

# EU – Asia: challenges and future

**EU-China relations  
in times of systemic rivalry**

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# EU-China relations in times of systemic rivalry

## Drivers of shifting Sino-European ties and key challenges ahead

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### Key findings

- EU-China relations have undergone significant changes. While trade and investment remain main drivers, political and security issues have come to the fore. Overall, economic priorities continue to prevail over geopolitical ones. But having committed to face up to China's systemic challenge, Brussels is under growing pressure from its partners and the public to refine its approach.
- Since the 1970s, EU countries have focused on economic opportunities offered by China's opening. But from 2016 on they have had to face a new reality in which China can leverage its economic power to the detriment of EU interests. The impact of China's rise on the EU and Beijing's growing authoritarianism and assertiveness eventually led EU governments and industries to see China as a systemic rival and formulate new China strategies.
- In contrast to the EU's approach, geopolitical and security risk assessments have played a major role in Beijing's strategic calculus towards Europe. While economic drivers are an important part of China's EU policy, these are subordinated to the Chinese Communist Party's (CCP) political and security interests. The CCP has always seen the values underpinning liberal democracy as a threat to its rule and Europe as part of "the West" led by a US intent on containing China's rise.
- Beijing has hoped that in an increasingly multipolar world Europe would ultimately distance itself from the US and act as a counterweight against American hegemony. China has supported EU integration while pursuing divisive approaches. Beijing is interested in a stable single market – which is a source of economic growth for China – and a fragmented EU where countries compete against one another for Chinese economic opportunities and do not speak up on political issues.
- China pursues a two-pronged approach to Europe. Relations with Western Europe give Beijing a platform to increase its legitimacy as a responsible

international stakeholder. In the 17+1 format Beijing presents itself as spokesman of the developing world and promotes itself as a better alternative to the EU. Partnership networks through sub-regional forums and the BRI are meant to serve Beijing's Sino-centric vision for international relations. Based on bilateral agreements rather than multilateralism, it aims to chip away at US-led Western global dominance.

- The EU is devising new tools to deal with China's multifaceted challenge and factoring in the new geopolitical environment to its approach. Its focus on fair trade and reciprocity is being complemented with policies that promote EU technological sovereignty, democratic resilience, geopolitical edge, as well as human rights and climate sustainability.
- As a result of Beijing's handling of the Covid-19 pandemic, there is greater consensus within the EU about the challenges posed by China. The EU has also found new hope for transatlantic cooperation on China in the new US administration. But Brussels' separation of economic and political issues in its China policy is coming under greater scrutiny from the public and its allies. They will be watching closely the next steps that the EU and its members decide to take in their China policy.

## Introduction

Over the past few years, relations between the European Union (EU) and China have undergone significant changes. The main drivers of this relationship remain, however, trade and investment. The EU has been China's largest trading partner since 2004. In 2020 China surpassed the United States (US) as the EU's top trade partner as a result of the Covid-19 pandemic and its impact on global import-export flows. And as both China and the EU bloc pursue economic recovery policies to deal with the pandemic-induced crisis, economic issues will remain high on their agenda.

While the economic agenda may be set for both sides, it comes with new political and security issues. The growing international ambitions of the People's Republic of China (PRC) have brought about a new era of geopolitical competition, primarily with the US, but with implications for Europe, too. The Chinese Communist Party's (CCP) 19<sup>th</sup> National Congress in October 2017 formally put an end to Beijing's low-profile foreign policy that had been in place since Deng Xiaoping's time. CCP General Secretary and PRC President Xi Jinping deemed that his country no longer needed to 'hide its capabilities and bide its time' and was ready to play a more prominent role in world affairs. Underscoring China's increasing ambitions, the 2017 Party Congress incorporated the Belt and Road Initiative (BRI) – Beijing's Sino-centered global connectivity strategy – into the CCP's constitution.

China's rise has been felt in the EU and its neighborhood, where increasing Chinese activities and geopolitical clout have raised questions for EU unity, interests, and

values. Brussels' unprecedented move in 2019 to define China in its 'Strategic outlook' as no longer just a partner, but also as an "economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance" is testimony to the tectonic shifts underway. <sup>1</sup>

Since the deterioration of Sino-US relations in 2018, fueled by the US-China trade war, Beijing has made it a priority to pursue closer ties with the EU and its largest economies. At the end of 2019, China appointed its first special envoy for European affairs and stated that in 2020 the EU would be high on its diplomatic agenda. The outbreak of Covid-19 in Europe in March 2020 made the EU even more central to Beijing's interests. But if fostering partnerships remained a priority, countering criticism about China's handling of the pandemic became more important to the Chinese government, which launched 'mask diplomacy' and disinformation campaigns to promote its governance model and claim leadership status in the provision of global public goods.

Beijing's behavior during the pandemic and EU countries' dependency on China for critical medical supplies made Europeans more alert to existing problems in both political and economic relations. China's crackdown on Hong Kong and new revelations about re-education camps in Xinjiang over the course of 2020 also created greater urgency about the need to respond to Beijing's mass human rights violations.

Meanwhile, US pressure had not managed to get the EU on board with its policy of confrontation towards China, but it did succeed in catalyzing debates about new issues, such as the security of 5G networks in response to the growing footprint of Chinese tech firms exposed to Chinese government influence. Although strategic issues are often framed solely as a matter of choice between the US and China, it is in fact EU governments' own interest in their countries' sovereignty and security that drives their decisions.

And in 2020 a new consensus on China seems to have emerged in Europe. At the special European Council of October 1 – 2, the leaders of all 27 member states eventually endorsed the policy approach set out in the March 2019 'Strategic outlook'. <sup>2</sup> Beyond rhetoric, EU governments' actions on specific China policy issues – from 5G security to Hong Kong – also showed a relatively high degree of convergence. <sup>3</sup> The European public has also become more wary of the China challenge. Polls conducted in the second half of 2020 indicate that views about China in Europe have grown more negative. <sup>4</sup>

With the election of Democratic candidate Joe Biden as President of the United States, a window has opened for the EU and the US to address China's challenges jointly. However, there remains unclarity about the viability of the EU's current approach to China – which keeps economic and political issues separate from one another – and its future trajectory. Criticism for Brussels' decision to conclude in principle a Comprehensive Agreement on Investment (CAI) with Beijing in December 2020 despite forced labor concerns and before Biden entered the White House, shows that the EU will be under pressure from its allies, parliamentarians and public to show that its China policy reflects its liberal values and factors in geopolitical considerations.

## **1. Europe's new realism: from hopes of convergence to systemic rivalry with China**

Ever since the establishment of EU-China diplomatic ties in 1975, the economic agenda has dominated Brussels' and EU countries' relations with Beijing. Europeans have focused on making the most of opportunities offered by China's economic reforms and opening starting from the late 1970s. China's accession to the WTO in 2001, its promises of opening ahead of the 2008 Beijing Olympics and the CCP's 3<sup>rd</sup> Plenum in 2013 – where Xi Jinping stated that market forces would play an important role in China's economy – nurtured hopes that China would implement economic and political reforms. In turn, EU governments thought, this would potentially lead to greater convergence between China and market-based liberal democracies.

### **Betting on convergence**

Over the past 45 years, Europe's dominant narrative on China has been about the economic opportunities offered by China's opening and the systemic convergence that would have come through trade and by integrating Beijing in the international system. The economic calculus has prevailed over geopolitical considerations, with EU countries leaving signals of China's political hardening largely unaddressed. If anything, politics has been used to promote business, like it was the case with Memoranda of Understanding on the Belt and Road Initiative (BRI) that were signed by more than half of the EU member states.

Fast-forward to 2020, and this picture has radically changed. While EU countries are still interested in economic cooperation with China, they see the geopolitical challenges presented by China's rise more clearly.

Since 2016, EU governments and industries have been forced to face a new reality in which China can leverage its economic power to the detriment of EU interests. A surge of Chinese state-led investment in EU strategic industries and critical infrastructure in 2016 and the acquisition of leading German robotic firm Kuka by China's state-owned Midea sparked concerns about Beijing gaining control over critical sectors of the EU's economy, eroding European sovereignty and security. Growing awareness eventually led to the creation of an EU framework to screen foreign direct investment. In 2016 and 2017 Brussels also began to witness the political implications of its members' close ties with China. Hungary and Greece watered down and blocked EU statements on Beijing's violation of international law in the South China Sea and human rights abuses. This was the result of Beijing's economic sticks and carrots and Eurosceptic governments' readiness to embrace an alternative to the EU.

## Waking up to changing realities

The 19<sup>th</sup> Party Congress in October 2017 was a watershed moment for Europe’s thinking on China. It confirmed that, far from being on a path of convergence, the Chinese party-state was confident in its own political and economic system as a legitimate, superior alternative to liberal democracy and market economy, as well as in its potential to export “Chinese solutions” abroad.

On that occasion, Xi Jinping told cadres in Beijing that China was ready to “move closer to global center stage”, and that China offered “a new option for other countries and nations who want to speed up their development while preserving their independence” (i.e. by developing economically without liberalizing politically).<sup>5</sup> The abolition of Presidential term limits in March 2018, which allow Xi to be President for life, showed even more clearly that China was not planning to move away from authoritarianism.

The US’ withdrawal from several of its international commitments as a result of President Trump’s America First policies has been used by Beijing to promote its interests more proactively in the international arena. In January 2017 Xi openly tried to fill the international vacuum left by the US at the World Economic Forum in Davos, where he gave a speech promoting China as a champion of free trade and globalization, in opposition to US unilateralism. His message was largely received in Europe as a genuine commitment to economic openness and multilateralism.

In fact, it was becoming clear by then that many of Europe’s hopes were wishful thinking. Several alarm bells should have sparked realistic thinking well before the 19<sup>th</sup> Party Congress (table below). But because economic considerations trumped political and strategic concerns, EU governments were slow to react to China’s political hardening.

Table 1. China’s political hardening has been consistent since Tiananmen

<p><b>Internal repression</b></p> <p>1989 – Tiananmen square massacre</p> <p>2008 – Crackdown on Tibet</p> <p>2009 – Crackdown on Xinjiang</p> <p>2015 – 709 Crackdown</p>	<p><b>Ideological control</b></p> <p>1991– Beginning of patriotic education campaigns</p> <p>2013 – Document No. 9</p> <p>2017 – Foreign NGO Activity Management Law</p>
<p><b>Rule by law</b></p> <p>2015 – National security law</p> <p>2016 – IT security law</p> <p>2017 – Zhou Qiang’s rejection of judicial independence</p> <p>2017 – National intelligence law</p>	<p><b>International assertiveness</b></p> <p>2012 – Sino-Japanese confrontation in the East China Sea</p> <p>2013 – Intensification of border tensions with India</p> <p>2014-15 – Construction of artificial islands in the South China Sea</p> <p>2016 – Growing tensions between China and Taiwan</p>

### **Coordinating approaches**

Nonetheless, between 2016 and 2018 China's growing authoritarianism at home and assertiveness abroad, along with the impact of its activities on EU interests, did lead some EU government agencies and industry associations to formulate new strategies for relations with China that took into account these new realities. The Federation of German Industries, for example, pioneered with its January 2019 paper defining China as both a partner and a systemic competitor.<sup>6</sup> That language was then picked up by the EU in its 'Strategic outlook' the following March. The same year, the governments of the Netherlands and Sweden published their own China strategies, and so did prominent business organizations such as Business Europe, VDMA and Confindustria over the course of 2019 and 2020.<sup>7</sup>

Three main aspects stand out as common denominators of these strategy papers. Firstly, a recognition that the Chinese model of political authoritarianism and state-led capitalism represents a long-term systemic challenge to democracy and rules-based free trade. Secondly, the realization that EU unity is required when dealing with China, as no member state alone has the power to effectively promote its interests vis-à-vis Beijing. Lastly, a new-found awareness about the need to include geopolitical and security risk assessments, and thus 'whole-of-government' (i.e., cross-ministry) approaches into policy making on China. Importantly, a key underlying goal of all these papers was to promote a rebalancing of economic relations and create the conditions that would make deeper economic engagement with China possible despite political difficulties.

While in 2019 a few member states started to be more clear-eyed in their engagements with China, others were still stuck in old paradigms. Italy's landmark signature of a Belt and Road MoU in March that year – making it the first G7 state and EU and NATO founder to endorse Beijing's global initiative – was presented by its Italian promoters within the populist Five Star Movement and the League coalition as a framework agreement to increase exports to China. The underlining assumption was that close political ties would translate into economic opportunities. But the MoU did not lead to increased Italian exports to China. Instead, it undermined Italy's credibility in the eyes of its partners and lent legitimacy to Beijing's geopolitical ambitions.

But both in Italy and other parts of Europe, realism soon caught up. US foreign policy towards China and intensifying Sino-US tensions ultimately forced Europeans to take a stance in the shifting geopolitical environment. Concretely, the first manifestation of US-China strategic competition in Europe was over 5G, with the US lobbying allies to exclude Huawei from their next-generation network rollout, and China pushing EU countries to allow the Chinese tech firm to participate. Meanwhile, disappointment over economic promises failing to materialize for countries that had joined Beijing-led initiatives, from BRI to the 17+1 format, contributed to debunking previously held assumptions that political goodwill towards China would boost business exchanges.

### **Clear-eyed cooperation?**

When Chinese Foreign Minister Wang Yi visited Europe in the summer of 2020, he was met with more critical attitudes by his counterparts. China's opaque handling of the Covid-19 pandemic and its politicization of shipments of medical supplies to EU countries in the spring of 2020 fostered skepticism about China in Europe. Instead of reasserting its interest in cooperation within the BRI framework, Italian Foreign Minister Luigi Di Maio reaffirmed Rome's commitment to the EU and NATO more clearly in front of his Chinese counterpart.

On the day of Wang's visit to Berlin, Germany published its Indo-Pacific guidelines – a strategy to promote the rules-based international order in Asia and limit Germany's own and other countries' economic dependency on China. During the visit, German Foreign Minister Heiko Maas spoke up against Beijing for threatening the Czech Republic after the Czech Senate speaker led a delegation to visit Taiwan.

At the same time, the EU's appetite to conclude CAI negotiations with Beijing in December 2020 – an effort spearheaded by Berlin and Paris – showed that economic interests still take priority over geopolitical ones. The deal has been widely criticized for the geopolitical message it sent, being concluded just before Biden entered office and after China's authoritarianism and international assertiveness grew to new levels in 2020.

New tools are now available to the EU to address areas of systemic rivalry with China in parallel to pursuing cooperation. Since the EU and its members have committed to facing up to China's systemic challenge, they are increasingly under pressure by their public and partners around the world to balance economic interests and geopolitical considerations in their China policy.

## **2. China's EU policy: fostering ties with EU countries while taming them**

In stark contrast to the EU's approach to China, systemic competition was never absent from Beijing's strategic calculus in its engagements with Europe. For the Chinese party state, economic interests are subordinated to geopolitical and national security risk assessments. Importantly, Xi's concept of "comprehensive national security", which was introduced in late 2013, encompasses almost everything, from political security and territorial security to cultural security, economic security and the security of Chinese overseas interests.

### **Politics first**

Economic drivers certainly played a crucial role in China's EU policy. The economic benefits of relations with Europe are undeniable. In its three EU policy papers, published in 2003, 2014 and 2018, China never failed to mention that the EU is an important trading partner, and its largest one since 2004.<sup>8</sup> The EU is a market for

Chinese goods and a source of investment. Only in 2019, the EU imported EUR 362 billion-worth of Chinese products.<sup>9</sup> While in 2018 the value of EU outward FDI stocks in China was of EUR 175.3 billion.<sup>10</sup>

As Chinese companies diversified their portfolios abroad in line with Beijing's "going out" policies that encouraged Chinese enterprises to invest overseas, the EU emerged around 2012 as a preferred investment destination thanks to its openness and sought-after know-how and technology. High-quality and high-tech goods from Europe continue to contribute to China's economic and industrial upgrading – a priority under China's industrial policy Made in China 2025.

But the CCP leadership has always managed ties with Europe by putting its political and security interests first. Economic opening has remained selective and partial, and its market always protected through broadly defined national security laws, its negative lists approach to keeping sectors of the economy closed to foreigner investors, and other formal and informal trade and investment barriers.

The National Development and Reform Commission's (NDRC) tightening of investment screening rules in preparation to openings planned for January 2021 under China's foreign investment law and after the in-principle conclusion of CAI with the EU is the latest example of such practices. The NDRC openly stated that "only by tightening the fence against security risks can China lay the solid foundations for a new round of opening up that is broader, wider and deeper".<sup>11</sup>

### **Geopolitical calculus**

Geopolitics and regime security have been central to how China sees Europe – a part of "the West" led by a US intent on containing China's rise. Even if Beijing has complained repeatedly about the EU labelling it a "systemic rival", the CCP has always seen the values underpinning liberal democracy as a threat to its rule. Document No. 9, an internal CCP brief leaked in 2013, lists the Western political perils that could erode the party's grip on power, from judicial independence and free media, to civil society and market liberalism.<sup>12</sup> All these, in the CCP's thinking, need to be countered through ideological campaigns, domestic political and economic policies of control, and laws that limit the circulation of foreign ideas in China on the basis of national security. In the same vein, universal human rights are viewed as Western concepts. And the work of EU diplomats to support Chinese human rights lawyers and defenders has been labelled by Beijing's official media as part of a 'color revolution' meant to overthrow the regime in China.

The 100<sup>th</sup> anniversary of the CCP in 2021 and the 14<sup>th</sup> Five Year Plan, the CCP's guiding document that every five years sets socio-economic priorities for the government, to be introduced in March, promise to bring about an intensification of ideological work and of economic policies aimed at achieving scientific and technological self-reliance. These are meant to limit the shocks to China's national security and economic progress caused by a geopolitical environment marked by strategic competition with the US.

### **Betting on an independent European pole**

But just as Europe's engagements with China have been marked by wishful thinking with regards to systemic convergence, Beijing has not been immune to idealism either. China's official pronouncements show hope that a strong and integrated EU would ultimately assume a more proactive role in an increasingly multipolar world, distancing itself from the US and acting as a counterweight against American hegemony. For example, in talks with European counterparts Chinese officials often voice their support for EU strategic autonomy, which they see as conducive to a weakening of transatlantic cooperation and a strengthening of China's relative power internationally.

Enthusiasm about Europe as a new pole in global politics was especially easy to detect in China's first policy paper on the EU. Published in 2003, it labelled Brussels as a "major force" in the world, European integration as "irreversible", and EU-China relations as "better than any time in history".<sup>13</sup> Notably, this was published the same year in which the EU and China upgraded their ties to a "Comprehensive Strategic Partnership", Beijing's language for long-term, stable relations and multi-dimensional cooperation with major powers.

In the 2018 policy paper, the EU is still recognized as a major player in international affairs, a major contributor to world multipolarity and an entity that enjoys "the highest level of integration and overall strength". But in the 2018 paper, previous years' optimism leaves space to a more sober reflection on a Europe that also faced headwinds, such as Brexit and other challenges.

China would also welcome the EU's support in reforming the international system. Teaming up in "formulating and improving fair, equitable and just international rules and standards" is one of China's stated goals for dialogue and coordination with Europe in its 2018 policy paper on the EU.<sup>14</sup> The indirect reference is to the current Western-dominated, rules-based international order, which Beijing considers unfair and in need of adjusting to accommodate its country's 'unique national conditions'.

### **The rhetoric-reality gap**

If preventing close transatlantic relations is an obvious goal for China, Beijing has been opaque about its goals towards Europe. In its official pronouncements, it "welcomes a united, stable, open and prosperous" EU and "supports the European integration process". In contrast, English language party-state media have often promoted China as a more suitable partner for EU member states than Brussels. The party-state tabloid *Global Times*, citing Chinese Europe scholars, has repeatedly told members of the 17+1 format and EU candidate countries that "the EU and the US can no longer provide help to boost Central and Eastern European Countries' economies", nor could the Balkan countries' economic situation allow them to "meet the EU's standard for member states", suggesting they seek opportunities from China instead.<sup>15</sup> During the coronavirus pandemic, the same outlet pushed arguments claiming that European countries could not "count on the US or the EU

to provide them aid”, so China had to step in and “send out humanitarian support to relevant countries at their request”.<sup>16</sup>

Ultimately, China seems interested in a stable EU single market, as this is a significant source of economic growth for China. It also, however, appears to benefit from a fragmented Europe. One in which countries are not united on political issues in relations with China, but rather compete against one another for Chinese economic opportunities. In turn, this allows Beijing to have the upper hand in bilateral relations.

### **Beijing’s two-pronged strategy**

Beijing’s ambivalence towards European integration is not entirely surprising. In its 2018 policy paper, China made clear its commitment “to developing ties with EU institutions, member states and other European countries” – a reference to post-Brexit UK but also the Western Balkans and the wider European economic area. This is a shift from previous papers that mainly focused on the development of relations with EU institutions and member states.

This two-pronged strategy has also allowed Beijing to have more leeway to promote its interests in Europe. On the one hand, relations with Brussels and Western European countries give China a platform to bolster its legitimacy as a responsible stakeholder in the international arena, but in which China should also still be considered by other governments as a developing country and thus be able to make asymmetrical requests (e.g., of economic and political opening, when the same are not guaranteed in China). In contrast, Beijing’s 2014 and 2018 EU policy papers depicted China and Brussels as equals, also reflecting the support that China had given to Europe during the eurozone crisis.

On the other hand, within the 17+1 format Beijing presents itself as spokesman of the developing world and leader of South-South cooperation frameworks, highlighting its partnership offer as a better alternative to that of “the West”, in this case the EU. This practice follows that used by China in other parts of the developing world such as in Africa and Latin America through the Forum on China Africa Cooperation (FOCAC) and the Forum with the Community of Latin American and Caribbean States (China-CELAC Forum).

These partnership networks – along with those created through the Belt and Road Initiative – are intended to serve Beijing’s ultimate goal of fostering alignment with its interests as part of a ‘new type of international relations’: a Sino-centric vision based on bilateral agreements with Beijing rather than framed in multilateral frameworks and that chips away at US-led Western global dominance.

### **3. Sino-European ties at a critical juncture: putting EU strategic thinking into practice**

To factor in the new geopolitical environment and changing dynamics of EU-China relations, Brussels has already taken concrete steps to put the multi-pronged (partner, competitor, rival) approach of its 'Strategic outlook' on China into practice. The economic agenda – with trade policy being fully in the EU's hands – has remained the core of these efforts. At the same time, the focus on fair trade and reciprocity is increasingly complemented by policies that aim to strengthen Europe's technological sovereignty, democratic resilience and geopolitical edge, and to promote human rights and climate sustainability. The following section takes stock of the new tools created by the EU to face China's multiple challenges and highlights potential obstacles in European China policy.

**Fair trade and reciprocity: addressing imbalances and China's economic coercion**  
Persistent imbalances in EU-China economic exchanges remain a major bone of contention between Brussels and Beijing. Both EU governments and industry have spelled out clearly their goal to rebalance economic ties. Chinese investment in the EU outpaces EU FDI flows into China. Even after the creation of an EU FDI screening framework, the single market remains among the most open economic areas in the world, while China's market is one of the most protected globally, through both formal and informal barriers.

The EU also has a significant trade deficit with China – as do most of its member states in bilateral relations with the PRC. And while China's procurement market is almost entirely closed to foreign players, in 2019 alone Chinese companies won EU public tenders worth an estimated EUR 1.91 billion.<sup>17</sup>

Another cause for concern in the EU is China's increasing willingness to use economic coercion for political gains. Europe has been the number one target of China's coercive diplomacy.<sup>18</sup> China's boycott of Norwegian salmon after late Chinese activist Liu Xiaobo was awarded the Nobel Peace Prize is the best-known case of Beijing's economic coercion in Europe. But China has threatened economic retaliation towards the Czech Republic, Germany, Sweden, and other EU countries. In 2020, Beijing's coercive practices targeting Australia reignited discussions about the need for anti-coercion and solidarity mechanisms, and for policies to strengthen economic sovereignty and resilience, including supply chain and market diversification strategies.

To promote reciprocity and a level playing field in China, Brussels and Beijing concluded in principle negotiations for a Comprehensive Agreement on Investment (CAI). This should open new sectors of the Chinese economy to EU investment, including in new energy vehicles, cloud services, private hospitals and the financial sector. But the CAI falls short of achieving a real level playing field and reciprocity.

And while Beijing has committed to making market opening concessions, it has also called for building self-reliance in key technological sectors, further tightened investment screening rules, and given a more prominent role to SOEs in its economy.

Internationally, Beijing has shown its readiness to violate international agreements when they do not suit its needs, such as in the trade row with Australia.

Going forward, the EU will be required to pursue a two-pronged strategy that seeks greater market access but manages deepening economic interdependence with China in a way that safeguards Europe's sovereignty and economic resilience. An EU FDI screening framework became fully operational in October 2020.<sup>19</sup> The reform of the international procurement instrument currently being discussed is another example, in addition to CAI, of the EU pursuing reciprocity.

More broadly, through its trade policy review and the promotion of 'Open strategic autonomy', the EU aims to keep its single market as open as possible while protecting it where necessary. Indo-Pacific strategies issued by several member states are also meant to help diversify their trade ties in the region and to avoid over-reliance on China. These efforts should soon be complemented with an anti-coercion mechanism and new tools to address the distortive effects of foreign subsidies.

#### **Climate cooperation: promoting sustainability policies in relations with China**

Climate change is an area that retains potential for cooperation between China and the EU. Brussels and Beijing collaborate to advance international climate and biodiversity negotiations as well as long-term development strategies aimed at lowering greenhouse gas (GHG) emissions. China's recent pledge to become carbon neutral by 2060 was welcomed by EU leaders. And the recent creation of a new High-Level Environment and Climate Dialogue between the EU and China has boosted hopes for cooperation.

However, China's domestic policies are often at odds with its international commitments. Beijing has so far insisted that its contribution to mitigating climate change be based on 'developing country' status. It has made concerted efforts to curb its industrial emissions, spurred by mounting international and domestic pressure. However, Beijing has also continued to build coal-fired power plants.

The EU plans to introduce a "European Green Deal" and strives to include sustainable economic policies in its post-coronavirus recovery plan. Some proposals are likely to create friction with China. Brussels' plan for a Carbon Border Adjustment mechanism (CBAM), for instance, would introduce levies for imports from countries with less stringent emissions reduction policies than the EU. This would level the playing field since EU companies are already taxed under the EU Emission Trading System (ETS). Its implications for China would be especially significant if the mechanism were extended to energy-intensive industries such as steel, or batteries, where Chinese companies dominate the production process. Beijing has already expressed criticism of the CBAM, labelling it climate "unilateralism".<sup>20</sup>

Despite challenges ahead, there is top level commitment and an interest on both sides to make climate action a priority. 2021 promises to be a pivotal year in global climate action. China plans to host the UN COP 15 conference in Kunming, where

the international community is expected to deliver an agreement on safeguarding biodiversity. Governments will then meet in Glasgow at the UN conference on climate change. The newly established EU-China climate dialogue also offers a forum to address potential frictions on a carbon tax through early, close coordination during the formulation of the mechanism. And Washington's return to the Paris agreement will help the EU put pressure on Beijing to show leadership in climate action.

### **Technological sovereignty: dealing with China's digital rise**

China's challenges to Europe in the digital domain are far-reaching: they encompass values, security, and competition issues. The EU and China have different approaches to "reciprocity, data protection and fundamental rights," as the summary of their first High-level Digital Dialogue in September stated openly.<sup>21</sup> Security concerns have been highlighted in the debates over 5G and the involvement of Chinese tech companies exposed to party-state influence.

On the competition front, China's aspiration to become the dominant technological superpower by 2049 relies on a digital domestic market that shields home-grown Chinese IT champions – like Huawei – from foreign competition, while helping them expand internationally and gain access to foreign capital. When it comes to the values underpinning new technologies, China has already secured a leadership position in international standard setting bodies.

The EU has developed several initiatives that seek to safeguard both its competitiveness and technological sovereignty. The development and implementation of the EU 5G cybersecurity toolbox is an example of intra-EU coordination on an issue where national security risks determined by the presence of unreliable suppliers in 5G networks – on which essential services and socioeconomic functions will rely – could easily spill over to the rest of the EU. The EU's coronavirus recovery plan is also set to boost investment in 5G to support European players. A strategy on data and the digital sector and a white paper on artificial intelligence are additional steps being taken, along with a new EU cyber-strategy and an industrial strategy to nurture European champions.

Meanwhile, the debate over 5G has generated an increased awareness of what technology cooperation with China entails and the strategic risks it poses, putting new issues on the agenda. These include the revision of rules for science and technology cooperation with China, for example.

But the scope of China's challenge in the digital domain also extends to international organizations and developing countries, where China's cheaper technological alternatives to those offered by advanced economies have come along with the promotion of its authoritarian standards and practices. Concrete initiatives under the EU's Euro-Asia connectivity strategy and Brussels' new agenda for transatlantic cooperation – which has proposed the creation of an EU-US Trade and Technology Council – could help Europe tackle the challenge of China's digital rise.

**Liberal values: addressing China's serious human rights violations**

Human rights have always been a point of contention in EU-China relations. Since 1997, the bilateral dialogue on human rights has given the EU a regular forum to raise its concerns with the Chinese side. Developments in Tibet and Xinjiang have been recurring topics, along with the treatment of Chinese human rights lawyers and defenders, especially since the wave of arrests during the '709 crackdown' – China's largest-ever mass arrest of human rights lawyers and activists which began on July 9, 2015.

The Chinese government has, however, shifted its approach in recent years, moving from the defensive to the offensive. It has moved away from defending its policies within the UN Human Rights Council (UNHRC) and bilateral exchanges. Instead, it has opted to promote the revision of the international human rights regime and to challenge the universality of human rights.

China's government has fostered coalitions of like-minded, authoritarian states by organizing South-South forums on human rights, which give China a platform to promote its idea of human rights as an issue for state-to-state cooperation rather than individual rights' protection. In another manifestation of the same strategy, China has successfully sponsored resolutions in the UNHRC that promote its concepts of economic rights and 'rights to development' as human rights that outrank civil and political rights. Meanwhile, Beijing unilaterally downgraded the EU-China human rights dialogue.

Revelations about the scope of China's mass violations in Xinjiang and Beijing's imposition of a National Security Law (NSL) in Hong Kong, which has already led to mass arrests of pro-democracy law makers, have created a greater sense of urgency in Europe about the need to address China's serious human rights abuses.

On December 10, 2020, the EU established its global human rights sanctions regime.<sup>22</sup> The tool will allow Brussels to impose punitive measures such as travel bans and freezing of funds against state and non-state actors involved in serious human rights abuses worldwide. New export controls and ongoing efforts to step up due diligence for sustainable supply chains – environmentally and with regards to human rights – are also meant to support the safeguarding of liberal values. The EU's collectively agreed countermeasures to the imposition of the National Security Law on Hong Kong include a key proposal to tighten export controls on any sensitive equipment and technology that could be used by the Hong Kong police for repressive purposes. More broadly, there is a political agreement within the EU to finalize the reform of the EU's export control regime.

While the EU has new tools to address China's human rights abuses, lack of EU unity has the potential to undermine their implementation. In the international arena not all EU member states, especially in southern and eastern Europe, have signed recent statements condemning China's conduct in Hong Kong and Xinjiang within the UN framework. This is indicative of potential obstacles to the unanimity required for the adoption of sanctions within the EU.

**Democratic resilience: addressing China's influence and disinformation campaigns**

Beijing's activities to influence decision-making and public opinion across Europe have started to receive greater scrutiny in Brussels and other EU capitals. Until recently, Russian meddling was the main concern for European governments seeking to protect their democracies from external interference. However, China's growing ability to shape the behavior of EU administrations through economic leverage and by lobbying European elites has changed this.

The Covid-19 pandemic has also brought new developments. China's party-state agencies launched disinformation campaigns in Europe to counter criticism of Beijing's initial mishandling of the outbreak in Wuhan. They sought to promote China as providing a better role model and partner for crisis management than liberal democracies and the EU. Using a mixture of bots and official Chinese government social media accounts, they heavy-handedly publicized Chinese commercial supplies of face masks and other Protective Personal Equipment (PPE) to Europe as if they were donations.

The campaigns had some visible effects on perceptions about who provided most help during the crisis, with polls indicating that China is seen in Italy, for example, as providing the most help during the early stages of the pandemic.<sup>23</sup> Chinese officials also resorted to Russian-style disinformation by promoting contradictory conspiracy theories to sow confusion about the origins of the virus.

Brussels has worked to counter China's influence activities in different domains. For example, it is leading a conversation with member states on how to tackle foreign interference in higher education institutions and research organizations.<sup>24</sup> To deal with disinformation, the EU also launched a Rapid Alert System in 2019 to share real-time information about false news and narratives spreading online. This initiative came after the EU expanded the focus of its East StratCom Task Force to cover not only Russian but also Chinese operations.

A June 2020 EU document on Covid-19 disinformation, along with the December 2020 Democracy Action Plan and Digital Services Act cover work to counter disinformation and support independent media.<sup>25</sup> Meanwhile, social media platforms that have joined and, most recently, the Chinese-designed video-sharing app TikTok.

The EU's focus on Chinese disinformation activities will continue to grow. First, Commission President von der Leyen has promised while in office to strengthen Europe's democratic resilience in the digital domain. Second, TikTok's surging popularity is also attracting official attention. The app has become the subject of member state investigations into data practices, although it has not yet attracted censorship-related probes.

Challenges lie ahead for EU policy makers, as member states debate what level of resources should be deployed to tackle Chinese disinformation. But as Beijing's information operations increase, alongside coercive diplomacy and other types

of influence activities, Brussels will increasingly find itself required to devise counter-responses to Beijing's manipulation of the information domain and to the severe lack of reciprocity in the (social) media sphere. The EU has already raised the topic of disinformation within its new high-level dialogue with China on digital issues.

### **Geopolitics: addressing China's challenge to the rules-based international order**

Despite the EU's aspiration to become a geopolitical player, geopolitical considerations have overall been missing from its approach to relations with China. This has started to change within the EU and its members paying increasing attention to geographies where China has strong potential to shape standards and rules and change the rules-based international order. Two areas of particular importance for Europe are the Indo-Pacific and the Western Balkans.

China's rapid military modernization and the rising number of military drills and manoeuvres in Asia are attracting the attention of European governments. Beijing's moves in the Taiwan Strait and in the South China Sea are key examples of its growing clout and assertiveness. Europe has a vested interest in protecting stability and freedom of navigation in the region, as key global trade routes traverse the South China Sea. Increasing tensions between China and EU nations' NATO allies and partners in the region are also a concern for European governments. Lastly, China's activities pose direct challenges to international law and the international multilateral order, which the EU has pledged to uphold.

In the Western Balkans, China's alternative offers for investment and loans need to be aligned with EU standards and interests, or else risk derailing the accession process of candidate countries that need to meet democracy and rule of law standards to join the EU. China's approach and authoritarian model have proved appealing to some countries, like Serbia, while untransparent or unsustainable economic practices have driven states like Montenegro in a relation of debt dependency with China.

Europe will need to step up its role substantially in both geographies if it wants to counter the erosion of liberal standards and rules. France, Germany and the Netherlands have already adopted Indo-Pacific strategies, and Brussels is now working on an EU-wide one. EU countries have also increased their outreach to ASEAN nations. The conclusion of the Regional Comprehensive Economic Partnership (RCEP) – which has created the largest free trade zone in the world and promotes East-Asian trade integration – has added pressure on Europe to conclude EU-ASEAN FTA negotiations to remain relevant in the region and set EU trade standards. The EU could implement its connectivity strategy both in the Indo-Pacific and the Western Balkans by allocating resources for concrete projects and speeding up processes that allow its partners to access funds.

## Conclusion

Since the CCP's 19<sup>th</sup> Party Congress in October 2017, consensus about the systemic challenges posed by China has grown across Europe. New EU autonomous tools are being developed to deal with political and economic issues in the relationship with China. Brussels' focus on fair trade and reciprocity is increasingly complemented by policies that aim to strengthen Europe's technological sovereignty, democratic resilience and geopolitical edge, and to promote human rights and climate sustainability. However, EU governments will be required to further sharpen the approach set out in the 'Strategic outlook' and show EU-wide cohesion in its implementation.

Coherence in Europe's China policy is a key issue. As economic interests seem to prevail over geopolitical priorities, finetuning approaches across different domains will be key. This might mean taking concrete steps in areas where the EU and China compete or are openly at odds with each other, for example by adopting human rights sanctions and pursuing economic sovereignty policies in parallel to promoting cooperation.

EU unity is a second challenge. Ensuring that member states do not compete against one another, but work jointly towards wider European goals in their relations with Beijing is key to the development of a successful European China policy. For the foreseeable future Europe will be consumed by the economic fallout of the coronavirus pandemic. However, economic recovery presents both challenges and opportunities, including for EU unity. As visible during the Covid-19 pandemic, Beijing is ready to use the ongoing crisis to pursue its political goals and divisive approaches. The EU and its members should continue to build up their knowledge of Chinese activities and strengthen resilience.

Brussels has in the past showed leadership on certain China policy issues, like 5G cybersecurity. By incorporating EU-wide priorities, such as technological sovereignty and climate sustainability, into recovery plans, Brussels can support EU countries in promoting policies that are in line with European values and interests, including on issues that are relevant for China policy.

The hoped-for revival of multilateralism and transatlantic cooperation with Biden is an opportunity for Europe. In its proposed agenda for EU-US relations, Brussels refers directly to "the strategic challenge presented by China's international assertiveness" and several issues, like technology and trade, that are going to be key for China policy.<sup>26</sup> The new US administration has also indicated its willingness to work closely with partners on China. President Biden will be kept busy by domestic issues, and some of the divergences in EU and US policies on China will hardly change. But the overlapping interests and potential for coordination on China far outweigh the differences.

Since the EU and its members have committed to face up to China's systemic challenge, they are under growing pressure to balance economic and geopolitical priorities. Partners around the world and a European public that is increasingly exposed to debates about China will be watching closely the next steps that Brussels and EU countries decide to take in their policy towards China.

- <sup>1</sup> “EU-China – A strategic outlook” (<https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>).
- <sup>2</sup> See <https://www.consilium.europa.eu/media/45910/021020-euco-final-conclusions.pdf>.
- <sup>3</sup> See <https://www.consilium.europa.eu/media/45225/st09872-re01-en20.pdf>.
- <sup>4</sup> See Silver, L., Devlin, K. and Huang C. (2020), “Unfavorable Views of China Reach Historic Highs in Many Countries”. This article by the Pew Research Center can be found in <https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/>.
- <sup>5</sup> Xi, J. (2017), “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era”, a report delivered at the 19th National Congress of the Communist Party of China, October. The report can be found in [http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf).
- <sup>6</sup> “Partner and Systemic Competitor – How Do We Deal with China’s State-Controlled Economy?” (The BDI Policy Paper China, January 2019). The policy paper can be found in <https://english.bdi.eu/publication/news/china-partner-and-systemic-competitor/>.
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- <sup>9</sup> See <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>.
- <sup>10</sup> Ibid.
- <sup>11</sup> See Shen, S. et al. (2020), “China issues national security rules on foreign investment”. This article by Reuters can be found in <https://www.reuters.com/article/china-investment/china-issues-national-security-rules-on-foreign-investment-idUSKBN28ToFQ>.
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- <sup>13</sup> See [https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/ceupp\\_665916/t27708.shtml](https://www.fmprc.gov.cn/mfa_eng/topics_665678/ceupp_665916/t27708.shtml).
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- <sup>25</sup> See [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_2250](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2250); and <https://ec.europa.eu/digital-single-market/en/digital-services-act-package>.
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