European Ideas About a New World Political Regime to Tackle the Issue of China

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Introduction

European strategy *vis-à-vis* China is at an important transition point. The political figure who has been responsible for holding together the traditional version of the European Union's relationship with China, German Chancellor Angela Merkel, is in her last months in office. A new US president is taking office with openly-stated plans to coordinate China policy more closely with allies and partners, Europe occupying one of the most prominent positions. Even before these developments, EU policy had been in considerable flux as political views on the continent hardened in response both to the most recent phase of authoritarianism and assertiveness under Chinese President Xi Jinping, and a sense that over the long term the economic and strategic bets that the EU had placed on China were not going to pay off.

The nature of this flux means that there is still no single coherent vision on the EU's part for what a wider coalition-based approach to China might look like. While recent years have seen an expanding framework for both transatlantic cooperation on China in areas such as investment screening, 5G and export controls, as well as EU-US-Japan trilateral cooperation *vis-à-vis* China trade-related matters, the bigger differences the EU has faced with the administration of President Donald Trump have placed significant limitations on what has been possible in these formats. Nonetheless, in recent months the EU has started to lay out some indicative areas and principles for what a democratic coalition effort could amount to. This analysis will look at the context and background to the EU's approach and the ideas that are likely to drive it in the coming years.

European Question on the Issue of China

At present, China is facing a deterioration in ties with an astonishingly wide array of countries. Excluding the United States and EU members, a short list of the cases that have seen the sharpest declines in the last few months alone would include India, Australia, Canada, and the United Kingdom. A longer list, including countries where its relationship was already in a poor state (and had less far to fall), and those cases where China has taken a recent hit (which may be more salvageable), would range from Vietnam and Japan, on the one hand, to Brazil and Nigeria on the other.

In this context, the "European question" may appear to be a subset of the wider group. China's growing economic and military assertiveness, its diplomatic belligerence, and the deepening concerns about the implications of China's domestic authoritarianism have had a telling effect in all sorts of countries. Developments in China's relationships with European states are conditioned by many of the same factors.

Yet there are several distinctive features of the Sino-European relationship that place it in a different category to the other cases where these dynamics have played out. Many of the countries in question have been at the sharp end of military altercations with China. China faces no direct military or border confrontations with Europe and expects its relationships there to be insulated from some of the pressures that result. Despite the close overlap of the EU's membership with that of NATO, the EU and its principal member states have also long been seen by China as an emerging pole distinct from the cluster of the very closest US allies, such as the "Five Eyes" or Asian allies, representing a different face and approach within the Western alliance. Europe's collective economic weight means that it has greater scope than any actor other than the US itself to chart its own path in areas such as trade and regulatory matters. In cases of divergence from the US, European states have been willing openly to defend their positions under US pressure, whether that be on the WTO, Iran, or climate change, and to rally others behind their approach.

The net result is that, despite the treaty alliances that most European countries have with the US, Beijing sees the Europeans as amenable to a different quality of relationship with China, distinct from the US itself and from its allies in Asia. It implies a relationship that places substantially greater emphasis on economic ties and multilateral partnership, less on military hedging or strategic rivalry, and more capacity to resist any US pressures to "get in line". That distinction has been important to China in a number of areas, and recent years have only reinforced its salience for Chinese policy.

The EU is China's largest trading partner. It is the largest hub for Chinese access to advanced technologies and research outside the US, including some important dual-use imports and non-replicable specialist equipment in critical sectors. The EU provides part of the underlying wiring for the global financial and economic system, from its currency to its capital markets to its role in global payment systems. Over the longer term, this has even been seen as potentially part of an alternative framework to the dollar-system too, as the INSTEX special purpose vehicle has illustrated. Finally, the EU functions as a legitimizing – or delegitimizing – actor in the

diplomatic positions it adopts on matters of international law and security.

Keeping the EU onside is hence part of the underpinning of China's wider strategic position. If Beijing can maintain open access to European markets, technology, and financial structures, while at least keeping the Europeans diplomatically neutral on matters of the greatest concern to China, it is in a far more resilient position even if relations with the US decline. Conversely, Beijing has been concerned about any situation that would see closer US-European cooperation and coordination on China-related matters – a united West, or an even wider coalition – which would be a considerable magnifier for the US position on all dimensions of trade, economic, financial, technological, ideological, and political competition, as well as, to a lesser extent, in the security realm too.

The take-off in Chinese efforts targeted at Europe began in the early 2000s. The combination of transatlantic differences over the Iraq war, and the new impetus behind the EU following the launch of the euro and momentum behind a European constitution, saw China investing additional energy in building the relationship. A few of the influential Europeanists in Chinese foreign policy at the time made a case for upgrading the then relatively neglected European ties, and the apparent opportunity the shifting political context presented. The early years of the new millennium saw what both sides dubbed a "honeymoon period", with the Sino-European relationship even described by one of its leading experts as an "emerging axis".

The loss of the EU constitutional referendums and the growing trend towards re-nationalization of power in the EU from Brussels, which was further accentuated during the eurozone crisis, saw Beijing rebalance its approach and place an even greater premium on transacting through member-state capitals. But the aim, on China's part, was still concerned with goals at the European level rather than just in its bilateral ties. This had particularly telling results in some of the major China-related trade cases brought by the European Commission, where Beijing successfully unraveled majorities in favor of stronger European action on solar panels and on Huawei's subsidies (in 2013 and 2014, respectively), largely through Berlin's intervention. This was a more consequential achievement than the overblown emphasis that is often placed on Beijing's "dividing Europe" through peeling off one or two member states to prevent unanimity on foreign policy issues of Chinese concern, or the supposed significance of the 17+1 grouping. Ensuring successful dynamics with leading member states – Germany in particular – have been decisive to the underpinnings of the strategic relationship between China and the EU, most notably on long-term economic and technology matters.

At the time the Trump administration took office, China had reason to be sanguine about the prospects for the Sino-European relationship. Views in Europe were growing more critical of China, and European companies were evincing increasing frustration with the continued irritants over market access and technology transfer issues. But this had so far manifested itself only in relatively tentative moves, and the EU's 2016 China strategy paper represented at most a modest rebalancing in light of these concerns. When Beijing made its moves to stabilize ties with other major powers as relations with the US began to take a bleaker turn, the EU was hence not only one of the priorities – alongside Japan and India – for defusing tensions, but rather was invested with hopes that relations might be upgraded in light of mutual concerns about Washington's approach. For China, ensuring that the European position on trade, technology and other matters remained clearly distinct from the US approach given the squeeze that it was starting to face was important, but Beijing also sought support from the EU for common positions, joint statements, and other elements of coordination in dealing with the US, not simply a maintenance of the status quo.

EU & China in "Systemic Rivalry"

The egregious effects of China's behavior during the pandemic can obscure the fact that, with the EU, Beijing's approach in the intervening period was already failing even before Covid-19 hit. It was already clear by 2018 that the Europeans would decline to take any common positions with China on issues of shared concern relating to the US, as Beijing had wished. Indeed, the message to Beijing from EU leaders was that on economic matters the EU shared Washington's concerns about China and would be pushing for the same goals. Beijing was also aware of the growing disquiet over its European investments, and watched with some concern the EU's new investment screening mechanism being put in place, as well as a tightening of rules in countries such as Germany and France.

But the real shock came in early 2019. The influential German industry association, the BDI, issued its China paper which labeled China a "systemic competitor" and called for a far more robust set of EU instruments to deal with the challenge. Shortly afterwards, the EU itself went one further and came out with a strategic outlook paper that described China as – in part – a "systemic rival". It was conjoined with a slew of new processes that would indeed establish toughened approaches on everything ranging from competition policy and government procurement to data security. At the

EU-China summit that followed the release of the paper, Beijing was taken aback by the hardened European negotiating approach, as well as by French President Emmanuel Macron's move, shortly afterwards, to bounce Xi into a joint meeting with Merkel and the European Commission president during Xi's visit. Shortly afterwards, China saw the beginnings of a systematic change in what had until then been a relatively permissive environment in the EU for Huawei, which was expecting to secure deals for the preponderance of 5G equipment supplies across the continent.

The greater challenge for China was not just the immediate decisions on these issues but the political dynamics that surrounded them. Public opinion on China in Europe was starting to see sharply negative shifts, which would considerably accelerate during the pandemic virtually everywhere. China began to undergo a deeper change in status, which is seeing it move from being, in effect, a "broadsheet" issue to a "tabloid" or "yellow press" issue. Coverage of China was becoming prevalent and more critical, and politicians in Europe increasingly saw advantage in positioning themselves on the right side of these dynamics. The most damaging repercussions for China have often resulted not from governmental positions in Europe but from moves in parliaments and political parties to push those positions further or change them altogether, whether that be the German and British positions on Huawei, the Italian position on Hong Kong, or the Dutch and Swedish China strategies.

5G decisions across Europe have gradually continued to move against Huawei, with Germany the one really major holdout. Even here though, the government cannot command a majority in favor of its open stance – Merkel's own party has revolted against the position, and her coalition partner, the SPD, now states in its China position paper that any cooperation with the Chinese is now defined by "systemic rivalry" rather than coexisting with it. Following Merkel's departure in 2021 – and even in the lead-up to it – the expectation is that Germany, and with it Europe as a whole, will adjust its approach to China in an even more adversarial direction. There are limits to how far the EU is ready to go on various issues in the near term – such as Hong Kong sanctions – but the tendency is now uniformly headed towards a greater emphasis on rivalry and competition and a downgrading of the partnership. In some areas, such as the EU's recent efforts to go after Chinese subsidies in Belt and Road investments and to use its antitrust powers to target Chinese firms, there are even moves that go beyond those being undertaken by the US.

Perhaps the most difficult factor for China has been its inability to adjust to the different logic that governs its strengthened power position. Its heightened industrial and technological capabilities and greater reach in third markets (including in Europe itself) mean that it is now seen as a threat by sections of European industry that were once its advocates. Its greater clout now means that behavior that would have been seen as just defensiveness on the part of a rising power is seen as bullying given the resources that China can now marshal behind its economic and military threats. In practice it also means that "internal" political and human rights issues now have wider resonance – Chinese domestic surveillance, data and intelligence practices are matters of relevance for Europe's capacity to maintain the integrity of its own democratic and privacy norms. Hence, after a sustained period in which the salience of "domestic" issues in China could be seen as falling away in significance in Europe, the concept of "systemic" competition and rivalry is a recognition that they are now of vital importance to European interests and values.

Although China's inability to adjust to several of these new trends has been costly, it has been able to stave off worse repercussions through its reliance on the special relationship with Germany, and Merkel more specifically. For now, this is the saving grace for Chinese policy – placing a floor under the relationship, which would otherwise have seen an even sharper decline. She has long satisfied the Chinese government's proclivity for finding a single figure that they can transact with and see results, which she has regularly delivered. The most recent and consequential of these results was the political agreement in December 2020 to the EU-China Comprehensive Agreement on Investment (CAI), where the controversial manner of the deal being given the go-ahead has led to considerable fallout both in the EU itself and with major EU partners. Her departure later this year after the German parliamentary elections is likely to be a watershed for the relationship, and China has not managed to build a wider base of political support in Germany beyond the core group of Merkel, her advisors, and a small number of key CEOs. But as the CAI episode illustrated, there are still factors for now that limit how comprehensively the EU is willing to lean into the competitive and rivalrous elements of its strategy, which in turns affects what form of "coalition approach" to China is then possible.

EU-US Cooperation on China Issue

Even during the Trump administration, the EU and the US, alongside Japan, made progress on several fronts. The shift in US strategy toward greater competition with China in trade, economics,

and technology – rather than military balancing alone – has given Europe greater salience in US policy. The EU is increasingly understood to be a potential force multiplier and a source of additional leverage in some areas for the US, from infrastructure finance to joint actions on Chinese economic practices. While in others, such as investment screening and export controls, cooperation with Europe is a precondition for the effectiveness of US policy. The EU also pro-actively approached the administration with proposals for expanded forms of cooperation on multiple fronts, particularly in dealing with problematic Chinese economic practices.

As a result, despite continued differences in approach, the two sides have intensified their interactions in several areas over the last two years, in areas ranging from trade policy to Huawei's role in European telecoms networks. Practical progress in these areas has varied considerably. The trade agenda has still been held hostage to US tariffs, and threats of tariffs, on the EU itself, as well as divergences over the future of the WTO. The exchanges on 5G have been a cautionary case study in the challenges of dealing with an issue that cuts across economics, technology, values, and security. Both sides still need to resolve – internally and with each other – the right balance to strike in the openness of their economic, technological, and scientific interactions with China. In the coming years, it is understood that they will similarly need to join up their emerging, yet largely parallel, debates over how China reconditions European and US approaches to industrial policy, data policy, supply-chain security, the defense industrial base, standard-setting, competition policy, and other areas.

Biden to Strengthen Transatlantic Coalition

The explicit promise of President Joe Biden administration's to put US policy on a more ally-centered basis creates a window to start exploring these issues more seriously. Given the combination of their economic weight and habits of cooperation, it is clear that the EU sees the transatlantic dimension of any coalition efforts on China as foundational, even if there is still tentativeness about the EU ending up as an adjunct to a China policy that is really devised in Washington. The European Commission's December 2020 paper is a detailed effort to sketch out a version of what that cooperation might amount to. While the paper focuses only modestly on China itself, a large number of the areas outlined are heavily reconditioned by the challenge China poses, from the green tech alliance to technology regulation to the fight against authoritarianism. Other formats, such as the EU-US dialogue on China, which will only move fully into motion with the new administration, are also explicitly transatlantic in scope. Japan, through the G7 and through the trade trilateral is understood to be the obvious additional partner in many of these efforts, while the post-Brexit UK has a more ambiguous role – on the one hand it is naturally integrated into these processes; on the other, unresolved Brexit issues create continued frictions.

Like the Biden administration itself, it is unlikely that the EU will see a single structure – such as a D-10 – as the appropriate place to navigate the spectrum of issues in play, and there will be little appetite to join a single "counter-China" coalition; rather we are likely to see the EU supporting and joining issue-based coalitions, and working through overlapping partnerships. Trade policy hands are clear about the need for a wider grouping to cooperate on the WTO reform agenda, the plurilateral trade agenda, and the coordination of measures *vis-à-vis* China, going beyond the existing trilateral format. Connectivity experts want to work through a web of partnerships with Japan, the US, India and Australia among the most obvious focal points where serious exchanges or formal agreements already exist.

The European inclination will still be to define a positive-sum agenda in many of these areas, however attuned to the China challenge they are in private, and however explicit they are about the fact that competition and rivalry increasingly define the relationship. The net result of all this is therefore unlikely to be a single political regime to address China. The EU will seek to avoid a structure of outright across-the-board confrontation or any backing away from the multilateral system, even if in some specific areas, such as trade or human rights, it is increasingly comfortable with formats that do exactly that. But this is also still a process in flux. Not only will the talks with the new US administration have a major conditioning effect on the EU's approach, the bigger transition that is underway in the EU's China policy is still incomplete, and will likely have to await the stepping down late in 2021 of the political figure who has done the most to keep the old vision alive. JS

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