



## EU'S Paradigm Shift towards the Rise of China

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## EU'S PARADIGM SHIFT TOWARDS THE RISE OF CHINA

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### ABSTRACT

This research paper explores how the European Union (EU) has been reacting to the rise of the People's Republic of China (PRC). The paper presents the finding that since 2016 there have been discernible changes in the EU's perception of China and its approach to the country, which is with growing assertiveness and even aggressiveness at times. The EU has been building up more tangible means to withstand the challenges posed by China. The *EU-China – A Strategic Outlook* document published in March 2019 is identified as the moment of the EU's concrete paradigm shift towards Beijing.

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# INTRODUCTION

The rise of the People's Republic of China (PRC) *per se* is not really a concern for the European Union (EU). Instead, it is a sign of an emerging multipolar global system<sup>1</sup> that the EU has been preparing to positively embrace<sup>2</sup> – although Brussels puts more emphasis on multilateralism and Beijing on multipolarity.<sup>3</sup> However, the need for an accurate perception of China and an effective approach to interacting with the increasingly assertive, and sometimes even aggressive<sup>4</sup> Beijing, is one of the EU's top priorities.

To study the changes since 2016 in the EU's perception of the rise of China and its approach to China, this research work focuses on the EU institutions. Sharing non-identical perceptions, interests or positions, the EU's national capitals<sup>5</sup> also play a pivotal role in framing the EU's relations with Beijing. However, this paper concentrates on the level of the EU.

Aside from scholarly and think-tank inputs, this paper incorporates semi-structured interviews conducted in February, May, June and July 2021 for analytical outputs. The interlocutors include officials from the European Commission (EC), the European External Action Service (EEAS), and the Council of the European Union (EU Council), Members of the European Parliament (MEPs), and experts and former EU officials who have closely contributed to the EU's foreign policy decision-making on China and beyond.

This research paper is divided into 3 parts. In Part One, the paper demonstrates the observation that more awareness of the China challenge has emerged in the EU's perception. Part Two presents how the EU has been reinforcing its capabilities to withstand the challenges posed by China through the aspects of the EU's internal coherence and coordination, trade and investment, and technology and security. In Part Three, this research identifies the *EU-China – A Strategic Outlook* in March 2019 as the moment of the EU's concrete paradigm shift towards Beijing.

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1. See, for example, Barry Posen, "Emerging Multipolarity: Why Should We Care?" *Current History*, 108:721, 2009, p. 347–352; Robert H. Wade, "Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF," *Politics & Society*, 39:3, 2011, p. 347–378; Jan Nederveen Pieterse, *Multipolar Globalization: Emerging Economies and Development*, Taylor and Francis, 2017.

2. See, for instance, Josep Borrell, "How to revive multilateralism in a multipolar world?" *A Window on the World – Personal blog by HR/VP Josep Borrell*, March 16, 2021; European Commission. 2021 *Strategic Foresight Report: Enhancing the EU's long-term capacity and freedom to act*, September 8, 2021.

3. See, for example, Charles Grant, *Preparing for the multipolar world: European foreign and security policy in 2020*, London, Centre for European Reform, 2007; Terry Narramore, "China and Europe: engagement, multipolarity and strategy," *The Pacific Review*, 21:1, 2008, p. 87–108; Gustaaf Geeraerts, 2011. "China, the EU, and the New Multipolarity." *European Review*, 19:1, 2011, p. 57–67; David Scott, "EU-China Discourse on Multipolarity and Multilateralism: Mutual Interaction?" *European Foreign Affairs Review*, 19 Special Issue, 2014, p. 19–34.

4. For "wolf warrior diplomacy" as an example of increasing aggressiveness of China, see, for instance, Camille Brugier, *La « diplomatie des loups-guerriers » ou la nouvelle politique de légitimation du Parti Communiste Chinois*, Institut de Recherche Stratégique de l'École Militaire, April 2021. For China's "sharp power" as another example, see Christopher Walker and Jessica Ludwig, "The Meaning of Sharp Power: How Authoritarian States Project Influence," *Foreign Affairs*, November 16, 2017.

5. For the study on EU Member States, see, for instance, Simon Bulmer and Christian Lequesne (eds.), *The Member States of the European Union* (3rd edition), Oxford, Oxford University Press, 2020.

## CHANGE OF PERCEPTION: MORE AWARENESS OF THE CHINA CHALLENGE

China's economic reform and opening-up started at the end of 1978, and China joined the World Trade Organization (WTO) in December 2001. In the decade following Beijing's WTO accession, China was more or less perceived in the EU as a synonym of opportunity: a new market and a promising trade partner. The overall assumption and expectation regarding China shared also by the United States (US) under the then Clinton administration, was that political liberalisation would follow economic liberalisation after integration into the global economic and trade system.<sup>6</sup>

A former EEAS official posted in Beijing asserted that issues related to China barely appeared on the radar screen of EU countries at that time except for France and the United Kingdom (UK) who engaged with the country in the United Nations Security Council.<sup>7</sup> Furthermore, aiming to build closer relations with Beijing, during the 2000s, there were calls from several EU capitals to lift the European Union's arms embargo on China<sup>8</sup> imposed since the 1989 Tiananmen suppression of pro-democracy movements in Beijing.

In the late 2000s and early 2010s, the EU was preoccupied with its own problems related to the European debt crisis. China was even further regarded as a valuable trade and investment partner in solving the financial crisis. In the decade since the Eurozone crisis, Chinese economic power has caught up even more quickly because of the economic stagnation in Europe.

Benefiting from WTO membership,<sup>9</sup> since 2010 China has developed into the second largest economy in the world, overtaking Japan. Xi Jinping received all three official credentials<sup>10</sup> to fully govern the party-state in March 2013. At the start of the Xi era, a former EEAS official posted in Beijing told the author,<sup>11</sup> the EU still anticipated that engaging China would lead to further progress on China's economic and political openness. This is often called the "change through trade" approach.<sup>12</sup>

Xi visited EU institutions in Brussels in March 2014, the first Chinese leader to do so. In parallel, Beijing has also been carrying on its bilateral approach to work with EU Member

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6. See, for example, Heike Holbig and Robert Ash (eds.), *China's Accession to the World Trade Organization: National and International Perspectives*, England, Routledge, 2002; Andrew J. Nathan, "Present at the Stagnation: Is China's Development Stalled?" [Review of *China's Trapped Transition: The Limits of Developmental Autocracy*, by M. Pei], *Foreign Affairs*, 85:4, 2006, p. 177-182.

7. Interview with a former EEAS official posted in Beijing. Online. February 2021.

8. For more information on EU's discussions on lifting arms embargo towards China, see, for example, Nicola Casarini, *Remaking Global Order: The Evolution of Europe-China Relations and Its Implications for East Asia and the United States*, Oxford, Oxford University Press, 2009.

9. François Godement et al., "China, the Reluctant WTO Reformer," *China Trends*, Institut Montaigne, 2019; Stephen Ezell, *False Promises II: The Continuing Gap Between China's WTO Commitments and Its Practices*, Information Technology and Innovation Foundation, 2021; United States Trade Representative, *2020 Report to Congress on China's WTO Compliance*, 2021.

10. General Secretary of the Chinese Communist Party, Chairman of the Central Military Commission, and President of the People's Republic of China.

11. Interview with a former EEAS official posted in Beijing. Online. February 2021.

12. Andreas Fulda, *Germany's China Policy of 'Change Through Trade' Has Failed*, Royal United Services Institute, June 1, 2020.

States, notably through the 16+1 initiative<sup>13</sup> which has regularly been criticised within the EU.<sup>14</sup> During the 19th Chinese Communist Party (CCP) Congress in October 2017, Xi's power was further consolidated by having the "Xi Jinping Thought" enshrined in the CCP constitution. An expert who has been contributing to EU foreign policy decision-making reflected that China did not grow more influential on the world stage in a "teddy-bear fashion"; Beijing's foreign policy has definitely become increasingly assertive.<sup>15</sup>

In the interactions between the EU and China, the level playing field between the two sides has been a serious problem. The European business community increasingly expressed their frustrations with regard to China's slow and unsatisfactory reforms on unfair economic and trade regulations and practices. An EEAS official believes that the 2016 *Elements for a new EU strategy on China* document may be interpreted as the beginning of a gradual shift<sup>16</sup> towards a more realistic and pragmatic stance on the challenges posed by Beijing, especially highlighting the demand for reciprocity in EU-China relations.<sup>17</sup>

At first, the EU tried to tackle these issues with China through the WTO, but changes and results have generally been limited. After two decades of membership, Beijing is still far from honouring the agreed WTO rules, while repeatedly requesting Market Economy Status (MES) from the EU.<sup>18</sup> There has been no real convergence between the WTO model and the Chinese economic model. Furthermore, Xi and the CCP leadership have even exerted more and more control over the private sector in China since September 2020.<sup>19</sup>

A Commission official<sup>20</sup> and an EEAS official<sup>21</sup> both expressed that the EU has observed critical unbalanced economic and trade relations with China<sup>22</sup> in which market access, state subsidies, forced technology transfers, intellectual property rights, CCP units in enterprises, investment targeted at cutting-edge technologies and critical infrastructure, etc are issues of grave concern<sup>23</sup> for the EU.

Moreover, aside from the economic and trade aspect, the EU has gradually become more vocal and responsive with respect to issues arising from the disparate values and systems of governance in its relations with China. An EEAS official stated that the human rights situation in China is deteriorating, and this phenomenon has challenged the EU-China

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13. Formally known as the "Cooperation between China and Central and Eastern European Countries". The 16+1 initiative became 17+1 after Greece joined in April 2019, and returned back to 16+1 with Lithuania's withdrawal in March 2021.

14. See Jonathan E. Hillman and Maesea McCalpin, *Will China's '16+1' Format Divide Europe?* Center for Strategic and International Studies, April 11, 2019.

15. Interview with an expert closely contributing to EU foreign policy decision-making. Online. February 2021.

16. See also Tim Rühlig, "Towards a More Principled European China Policy: Democracy, Human Rights and the Rule of Law in EU-China Relations," *Études de l'Ifri*, Institut français des relations internationales, November 2020.

17. Interview with an EEAS official. Online. July 2021.

18. Laura Puccio, *Granting of Market Economy Status to China: An Analysis of WTO Law and of Selected WTO Members' Policy: in-Depth Analysis*, Brussels, European Parliament, 2015.

19. See Jérôme Doyon, *Influence without Ownership: the Chinese Communist Party Targets the Private Sector*, Institut Montaigne, January 26, 2021.

20. Interview with an EC official. Online. February 2021.

21. Interview with an EEAS official. Online. May 2021.

22. European Commission, *Statement by President von der Leyen at the joint press conference with President Michel, following the EU-China Summit videoconference*, June 22, 2020.

23. See BusinessEurope, *The EU and China – Addressing the systemic challenge*, January 2020.



Human Rights Dialogue (HRD).<sup>24</sup> Another EEAS official also pointed out that the possibility of collaborating with China on human rights issues in international fora – for example, in the United Nations Human Rights Council – has diminished.<sup>25</sup>

EU officials that the author has interviewed<sup>26</sup> often share the insights that, the EU spent these decades developing a more comprehensive and accurate view on the challenges posed by China.<sup>27</sup> The influence of a rising China in Brussels is a gradual process, as is the EU's realisation of this process. The EU and most of its Member States had a cooperation agenda with Beijing rather than a more thorough approach or a sound strategy. Now, by and large, there is an explicit and concrete sentiment of “promise fatigue” towards China in Europe.<sup>28</sup> Even among EU Member States that are part of the 16+1 initiative, there has been deep dissatisfaction towards China with regard to the exaggerated benefits that were portrayed upon joining the 16+1 mechanism.<sup>29</sup>

As highlighted by a senior official of the Council of the EU, Beijing's current leadership aims to reinforce China's ideologies and power projection in world politics.<sup>30</sup> Moreover, two Commission officials stated that the traditional approach to interacting with China was hardly successful.<sup>31</sup> China is a complex counterpart that the EU will need to work with while specifying the differences that clearly exist between the two sides. A former EEAS official posted in Beijing reiterated that the EU needs a realistic perception of China and should take China for what it is – not what the EU hopes it to be.<sup>32</sup>

This research paper observed that officials engaged in EU-China interactions from different EU institutions emphasised that the Union is not opting for decoupling with China. However, they clearly expressed the emergence of a more comprehensive view of the intensifying China challenge,<sup>33</sup> as well as efforts to build up a novel, robust and coherent *modus operandi* to face the challenges posed by China.<sup>34</sup> In this new *modus operandi*, the EU needs

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24. Interview with an EEAS official. Online. May 2021. On interactions on human rights issues between the EU and China, see also Kinzelbach Katrin, *The EU's Human Rights Dialogue with China: Quiet Diplomacy and Its Limits*, London New York, Routledge, 2015.

25. Interview with an EEAS official. Online. July 2021.

26. Interviews with officials from the EC, the EEAS, the EU Council, MEPs, and a former EEAS official. Online. February, May, June and July 2021.

27. With regards to the call for awareness on the issue of “naivety” in EU's relations with China, see for example, Martin Banks, “Josep Borrell: EU has been ‘too naïve’ in its dealings with China,” *The Parliament Magazine*, June 10, 2020; Marc Julienne, “Towards Tougher Bilateral Relations Between EU and China,” *Lettre du Centre Asie* (No. 84), Institut français des relations internationales, September 18, 2020; André Campos and Tiago Almeida, “Juncker: EU has to be ‘less naïve’ with China,” *Euractiv*, May 3, 2021.

28. Interview with an EEAS official. Online. February 2021.

29. See Stuart Lau, “China's Eastern Europe strategy gets the cold shoulder,” *Politico*, February 9, 2021; Andreea Brînză, “How China's 17+1 Became a Zombie Mechanism,” *The Diplomat*, February 10, 2021.

30. Interview with a senior official of the EU Council. Online. February 2021. See also Lutgard Lams, “Examining Strategic Narratives in Chinese Official Discourse Under Xi Jinping,” *Chinese Journal of Political Science*, 23:3, 2018, p. 387–411; Yixiao Zheng, “Rediscovering Continentalism: The New Geographic Foundations of Chinese Power,” *International Politics*, 58:2, 2020, p. 188–222.

31. Interview with 2 EC officials. Online. February 2021.

32. Interview with a former EEAS official posed in Beijing. Online. February 2021. See also François Godement and Abigaël Vasselier, *China at the gates: A new power audit of EU-China relations*, European Council on Foreign Relations, December 1, 2017.

33. Marc Julienne, “L'Europe dans la stratégie chinoise,” in Thierry de Montbrial and Dominique David (eds.), *RAMSES 2021: Le grand basculement?*, Paris, Dunod, p. 130-133.

34. François Godement and Gudrun Wacker, *France and Germany Together: Promoting a European China Policy*, Institut Montaigne, 2020.

to focus on the delivery of promises from China, and to have concrete tools at its disposal to proactively defend itself from Beijing's behaviours that might undermine the interests or values of the Union.

## CHANGE OF APPROACH: POLISHING COHERENCE AND REINFORCING CAPABILITIES TO WITHSTAND THE CHINA CHALLENGE

The EU, together with its Member States, have undergone a gradual process of reassessment concerning their interactions with Beijing.<sup>35</sup> There has been a gradual but noticeable consolidation in the EU's assessment of the China challenge since 2019.<sup>36</sup> This paper illustrates changes in the EU's approach to face the challenges posed by China through three aspects: the Union's internal *démarches*, economy and trade, and technology and security. The commonality of these three aspects is to prepare the EU-as-a-whole with the capacity to withstand challenges posed by China in a constructive manner when the Union's values or interests are negatively impacted.

### The EU's Internal *Démarches*

The EU as a *sui generis* multi-level polity contrasts significantly with the CCP-centralised leadership and policy-making design of the PRC.<sup>37</sup> Aside from adjusting the external dimension of its approach to China, the EU has its own internal homework to do. Coherence among various actors in the EU ecosystem, which is often studied in the scholarship of the EU's foreign policy,<sup>38</sup> is one of the biggest and most important assignments.

According to the analyses of an expert who has been closely contributing to the EU's foreign policy decision-making, the EU has been re-thinking and re-building its identity, interests and actorness in response to the fast-changing global politics in the second half of 2010s. The EU has also been in the process of formulating a more coherent and robust

35. See Andrew Small, *The meaning of systemic rivalry: Europe and China beyond the pandemic*, European Council on Foreign Relations, May 13, 2020.

36. This is a shared observation depicted by interlocutors from the Commission, the EEAS, the EU Council, and MEPs during online interviews in February, May, June and July 2021. See also Janka Oertel, *The new China consensus: How Europe is growing wary of Beijing*, European Council on Foreign Relations, September 7, 2020.

37. See Earl Wang, "How Will the EU Answer China's Turn Toward 'Xi Jinping Thought on Diplomacy'?" *The Diplomat*, July 30, 2020.

38. On topics related to coherence or consistency, see, for example, Reuben Wong and Hill Christopher (eds.), *National and European Foreign Policies: Towards Europeanization*, New York, Routledge, 2011; Mario Telò and Ponjaert Frederik, *The EU's Foreign Policy: What Kind of Power and Diplomatic Action?* Farnham Burlington, Ashgate, 2013; Stephan Keukeleire and Tom Delreux, *The Foreign Policy of the European Union*, Basingstoke, Palgrave Macmillan, 2014; Laura Chappell, Jocelyn Mawdsley, and Petar Petrov, "Uncovering EU strategy in its security policy: An (in) coherent actor?" in Laura Chappell, Jocelyn Mawdsley, and Petar Petrov (eds.), *The EU, Strategy and Security Policy: Regional and Strategic Challenges*, Abingdon, Taylor and Francis, 2016, p. 202-216; Carmen Gebhard, "Coherence." in Christopher Hill, Michael Smith and Sophie Vanhoonacker (eds.), *International Relations and the European Union* (3rd ed.), Oxford, Oxford University Press, 2017, p. 101-127.

policy on China.<sup>39</sup> Examples of these exercises may be seen in *Elements for a new EU strategy on China* and *A Global Strategy for the European Union's Foreign and Security Policy* in 2016, *Connecting Europe and Asia – Building blocks for an EU Strategy* in 2018, *EU-China – A Strategic Outlook* and *Screening framework of foreign direct investments into the Union* in 2019, *Cybersecurity of 5G networks – EU Toolbox of risk mitigating measures*, *White Paper on levelling the playing field as regards foreign subsidies* and *EU Global Human Rights Sanctions Regime*<sup>40</sup> in 2020, and *A Globally Connected Europe* and *The EU strategy for cooperation in the Indo-Pacific* in 2021. Although many of the above-mentioned policy documents or instruments were not prepared in response to China exclusively, China is among the chief reasons.

Furthermore, the EU needs to make Beijing know that it is an EU-as-a-whole position that needs to be taken into account in China's foreign policy decision-making process. Officials from both the Commission and the EEAS shared their experience and observation that China prefers bilateral interactions and tends to perceive certain Member States as the “boss” of the EU.<sup>41</sup> The visits of Xi Jinping and Li Keqiang – Premier of China – to Europe prioritise national capitals especially Berlin, Paris and London over EU institutions in Brussels. Furthermore, Germany is most often pointed out as Beijing's preferred interlocutor. An EEAS official indicated that Angela Merkel's announcement of her departure from the Chancellery in October 2018 worried Beijing, and that since then, Beijing has also started to focus on French President Emmanuel Macron.<sup>42</sup>

Based on the inputs from officials of different EU institutions, there have been endeavours within the EU to enhance coordination and cooperation for an EU-as-a whole approach to China<sup>43</sup>: First, there have been meetings of the private offices of all Commissioners with external policy-related portfolios to coordinate and prepare for the weekly College meetings at the European Commission. Second, the “China Strategy Group” and “China Country Team Meeting” at the level of Directorate-Generals (DG) of the Commission have also taken place. Third, in collaboration with Member States, the Asia-Oceania Working Party of the EU Council (COASI) and the Ambassadors of the EU and national capitals in Beijing are also intensifying their important function of coordinating a more unified and coherent approach to China. Fourth, even though the European Parliament (EP) is more powerful in economic and trade issues than in foreign and security policy areas, it has also been actively engaged in providing opinions and pushing for an EU approach to face the rising China: the International Trade Committee (INTA), the Foreign Affairs Committee (AFET) – with the Subcommittee on Human Rights (DROI) and the Subcommittee on Security and Defence (SEDE) – and the Delegation for relations with China (D-CN) are particularly involved in the EU policy on China.

39. Interview with an expert who has been closely contributing to the EU's foreign policy decision-making. Online. February 2021.

40. EU Council, *Council Regulation 2020/1998 concerning restrictive measures against serious human rights violations and abuses*, December 7, 2020.

41. Interviews with EC and EEAS officials. Online. February and May 2021.

42. Interview with an EEAS official. Online. February 2021.

43. Interviews with officials from the EC, the EEAS, the EU Council, MEPs, and a former EEAS official. Online. February, May, June and July 2021.



In the following paragraphs, this paper presents in greater detail the observation of officials from various EU institutions regarding the changes in the Union's internal coherence and coordination on issues related to China. These institutions include the EU Council, the European External Action Service, the European Commission, and the European Parliament.

For the EU Council, there has been a clear shift in the approach to China. A senior EU Council official explained that in the early 2010s, the Council was preoccupied with internal economic and financial issues, and topics related to China have only started to appear on the list of critical issues in the past 2-3 years. The official also observed that Beijing has challenged the EU in various aspects, and thus, the EU has been working on two main tasks: First, to formulate a united and coherent way – in both positions and actions – to face the China challenge; Second, to be quicker and more responsive when decisions are needed in response to Beijing. The Council – especially the Committee of Permanent Representatives (COREPER) – has become active in discussing issues related to China. The role of COREPER has grown more central in preparing for the EU summits of the heads of state and government in addition to the traditional task regarding Foreign Affairs Council (FAC) meetings. The COREPER has also become more systemic in conducting follow-up on reviewing China's concrete achievements in interactions with the EU.<sup>44</sup>

From the point of view of EEAS officials,<sup>45</sup> it was observed that the issue of unity among Member States vis-à-vis China has been greatly improved since 2019. This has been the joint effort between various EU institutions and national capitals. It can be noticed that since spring 2019, Germany and France have demonstrated greater willingness to have a more EU-as-a-whole approach in their respective bilateral relations with Beijing. When President Macron invited Chancellor Merkel and then-President of the European Commission Jean-Claude Juncker to join the formal talks with President Xi during the latter's state visit to France in March 2019, it demonstrated dedication to an EU-as-a-whole approach to interacting with China.

As for insights from Commission officials,<sup>46</sup> a gradual convergence and mainstream consensus on China is emerging. There have been enhanced efforts among EU institutions' political level concerning coordination on Chinese issues. Within the Commission, DGs interact much more closely with respect to topics on China. China-related issues very regularly go through inter-service consultations among departments or administrative agencies. Officials from the Commission also reiterated the importance and the progress made on coordination and cooperation between Brussels and national capitals. This is because even in the policy areas of the EU's exclusive competence, EU institutions would need to work with Member States when it comes to implementation. Therefore, Brussels did work a lot on engaging national capitals through various formats aiming to coordinate an EU-as-a-whole approach towards Beijing.

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44. Interview with a senior EU Council official. Online. February 2021.

45. Interviews with 4 EEAS officials. Online. February and May 2021.

46. Interviews with 3 EC officials from different departments/administrative agencies. Online. February 2021.

As regards the European Parliament, this EU institution has been vocal in its concerns on challenges posed by China, from economy and trade, to technology and security, to democracy, human rights and rule of law. Two MEPs who have been closely engaged in the EU's relations with China noted that the positions of different party groups in the EP have increasingly converged when it comes to China-related issues. The EP has also provided inputs on formulating the EU's response to the China challenge by passing resolutions.<sup>47</sup> Recent ones in 2021 include, for instance, the resolution on a new EU-China strategy in September, the one on Chinese countersanctions on EU entities and MEPs and MPs in May, on the crackdown on the democratic opposition in Hong Kong and on connectivity and EU-Asia relations in January. However, it is also a fact that the EP's legislative resolutions are not directly translated into executive policies of the Commission or EEAS. The phenomenon is even more obvious in areas like foreign policy that do not fall under the EU exclusive competence. Moreover, MEPs have emphasised that the EU shall further enhance unity among Member States and contribute to a multilateral approach with global democracies in order to respond to aggressive gestures from the rising China challenge.<sup>48</sup> The message to China will thus be: if Beijing threatens one EU national capital or a member of the global democratic alliance, others will join to push back.

## Economy and Trade

Trade is the policy area over which the EU has exclusive competence. Many economic issues are under the Union's full competence but exceptions include subjects related to portfolio investment, investor-state dispute settlement, etc which are a shared competence between the EU and the Member States.<sup>49</sup> It is beyond the scope of this research paper to tackle the discussion on EU competences on economy and trade,<sup>50</sup> it instead focuses on the insights from different EU institutions on how the Union has been adjusting its approach to economic and trade relations with China.

24 out of 27 EU Member States face different levels of serious trade deficits with China. The only three Member States that enjoy a positive trade balance with China are Germany, Ireland and Finland. The top five national capitals that have trade deficits with Beijing are: The Hague, Warsaw, Rome, Paris and Madrid.<sup>51</sup>

Member States realised more and more clearly that none of them alone is able to tackle the challenges of unbalanced trade and investment relations with China. EU officials and MEPs observed that this realisation has contributed to the formation of an EU-as-a-whole

47. Interviews with 2 MEPs closely engaged in EU's relations with China. Online. February and June 2021.

48. *Ibid.*

49. See Court of Justice of the European Union, *Opinion 2/15*, 2017.

50. For more information on this subject, see for example: European Parliament, *EU investment protection after the ECJ opinion on Singapore: Questions of competence and coherence*, 2019.

51. See Eurostat (ext\_st\_eu27\_2020site) and Comext DS-018995.

approach to China.<sup>52</sup> Starting in 2019, one may observe several concrete changes in the approach to trade and investment of the EU towards China.

To start with, the Federation of German Industries (BDI) has identified the many economic- and trade-related challenges China poses to Germany and the EU as a whole. BDI depicted China as not only a partner but also a “systemic competitor” in its policy paper in January 2019.<sup>53</sup> The state-controlled policies and practices of the Chinese economy – aside from politics – are in direct competition with the EU’s liberal economic model, and thus require EU actions to address the challenges. The BDI’s position had a clear implication for the joint document *EU-China – A Strategic Outlook* later in March, identifying China as a partner, an economic competitor and a systemic rival.

The new phenomenon that caught the attention of officials of EU institutions and MEPs is that the German private sector made this move.<sup>54</sup> Amongst EU Member States, Germany has the closest trade and investment interactions with China and is the top, and one of the very few, countries that enjoys a trade surplus. German businesses clearly notice the lack of level playing field in relations with China that has occurred since China’s WTO accession 20 years ago. There is a need to rebalance the economic and trade relations – among other policy areas – with Beijing, efficiently and effectively. An MEP who has been closely engaged in the EU’s relations with China pointed out that a more EU-as-a-whole approach has surfaced following Beijing’s ambition to move up the value chain – from labour- to technology-intensive – while practicing unfair trade and investment behaviours. With China catching up German industrial capacities and even replacing Berlin in the mid- to long-term, the German private sector was prompted to push for a more economic and political EU approach in tackling the challenges posed by the rising China that has maintained a state-led or state-controlled economy.<sup>55</sup>

Another concrete example of changes in approach is the EU’s foreign direct investment (FDI) screening mechanism. This regulation was adopted in March 2019 and became fully operational in October 2020. Member States have the duty to set up national mechanisms to examine FDI cases that might have a negative influence on the Union, and to inform Brussels about screenings that they have conducted. Brussels and national capitals may then state concerns about these cases. Member States remain the final decision-makers on foreign investment items, but they need to sufficiently contemplate the concerns indicated by other Member States or the Commission. So far, 18 national capitals – 23 are expected before the end of 2021 – have implemented such an EU regulation and have established a national mechanism for examining foreign investment.<sup>56</sup>

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52. Interviews with officials from the EC, the EEAS, the EU Council, and MEPs. Online. February, May, June and July 2021.

53. Federation of German Industries (BDI). *Partner and Systemic Competitor – How Do We Deal with China’s State-Controlled Economy?* January 2019.

54. Interviews with officials from the EC, the EEAS, the EU Council, and MEPs. Online. February, May, June and July 2021.

55. Interview with an MEP closely engaged in EU’s relations with China. Online. February 2021. See also Heather A. Conley and Bonnie S. Glaser, *Complicated but Necessary: A Transatlantic Policy Approach toward China*, Center for Strategic and International Studies, October 5, 2020.

56. For more information about the most recent assessment on the implementation of EU’s FDI screening mechanism, see Mathieu Duchâtel, *The New Landscape of Investment Screening in Europe*, Institut Montaigne, June 21, 2021.

The EU has had defensive trade measures against unfair trade practices. Among all anti-dumping cases of the EU, a clear majority pertain to China.<sup>57</sup> However, the EU can only counter state aid by Member States and not from foreign governments. With Beijing being one of the top foreign capitals practicing such behaviours in trade, the EU is currently putting in place a new anti-foreign subsidy mechanism.<sup>58</sup> Furthermore, the Union and its Member States have also been negotiating a new EU international procurement instrument (IPI) which aims to equip the EU with capabilities to seek reciprocity in foreign procurement markets. Concretely, the IPI will allow the EU to investigate, consult, disadvantage and even exclude bidders from foreign countries should there be an unfair playing field with the EU.<sup>59</sup> The progress on this Instrument has been slow since its initiation in 2012 and a revised version in 2016, but it has regained momentum under the Portuguese Council presidency in the first half of 2021.

Analyses that pointed out the unbalanced economic relationship between the EU and China already existed in the EU's *Elements for a new EU strategy on China* of 2016. An EEAS official pointed out that this document aimed to revise the past EU policy documents towards China that contained rather outdated assumptions about an increasingly open Chinese economy. The EU's progress on building up abilities to address economic and trade challenges accelerated and went further after 2016.<sup>60</sup> The new mechanisms that the EU put in place do not target China specifically, but it is also true that Beijing serves as one of the chief reasons that the Union has pushed for these responses.

## Technology and Security

The domain of technology and security has become closely intertwined with economy and trade. At the same time, this policy area has more frequently come under the spotlight of public debates in recent years in EU-China relations.

Officials from EU institutions have noticed that past EU defensive trade instruments such as anti-dumping and anti-subsidy measures are increasingly ineffective in defending themselves; Beijing is becoming more aggressive and strategic about acquiring technological know-how and critical infrastructure of Europe<sup>61</sup> – in addition to those of the US and other technologically advanced countries in East Asia. This kind of Chinese involvement takes place both on the soil of China and the EU.

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57. Interviews with officials from EC and EEAS. Online. February and May 2021. See also European Commission, *Annual Report from the Commission to the European Parliament and the Council on the EU's Anti-Dumping, Anti-Subsidy and Safeguard activities and the Use of Trade Defence Instruments by Third Countries targeting the EU in 2020*, August 30, 2021.

58. See European Commission, *Proposal for a regulation on foreign subsidies distorting the internal market*, May 5, 2021.

59. See Jana Titievskaja, "EU international procurement instrument," *EU Legislation in Progress*, European Parliamentary Research Service, October 2021.

60. Interview with an EEAS official. Online. July 2021.

61. Interviews with officials from the EC, the EEAS, and the EU Council. Online. February and May 2021. See also Wiebke Rabe and Olivia Gippner, "Perceptions of China's Outward Foreign Direct Investment in European Critical Infrastructure and Strategic Industries," *International Politics*, 54:4, 2017, p. 468–486.

Foreign companies in China have faced forced technological transfer and theft of intellectual property. These companies often have to provide advanced technological know-how to China in order to get access to the Chinese market. Demands for forced transfer of know-how are higher on cutting-edge technologies.<sup>62</sup> According to the *Business Confidence Survey 2021* published by the European Chamber of Commerce in China,<sup>63</sup> even though the Chinese Foreign Investment Law has been in force for more than a year, the percentage of European enterprises operating in China that reported receiving demands of compelled technology transfer has not changed. In Article 22 of Chapter III on Investment Protection of the Foreign Investment Law of China,<sup>64</sup> it reads “No administrative department or its staff member shall force any transfer of technology by administrative means.”

With the successful Chinese purchase of *KUKA*, a leading German company in robotics,<sup>65</sup> as an example, the EU has grown more vigilant concerning Chinese investment targeting advanced technologies on the EU soil. Beijing aims to climb up the industrial ladder through its Made in China 2025 (MIC 2025) strategy launched in May 2015.<sup>66</sup> Moreover, Chinese interests in investing in European critical infrastructures have been the subject of heated public debates in the past 4 to 5 years, with Huawei’s engagement in European 5G facilities<sup>67</sup> as the most prominent one. Linking back to the discussions on economy and trade in the previous section, the EU responded to the Chinese strategic attempts to get involved in European technological industries and infrastructure by setting up the FDI screening mechanism.

As a Commission official who has good knowledge of the issue commented, this FDI screening mechanism is an important milestone for the EU.<sup>68</sup> The first reason is that the EU made a direct link between economic and security aspects, and accomplished this screening mechanism through the Union’s competence on trade and investment. The second reason is that the EU and its Member States managed to find consensus in a relatively efficient manner with regard to a novel instrument of the EU. Even though not targeting Beijing exclusively, the EU aims to be equipped with the capacity, if needed, to protect its critical infrastructure and technologies when the actions of foreign investors have implications for the security of the Union.<sup>69</sup>

On the 5G topic, even though the EU-as-a-whole is not yet fully aligned on the same position, there has been better and greater coherence in this area.<sup>70</sup> Since it is not a policy

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62. For more information on forced technological transfers in China, see, for example, Don Weinland, “European companies forced to hand tech to China,” *Financial Times*, May 20, 2019; Julie Wernau, “Forced Tech Transfers Are on the Rise in China, European Firms Say,” *The Wall Street Journal*, May 20, 2019.

63. European Union Chamber of Commerce in China, *European Business in China Business Confidence Survey 2021*, June 8, 2021.

64. See National Development and Reform Commission of the People’s Republic of China, *Foreign Investment Law of the People’s Republic of China*, March 15, 2019.

65. For more information, see Arthur Sullivan, “Changes at German robotics firm Kuka raise questions over Chinese intentions,” *Deutsche Welle*, November 26, 2018.

66. For more information on MIC 2025, see, for example, European Union Chamber of Commerce in China, *China Manufacturing 2025: Putting Industrial Policy Ahead of Market Force*, March 7, 2017.

67. See Mathieu Duchâtel and François Godement, *Europe and 5G: the Huawei Case*, Institut Montaigne, June 2019.

68. Interview with an EC official. Online. February 2021.

69. For more information on the link between security and technology, see, for example, Pierre Haroche, *Is Europe ready for a bipolar world?* Institut de Recherche Stratégique de l’École Militaire, January 30, 2020.

70. Interview with an EU Council official and an EEAS official. Online. February 2021.



area of the EU's exclusive competence, the European Commission came up with policy recommendations to Member States by introducing a 5G security toolbox in which national capitals were invited to conduct risk assessments and to coordinate with EU institutions on 5G policy. The document entitled *Cybersecurity of 5G networks – EU Toolbox of risk-mitigating measures* was endorsed by the European Commission and Member States through the European Union Agency for Cybersecurity in January 2020.

Another item that may be introduced is the EU's policy on connectivity, in which aspects of economy and trade, and technology and security are also inter-linked.<sup>71</sup> The EU's more official beginning of the concept of "connectivity" may be dated back to the *EU's Strategy on Connecting Europe and Asia* proposed in September 2018<sup>72</sup> and the Asia-Europe Meeting (ASEM) that followed in October of the same year.<sup>73</sup> The 2018 ASEM summit welcomed the definition of "connectivity" by the ASEM Foreign Ministers meeting in November 2017.<sup>74</sup>

There are 4 pillars in the EU's connectivity strategy: cross-border digital, transport, energy and human links. The EU's approach to connectivity was most recently stated in the Council conclusions in July 2021<sup>75</sup> and the joint communication by the Commission and the High Representative in December 2021.<sup>76</sup> In these documents, the EU affirmed that the connectivity strategy has implications for the Union's economic, security and strategic interests – among others.

EU officials interviewed<sup>77</sup> usually introduced the motive for this connectivity strategy as internally driven following evaluation of the need and aspiration to cooperate with neighbours. Of course, there are various projects related to the concept of connectivity around the world apart from the Chinese Belt and Road Initiative (BRI) launched in 2013.<sup>78</sup> We may cite the US' Blue Dot Network, Japan's Free and Open Indo-Pacific Strategy, Taiwan's New Southbound Policy, South Korea's New Northern Policy and New Southern Policy, the Indo-Pacific strategies of France, Germany and the Netherlands, etc as examples.

At the same time, these officials also pointed out that China's BRI indeed called for an efficient and effective EU response to the topic of connectivity with significant geopolitical consequences. The EU aims to take part in the issue of connectivity on the basis of

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71. See Ian Anthony, Jiayi Zhou and Fei Su, "EU Security Perspectives in an Era of Connectivity: Implications for Relations with China," *SIPRI Insights Paper*, Stockholm International Peace Research Institute, February 2020.

72. See European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *Connecting Europe and Asia – Building blocks for an EU Strategy*, September 19, 2018. Later on October 15, 2018, the Council adopted conclusions on such strategy.

73. Interviews with an EEAS official with knowledge on EU's connectivity strategy. Online. February 2021. See also European Council, "Global Partners for Global Challenges" – *ASEM 12 Chair's Statement*, October 19, 2018.

74. EU Council, *ASEM 13th Foreign Ministers meeting: Chair's Statement*, November 21, 2017.

75. Council of the EU, *Council Conclusions – A Globally Connected Europe*, July 12, 2021.

76. European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – The Global Gateway*, December 1, 2021.

77. Interviews with EC and EEAS officials with knowledge on EU's connectivity strategy. Online. February 2021.

78. For information about the Belt and Road Initiative (BRI), see National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China (with State Council authorization), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, March 30, 2015.

2 overarching principles: sustainability and a rules-based or values-based approach. It is obvious that these are the two serious concerns of the EU vis-à-vis the Chinese BRI project.<sup>79</sup>

## THE MOMENT OF CONCRETE PARADIGM SHIFT: THE EU-CHINA – A STRATEGIC OUTLOOK DOCUMENT

The *EU-China – A Strategic Outlook* was published as a joint communication by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (HRVP) in March 2019. The approach to interaction with Beijing suggested in this strategic communication was endorsed by the 27 EU heads of state or government 19 months later.<sup>80</sup> Therefore, it is legitimate to identify the content of the March 2019 document as the most up-to-date EU-as-a-whole approach to China.

Officials from different EU institutions that the author has talked to all shed light on the specificities of the document and reiterated the strategic importance of this document in guiding the EU's new way forward in facing a more assertive China.<sup>81</sup> The 2019 joint communication is a breakthrough for the EU because of its efficient drafting process and the nature of the document's content.<sup>82</sup>

Indeed, the process of the drafting of the document, was very efficient. *From self-doubt to self-assurance: The EEAS as the indispensable support for an effective foreign policy* co-published by the Centre for European Policy Studies (CEPS), Friedrich-Ebert-Stiftung (FES), and the Swedish Institute for European Policy Studies (SIEPS) in January 2021 made an insightful illustration on the drafting process of the *EU-China – A Strategic Outlook*.

[T]he 'Strategic outlook on China' of March 2019 provides an interesting prism in terms of the way in which it was conceived: quickly, in close hold between top Commission, EEAS and some member state officials, based on the ideas provided by the Service's Strategic Planning Division and on situational awareness inputs contributed by SIAC<sup>83</sup>. [...] lessons might be learned from the unorthodox production of this 'outlook' for other strategic documents [...].<sup>84</sup>

Commission and EEAS officials have both expressed that this joint communication demonstrated effective cooperation between the Commission and the EEAS.<sup>85</sup> As for the interactions between Brussels and national capitals, Commission officials indicated that when engaged in the drafting of the March 2019 document, EU institutions had been

79. See, for example, Ian Anthony *et al.*, *China-EU Connectivity in an Era of Geopolitical Competition*, Stockholm International Peace Research Institute, March 2021.

80. European Council, *European Council conclusions on external relations*, October 1, 2020.

81. Interviews with officials from the EC, the EEAS, the EU Council, MEPs, and a former EEAS official. Online. February, May, June and July 2021.

82. Interviews with 4 EEAS officials. Online. February and May 2021.

83. The Single Intelligence Analysis Capacity. The SIAC merges the capacities of civilian (EU Intelligence and Situation Centre; EU INTCEN) and military (Intelligence Directorate of the Military Staff of the European Union; EUMS Intelligence Directorate) intelligence.

84. Centre for European Policy Studies, Friedrich-Ebert-Stiftung, and the Swedish Institute for European Policy Studies, *From self-doubt to self-assurance: The EEAS as the indispensable support for an effective foreign policy*, 2021, p. 23.

85. Interviews with EC and EEAS officials. Online. February and May 2021.

careful to avoid making their positions the centre of gravity, but to incorporate inputs from Member States.<sup>86</sup> Moreover, EEAS officials stated that, as far as they knew, the document had not been contested by any EU Member State.<sup>87</sup> This does not mean that national capitals no longer have different viewpoints on Chinese issues, but rather, that a mainstream consensus among Member States with respect to China became visible.

Concerning the nature of the content, the document is concise and straightforward in pinpointing the 3 facets that China represents for the EU depending on the policy areas concerned: a partner, an economic competitor, and a systemic rival. According to Commission and EEAS officials, indicating that China is concurrently a systemic rival does not mean that the EU aims for confrontation, but rather to point out the factual and fundamental differences between the two contrasting systems of governance. Commission officials expressed that with a mix of the growingly assertive China and the evolving global political environment, the nature of the 2019 document serves as a seed for a political approach to face China. This is in contrast to the more bureaucratic nature of EU's documents concerning China in the past.<sup>88</sup>

This 2019 strategic outlook serves as a new framework for the EU's interactions with China.<sup>89</sup> EEAS officials expressed that after the 2016 *Elements for a new EU strategy on China* document, concerns about China from EU institutions, national governments and the European business community either remained, or were exacerbated. Between 2016 and 2019, much analytical work has been carried out by EU institutions and national capitals. These officials observed that the various analyses have progressively led to an increasingly common view on the challenges posed to the EU and its Member States by China.<sup>90</sup> The EU-as-a-whole has undergone gradual but noticeable convergence on the need for an updated and effective approach to address the China challenge. This point is echoed by members of the European Parliament that the author has talked to.<sup>91</sup>

Last but not least, the document focuses on what the EU needs to act on in response to China, instead of stating what Beijing should do.<sup>92</sup> The document focuses on the EU's own homework and aims to enhance the Union's capacities to cope with the challenges posed by China. These include: the tasks of EU institutions together with Member States on the progress on the new International Procurement Instrument; the regulation on foreign subsidies distorting the Single Market; the common approach to 5G network security; and the rigorous implementation of the foreign direct investment screening mechanism. The Commission has also been following up the progress regarding the 10 action plans outlined in the March 2019 joint communication.<sup>93</sup>

86. Interviews with 3 EC officials from different departments/administrative agencies. Online. February 2021.

87. Interviews with 4 EEAS officials. Online. February and May 2021.

88. Interviews with 3 EC officials from different departments/administrative agencies. Online. February 2021.

89. *Ibid.* See also Erik Brattberg and Philippe Le Corre, *The EU and China in 2020: More Competition Ahead*, Carnegie Endowment for International Peace, February 19, 2020.

90. *Ibid.* See also Janka Oertel, *The new China consensus: How Europe is growing wary of Beijing*, European Council on Foreign Relations, September 7, 2020.

91. Interviews with 2 MEPs closely engaged in EU's relations with China. Online. February and June 2021.

92. Interview with a senior EU Council official. Online. February 2021.

93. Interviews with 3 EC officials from different departments/administrative agencies. Online. February 2021.

## CONCLUSION

Facing the increasingly assertive – sometimes even aggressive – People’s Republic of China, there has been a gradual but noticeable paradigm shift of the European Union towards this party-state since 2016. More awareness of the China challenge has emerged, and at the same time, the EU has been making efforts to further polish coherence and build up more tangible means to withstand the challenges posed by Beijing. The illustrative moment of EU’s change of perception of and approach to Beijing can be observed in the *EU-China – A Strategic Outlook* document published in March 2019.

On China-related issues, the EU has been more eager to work together. This does not mean that different perceptions, interests or positions no longer exist among EU institutions and Member States. However, by and large, a gradual convergence and a mainstream consensus on the EU’s new way ahead vis-à-vis China has emerged.

How far this paradigm shift towards Beijing since 2016 may reinforce the EU’s coherence, robustness and resilience in safeguarding its interests and values awaits to be seen. The EU’s strategic articulation and implementation with regard to China might be a critical demonstration of its readiness, ability and even relevance in the current global political context and, most probably in the years to come.

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