because it exactly reflects the will of its leaders. **We seem to feel content, one after the others, with a situation where China would play a “repellent” role.** Under such an hypothesis, the clumsy and past attempts to display China’s soft power would no longer pose any kind of threat, doomed as they seem to be.

However, this could be a conundrum we cannot be content with. Over the last five years, compounded “faux pas” might be the outcome of a failing soft power. But here we make a different hypothesis: what appears as a “success”, totally opposite to the one supposedly aimed at (sympathy for China), might be the outcome of a sophisticated plot which needs to be unveiled and spotted. Indeed “sharp power” (as per The Economist in the December 2018 issue’s wording) or harsh power do become the appropriate definition of the way China projects itself across its borders, be it through the media or the words or deeds of officials. Yet, when Chinese players do return to using relatively milder tones or words, this alternative posturing could well be, by contrast, a form of “rejuvenated soft power”.

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1. Ministry of Foreign Affairs.

2. Headquarters of the Chinese Communist Party.

Voicing hard words and using coercion exclusively should be counterproductive for China. Yet a defying posture associated with a display of pride might end up being less self-destructive than it would look to Western eyes. Indeed, the voice of the Chinese ambassador to France, H. E. Lu Shaye, seems to be only provocative, and very often sounds as carried too much away. If disconnected from any background, such a behaviour could defeat any attempt to spray efficient propaganda, at least if it would limit itself to the old “century of humiliation” song. The paradox we hereby dare to formulate is that a smart blend of “counter-poison” and harsh power could end up as a new form of much more efficient soft power and make the loudly voiced “Chinese achievements” much more acceptable and convincing than they would merely with the previous “plain soft power”.

Let us list the various examples where China pours chill and warm water alternatively and manages to overcome the “paper tiger” sticking label which other actions might have deserved:

- La capacité à parfois adoucir le ton ou le subventionnement de lobbies innoconvey the most basic and positive messages praising successes and blessings derived from China’s action on climate, environment, and poverty alleviation. Those play as a powerful contrast to an otherwise aggressive China. If one assesses the asset and liabilities attached to alternating postures taken by China, it might well happen that the scarcer the soft speech is, the more efficient and influential it is when it is used, as it appears in stark contrast with “aggressive China” and gives a renewed image of a benevolent China, efficiently balancing the “harsh power” displayed elsewhere. As a matter of fact, once rigid positions are voiced on some issues, evidence of potential turnabouts appears as a potential element of goodwill, a real “epiphany” which is worth encouraging by lowering mental and ideological barriers. Arguably the times of “wolf warriors” are now over. Equally, the new scheme described hereabove might be **an astute plot aimed at hiding a Chinese posture as tough as ever, while temporarily and opportunistically endorsing a more urban approach.** By the same token, when H.E. Lu Shaye happened to host with very soft and educated manners guests he or his staff picked with caution, it is easy to fall into this “mildness trap” as we could recently witness. By deliberately defeating this caricature, those who adopt such an approach may win back some minds and hearts.
- China’s self-proclaimed ability to overcome hardships and challenges because (and not in spite) of the autocratic nature of its regime is also a powerful tool for a renewed soft power. The way it has been used (if not abused) during the pandemic is glaring and mirrors what happened during the 2008 Western financial

crisis, at a time when the 2008 Olympics in Beijing were displaying the irradiating image of a victorious China. Actually, the Chinese economy was already slowing down dramatically as well, but the illusion worked perfectly at the time. Very often, not only does Chinese speech conceal duress and frustrations endured by the Chinese people under the current regime, but also suggests that the recipe for above-mentioned successes possibly resides in a non-democratic system, which could well be imported in our own democracies.

In a nutshell, caution should prevail concerning China's hard face, which could also be a strategy to sound more compelling when a milder face is displayed.

Obviously, two additional factors play in favour of such a paradoxical way of influencing: the US model has faded away and has been weakened by the recent presidential mandates in Washington D.C., including Biden's first year and his retreat from Afghanistan. Also, a certain degree of tolerance vis-à-vis unacceptable wording used by Chinese representatives has eased the acceptability of China's harsh power, as this wording is sometimes considered as a cultural feature or even worse, balanced by achievements not matched anywhere else in the world, and which it could be worth studying and possibly replicating.

Even Western Europe is not immune from such influential ways. Therefore, any show of such Chinese influence must be identified and eradicated as soon as it emerges. Beyond our democratic borders, beyond the "developed world", the danger is more present. Prejudices against censorship, as well as restrictions on human rights and basic freedoms are weaker and weaker when positive opinions on political systems inspired by Western values can be challenged. Examples from Eastern Europe, Southern Asia and Africa come in handy.

Should such an analysis of the twin faces of Chinese smart power be correct, it would then be worth dealing with utmost caution with the supposed Chinese commitment towards biodiversity or climate change: indeed, it might be hypocritical and could also be another trick to sway support. Quick wins, such as dialogue on climate or biodiversity, might not then be the best leverage, although one cannot totally discard it.

Yet fortunately, it also happens that China does not systematically win. Chinese leaders, be they political or corporate ones, might be clever in hiding Chinese failures as regards management, economic outlook and vision. China sometimes fails just as everyone else does at times. As Europeans, Westerners, we do not necessarily have to point at Chinese failures or enjoy observing them. But we do know

how much air pollution, water shortages, natural disasters triggered by human action could harm Chinese people. Being able to talk to interlocutors about the real difficulties encountered in overcoming these plagues without using external solutions could help establishing a fair dialogue. Independent or critical expressions of thought from Chinese interlocutors are, by definition, in short supply. The issue is not to wish China turns humbler. It is only about eliciting a “new China” which would be able to overcome its quest for revenge and end an historical inhibition which leads to hide any form of weakness.

As a matter of fact, whenever the occasion arises, Chinese leaders play by the “developing country” score. It is less and less acceptable, as is contribution to aid in favour of China.

However, if Chinese executives or decision-makers sometimes acknowledged that there is willingness to find solutions with the help of third-party partners, such a turnaround would make for a more friendly China. The image would still be of a successful China, but not of a “fully successful China”. It could be “that China which we would prefer”.

By adopting the ways of speech of mature political regimes, **instead of adopting postures looking like those of unsteady, threatened, and authoritarian regimes, Chinese leaders would have their proposals better accepted.** “China is greater than China”: in other words, China’s footprint is greater than the mere and present territory of China. This means that widening the scope of what China means should benefit even to China (and even without taking control of Taiwan, which is not the topic of this contribution), Taiwan’s asset being that it displays an image of a more seductive China. Possibly this can be explained just because Taiwan’s failures are not bound to be concealed as it too often happens on mainland China.

We might also raise the question of which Europe would China prefer, or at least which one would China prefer to deal with. The answer can be summarised, as can be understood from feedbacks coming from Chinese interlocutors but also from vivid examples, in two systematic approaches.

- Europe, at least when the EU acts as a coherent and solid ensemble, is very often seen by Chinese interlocutors both as a political entity, which remains difficult to understand (a political creature too complex, which changes too often for Chinese watchers), and also as a political body which very often says “no”. It could be worth looking at means to display a Europe “ which says yes ”. Yet, saying yes would need appropriate elaboration and documentation, in order to be understood in the right way, that is, not to be a mere nod, replacing a “fatalist



yes”, to the second economic power. Europe should be critical, but also be able to display a will to build projects with China. When there is a debate, it should not be restricted to deciding on proposals exclusively sourced from China. Europe has to be a proposal-promoter rather than react to an assertive China. The current example which seems to mobilise several European countries to promote freedom of navigation is telling and powerful.

- Another European ambition should be embodied by the effort, very well demonstrated by French researchers, to better understand China, an in-depth effort, encompassing Chinese diversity. Obviously, this means a better push to train, analyse, and invest into research field. It would also mean that Chinese diversity would be positively assessed and studied, with an agreement by Chinese counterparts that we have a right and an ability to study China’s multiple aspects without being piloted by Chinese hands. There is a point often made by Chinese players debating with Westerners, saying that China is “different” and “foreigners do not understand it”. This argument is too often used. **There should be an all-European push, symmetrical to the one China displayed, to improve its understanding of Europe**, The outcome in China has been that the country is able to showcase executives able to impress thanks to their mastering of our European languages, their knowledge of our habits, or the personal links they have established. Such links, though, scarcely lead to questioning “Chinese superiority”.

**Recommendation 1:** no naïve goodwill vis-à-vis Chinese benevolence or “positive attitude” in fields such as climate change, the environment, and diversity protection...

**Recommendation 2:** (level of difficulty: harder): help Chinese interlocutors acknowledge their weaknesses and their failures to make them more “likeable” and to ease cooperation. If need be, document our knowledge of Chinese failures, without any inhibition.

**Recommendation 3:** (level of difficulty: easy) invest into tools to analyse China and make sure that Chinese leaders are aware of the efforts invested by their European counterparts to learn about China. Benchmark such efforts through quantitative tools and communicate with China about them. Identify in the past winning examples of good understanding between China and the West, and not restricted to the ones China likes. The recognition of a “friend of China” status and, conversely, “friend of Europe”, should not be a privilege owned only by our Chinese interlocutors. Too often, this status is only granted to actors who brought EU and China

closer to the sole benefit of China. Develop a better understanding and a deep learning of Chinese points of view, and of Chinese cultural references among European decision makers.

**Recommendation 4:** Find the appropriate vehicles and sufficient time to explain the history and political structures of Europe. Very often Chinese interlocutors study Europe with sincerity and application. Yet they use biased tools, which are not the best ones.





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The European Union must find its way in the context of a growing rivalry between China and the United States. In early 2021, the Jacques Delors Institute set up a working group that brings together researchers, academics, practitioners and business representatives from various Member States to focus on issues that structure the EU-China bilateral relationship. Each contribution makes specific recommendations that would allow for a better articulation of the three strands of "cooperation, competition and systemic rivalry" that are at stake with China, in order to build the EU's strategic autonomy. A globalised China is less dangerous than an autarkic China and Europe can contribute to this.

## BUILDING EUROPE'S STRATEGIC AUTONOMY VIS-À-VIS CHINA

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