

POLICY BRIEF

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The coming of age of the EU strategic thinking on Asia.

Part 1: from the fascination for China's potential to disenchanted realism.¹

Valérie Niquet

Relations between Europe and China are at the same time very dynamic and increasingly frustrating. A source of hope and disappointment for Europe, they remain very asymmetrical between two entirely different entities. On one side is a centralized, authoritarian state with a single-party political system whose primary objective is not to open up but to survive and avoid the fate of the former Soviet Union; on the other, a group of 28 (soon 27) states that share fundamental common values, but are also subject to tensions and whose ability to act is limited by institutions and interests that are not always convergent.

Major partners

However, despite these discrepancies, the EU and China are major partners. At the trade level, which remains the chief prerogative of the EU, EU-China trade reached 473 billion euros in 2017. The EU collectively is China's largest trading partner, and its importance can only increase to counter the effects of the trade war with the United States, while China is the EU's second largest trading partner, by far the first in Asia. At the latest EU China Summit in July 2018, EU Commission President Jean-Claude Juncker focused on economic issues at length while calling for deepening the overall strategic partnership.

At the institutional level, EU-China relations go back to 1975, sustained by more than 60 dialogue formats, including annual summits, on diversified issues from trade and investment to human rights and legal affairs. In 2003, the EU and China set up a "strategic partnership" that is still relevant today. Still, the EU now calls for

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¹ That paper will be followed by a second one focusing on the new EU strategy towards Japan.

strengthening its security cooperation with all of its partners in Asia, including but not limited to China. In 2015, the European Parliament adopted a document defining the EU’s China strategy. This paper has been revised in 2018 to express stronger doubts about China’s ability to truly integrate into the liberal democratic international order.

However, despite these differences, Frederica Mogherini, in charge of the EU’s external strategy, declared in 2018 at the European Parliament that the EU and China were two “global powers.” Indeed, for the EU, the partnership with China, a global superpower, can only consolidate its status. As a consequence, a strategy of engagement with China remains essential, despite “fundamental disagreements.”

These contradictions regarding expectations and reality can be found on many issues where the EU and China both cooperate and diverge on fundamental motivations.

Navigating the complexities of OBOR

A first example is the “One Belt One Road” Initiative (OBOR or BRI), at the crossroads of the economic and the strategic, mutual benefit and outward influence.

President Xi Jinping launched the project in 2013 with a double dimension, a land route that connects China to Europe via Central Asia, and a maritime route that passes through Southeast Asia and the Indian Ocean. This project, vital for China’s image and strategy of influence in an increasingly tense relationship with the United States, was supported by pledges of huge investments from China, with references to “connectivity” and mutual benefits.

In that context, for China, the support of the EU politically and financially is critical. China’s strategy is to use the “OBOR” label for projects funded by the EU and establish

synergies between the Chinese Silk Road Fund and the European Investment Fund, playing on the potential for cooperation offered by the development of infrastructure.

A memorandum of understanding was signed in 2018 for the first China-EU co-investment fund. The EU, like Japan, is not averse to taking advantage of the opportunities offered by OBOR. However, these projects also highlight strong divisions, between a more cautious “Western Europe” and “Eastern and Southern Europe”, much more attracted by Chinese investments and discourse.

Beijing has been playing on these divisions in order to advance its own agenda. In 2015, at the Suzhou summit, Chinese leaders invited the Central and Eastern European countries, most of them members of the European Union, to go aboard, literally and figuratively, “the high-speed trains built by China” and fully endorse China’s projects. These 16 + 1 summits bring together 15 countries from Central and Eastern Europe, whether they are members of the EU or not, plus China, and contribute to divisions among the EU member states.

As well, after the 2008 financial crisis, Beijing moved closer to states like Greece or Portugal, with massive investments in maritime infrastructure, ports, and energy. The objective was also to try to influence the vote of these EU member states on issues of interest to China.

EU-China collaboration in Africa: room for cooperation and strong divergences

For the EU, confronted with a migrant crisis and direct risks related to terrorism in the Sahel region, Africa is a major strategic issue, even though not every member state is aware of it. After the end of the Cold War, Europe tended to lose interest in Africa and rush to Asia, which offered the double advantage of great economic dynamism and the absence of a complicated colonial past.

China, on the other hand, relaunched its African policy in the 1990s, both for political and strategic reasons, playing on the commonalities between authoritarian regimes and the rejection of “external interferences”, but also for economic reasons: access to new markets, and raw materials and commodities vital for China’s high investment growth. As a result, and at the risk of co-dependency and imbalance, Africa has collectively experienced a growth rate of over 5%, driven mainly by Chinese demand.

In that context, the theme of China-EU cooperation in Africa has emerged in recent years around ideas related to development goals and global governance. However, behind these principles, the reality is much more complex.

For the EU, investments in Africa should respect the objectives of sustainable development, promote peace and stability, and contribute to improving human rights. All these principles are shared with like-minded countries such as Japan, which held the first TICAD conference in 1993.

China’s attachment to these principles is less marked, even if Beijing’s policy towards the most problematic regimes on the African continent is more cautious. The PRC remains the largest arms supplier to the African continent, counting small arms that fuel the most disruptive manifestations of instability in the region including terrorism. For the PRC, non-interference in matters concerning the nature of political regimes and human rights remains the primary principle except on the question of Taiwan. At another level, business practices and the attribution of “development aid” lack transparency. Consequently, and considering the direct interests of the EU regarding long-term stability, China’s strategy in Africa tends to increase more than reduce the risks of disruption in Africa.

Opportunities, common interests, and imbalances: EU-China trade and investment

Trade and investment is the core of the EU-China relationship. On that point, since Donald Trump came to power and launched an indiscriminate multi-targeted trade war against both potential adversaries and allies, room for improvement has increased between China and the EU. The PRC is working to consolidate a united front against protectionism with the EU and with Japan. As a consequence, after a prolonged period of delaying tactics, a working group on the WTO (World Trade Organization) was set up in July 2018 between the EU and China to make progress on reforms, and to better take into account China’s trade practices since it joined the WTO in 2001.

However, despite these convergences of interest, and Donald Trump’s perceived incoherence, the EU shares many concerns with the US over China’s economic practices.

Like with the US, EU-China trade relations are extremely asymmetrical, with a large deficit on the EU side. Even countries like Germany, one of the few beneficiaries of trade with China, and never in favor of strengthening trade controls with the PRC, are worried. For the EU, expectations concerning reciprocity tend to surpass the more traditional stress on opportunities.

Increasingly, like the United States, the EU criticizes Beijing’s dumping practices, compulsory technology transfers, limited access to the Chinese market, and non-compliance with intellectual property rights. Every year, the report of the EU Chamber of Commerce and Industry in China is more pessimistic about the profits of European companies based in China. As a result, the EU has not yet granted China the status of a market economy and restrictions have been upheld after the WTO 2016 deadline.

Above all, the EU’s position on Chinese

investments has changed towards increased controls and more caution.

Of course, the principle of welcoming Chinese investments is not questioned. Actually, when looking at numbers, Chinese investments in Europe tend to increase as they dry up in the United States. In 2018, China's FDI in Europe was 9 times higher than in the United States.

Indeed, for years, Chinese investments have appeared to Europeans as opportunities to be encouraged. It was notably the position of former Prime Minister Manuel Valls, who powerfully stressed France's welcome to more Chinese investments in all sectors.

However, since then, the attitude at the EU level has been more suspicious and closer to that of the United States. Whereas attachment to free trade as well as the attraction to Chinese investments was the rule, in 2017, in a move very different from traditional EU policy towards China, the Commission proposed new regulations to increase screening procedures for foreign investments and facilitate coordination between the Commission recommendations and member states. This is a very significant evolution that will also need coordination with other countries sharing the same concerns, like Japan.

The evolving content of the EU-China strategic partnership

Officially, the EU and China "strategic partnership", in place since 2003, needs to be deepened. During her latest speech on China in front of the European Parliament, Commissioner Moreghini stressed the positive elements that make up this partnership.

Climate change, a consensual topic, comes first, in regard to which China has made multiple declarations of support and specific commitments. Indeed, greenhouse gas emissions in China have declined faster

than expected due to slower economic growth. However, coal still represents 70% of China's energy mix, and the construction of new coal power plants in neighboring countries like Cambodia is a major component of Chinese investments in OBOR projects and outsourcing strategy.

The second element of the strategic partnership is multilateralism, as opposed to the populism and unilateralism of the United States under President Trump. However, in trade as well as in more strategic areas, China, along with its increasing power to act, is also behaving in a very "one-sided" way. In Asia, the PRC's strategy has never been in favor of the emergence of new power poles such as Japan or India. Moreover, Beijing's renewed interest in the EU is relative to its capacity to balance the United States, serving the PRC's strategic interests primarily.

Regarding the assessment of direct threats, China and Europe do share, in principle, common interests. The will to achieve the denuclearization of the Korean peninsula is often mentioned, but the American initiatives, despite their lack of results since the Trump-Kim Singapore summit in June 2018, highlight the marginalization of the EU, and even China, on this subject. For the EU, aligning with China, whose chief objective is to gain time and preserve the status quo on the Korean peninsula and in the region, does not serve its interests. Last but not least, the EU is divided on the subject, between France's very firm position on the issue of a complete and verifiable denuclearization of North Korea, a position shared in Asia by Japan, and the rest of the EU, less committed to that position.

The question of Ukraine and the annexation of Crimea is also mentioned. On these issues, China undoubtedly shares European positions (it is hostile to foreign interference and annexation and has not supported Russia on this issue), but Beijing also needs to support its own strategic

partnership with Moscow, another basis of its hedging strategy against the United States. On this, a possible evolution of the EU's Russian strategy could bring Chinese and European positions closer on the issue of sanctions.

Similarly, the EU and China share the same reluctance to question the Iran nuclear deal and the sanctions imposed by the United States.

Accordingly, there are commonalities between the EU and China on strategic affairs, more on general principles than on practicalities, however. Nevertheless, the question of standards and respect for the democratic or liberal international order and the question of human rights and norms are paramount and remain a critical stumbling block in the establishment of a coherent strategic partnership between the EU and the PRC.

Initially, the objective of the EU in "integrating China," mentioned in its China policy white papers, was to lead to a gradual transformation and normalization of China's political regime and a "peaceful evolution" that, for the PRC, precisely represents a threat.

Since taking office in 2013, Xi Jinping, has, on the contrary, multiplied the signals of increased ideological control. Concerning external strategy, putting aside an apparent disposition to improve relations with Japan, a major ally of the US in the region, a more assertive policy

did prevail, in the South and East China Seas, at the latest APEC meeting in November 2018, in ASEAN and concerning Taiwan.

At the 19th Congress of the Chinese Communist Party in 2017, Xi Jinping did mention a more ambitious "new era," based on the development of military capabilities that could make China a power fit to fight wars. On the issue of human rights, as Commissioner Mogherini pointed out, things are far from improving. Since Xi Jinping came to power, hundreds of lawyers have been arrested. In Xinjiang, in the name of the fight against terrorism but based on very different principles from those of the EU, China has put in place a strategy of severe repression leading to more instability.

These divergences were all the more visible in 2016, when the PRC vehemently rejected the findings and legitimacy of the International arbitration tribunal in The Hague, in favor of the Philippines' claims against the PRC's policy of encroachment in the South China Sea.

In all this, the PRC's policy is in direct contradiction to the fundamental values on which the EU has been built. That can only limit the scope of cooperation, and indeed increase the feelings of frustration on both sides. These fundamental differences are also at the root of the diversification of its Asia policy that the EU is trying to implement towards new partners.