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# Rebooting Europe's China Strategy



Stiftung Wissenschaft und Politik  
German Institute for  
International and Security Affairs

May 2022, Berlin



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doi: 10.18449/2022Special01

## Table of Contents

	<b>Foreword</b> .....	5
	<b>Rebooting Europe's China Strategy: Key Points</b> .....	7
	<b>Introduction</b> .....	9
<b>I</b>	<b>Europe's Objectives</b> .....	11
I.1	Europe's principles, norms, values and interests .....	11
I.2	Europe between China and the US .....	11
<b>II</b>	<b>The China Challenge: Partner, Competitor, Systemic Rival</b> .....	14
II.1	China as a partner .....	15
II.1.1	Partnering with China on global challenges .....	15
II.1.2	The case of climate change .....	16
II.1.3	Global health and the COVID pandemic .....	17
II.1.4	The case of WMD proliferation .....	17
II.2	Co-operation and competition with China in markets .....	18
II.2.1	Same bed, different dreams: China as a competitor .....	19
II.2.2	A rigged domestic market in China .....	19
II.2.3	Power trader: China's mercantilist challenge .....	20
II.2.4	China and technological innovation .....	21
II.2.5	China's commercial and diplomatic expansionism: the Belt and Road Initiative .....	23
II.3	China as a systemic rival: the CCP's quest for power and influence .....	24
II.3.1	Prosperity, wealth and (in)equality .....	24
II.3.2	Totalitarian China and the CCP's ideology .....	25
II.3.3	Nationalism and minorities: the 'Chinese dream' is ethno-nationalist .....	27
II.3.4	The external dimensions of suppressing dissent .....	29
II.3.5	Contradictions of China's international public diplomacy .....	30
<b>III</b>	<b>America, China and The New Cold War</b> .....	33
III.1	A fraying Liberal Democratic International Order .....	33
III.2	A new Cold War? The conflict between America and China (and how other powers fit in) .....	34
III.3	Other great powers (Russia, Japan, India) .....	35
III.4	Middle and smaller powers and the future of multilateralism .....	39
	<b>Conclusions:</b> <b>A European Strategy for Relations with China</b> .....	40
	A. Strategic objectives .....	40
	B. Five major components for a European strategy ....	40

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The authors thank Institute Montaigne's Claire Lemoine and Sara Furxhi for their support. Hanns W. Maull gratefully acknowledges research assistance by Jonah Kaplan and Jake Spears.

"Rebooting Europe's China Strategy" is being published in parallel by the Centre for European Reform in London:  
<https://www.cer.eu/publications/archive/report/2022/rebooting-europe-china-strategy>

and Institut Montaigne in Paris:  
<https://www.institutmontaigne.org/en/publications/rebooting-europes-china-strategy>

# Foreword

We are pleased to introduce to you  
'Rebooting Europe's China Strategy'.

This report is the work of Ian Bond, François Godement, Hanns Maull and Volker Stanzel from our three institutes, and it has benefitted from the editing support of our staff.

We hope it will be of interest to policy-makers as well as to the general public.

The content and recommendations from this report are under the sole responsibility of its authors.

Henri de Castries  
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## Key Points

### Rebooting Europe's China Strategy

The following analysis reaches a number of conclusions for the China policy of European countries, whether they are members of the EU or not. The key points are as follows:

- The present assault on the Liberal Democratic International Order, in which China and Russia are openly co-operating, affects the interests of all democratic countries. To respond effectively, Europe first needs a shared understanding of its relationship with China;
- Europe needs to ensure its own comprehensive security, with vulnerabilities ranging from cyberspace, fragile states in its neighbourhood, migratory pressures to military deterrence and defence. Only a Europe confident in its own security can contribute to peace and stability elsewhere, including in the Indo-Pacific;
- While the US is the principal guarantor of the security of both Europe and of America's partners in the Indo-Pacific, the world's democratic powers are natural allies and must work together in considering strategies to adapt the international order to the challenge posed by China and by an authoritarian axis between Beijing and Moscow;
- Within that democratic consensus, Europe needs to develop strategies and means that contribute to the Indo-Pacific region's security;
- In its relationship with China, Europe also needs to reduce its vulnerabilities, enhance its leverage, and engage forcefully with international organisations and multilateral institutions;
- Europe needs to engage with China on the basis of strict reciprocity;
- Europe needs to strengthen collective knowledge about China and its presence in Europe;
- The long-term goal of European China policy must be to support China's political, social and economic change, which in the past has benefited the Chinese people as well as many of the PRC's partners.



# Introduction

The People's Republic of China poses an immense challenge for the European Union, one unimaginable only a few years ago. This challenge comes at a particularly difficult time.

Vladimir Putin's attack on Ukraine has shattered post-Cold War assumptions about the pan-European security order. The COVID-19 pandemic is still raging, imposing very real social and economic costs on European countries. Europe's security interests are threatened in Eastern Europe, the Middle East and Africa. The consequences of Brexit have not been entirely digested yet, though the war in Ukraine is forcing London and Brussels to work together more closely on sanctions and other aspects of foreign and security policy. Within the Union, illiberal and populist governments are questioning its founding principles. Against the background of this multiplicity of challenges, the EU sometimes struggles to assert itself globally, even though it is still the largest economic and trade entity in the world.

China poses a challenge to Europe's long-term economic sustainability, to its political freedom to act internationally, to its values and interests and, ultimately, to its security. This is not only a direct challenge, but one which grows out of China's systemic impact on the international system.

European-Chinese disputes have been on the rise. In Europe, in the United States and in other democratic market economies, the notion of 'decoupling' has gained ground in response to newly-perceived risks in bilateral relations with China — the risk of losing technological leadership and industrial competitiveness to Chinese companies backed by the Chinese state; and the risk of Chinese influence operations undermining liberal values and subverting democratic politics. Decoupling can imply anything from keeping key military or dual technologies out of China's hands to severing ties that result in economic dependence on China.

China has been doing quite a lot of decoupling for itself, and its economic policies increasingly reflect the imperative of national security. The Chinese leadership has promoted a 'dual circulation' strategy to

strengthen China's self-reliance and to insulate it from foreign crises. It is steadily increasing constraints on commerce and capital flows in the name of national security, and is changing the rules of the game for equity investment. Yet China maintains the commercial exchanges with the rest of the world that it deems either essential or profitable. During the global COVID-19 pandemic, the country's exports have significantly risen, often at the expense of European companies.

Both those strategies of decoupling and dual circulation seem to fly in the face of the powerful forces of globalisation that reflect the explosion of knowledge and technological innovation. Globalisation connects individuals and societies across the globe ever more rapidly, broadly and deeply, and its consequences are more intrusive than ever. The nature of Europe's interdependence with China, based on integrated industrial supply chains, is different from its dependence on raw materials, and especially fossil fuels, from Russia; the current rupture of most financial and economic links to Russia seems unlikely to be repeated in the case of China. Ties might weaken in certain sensitive areas, but overall European entanglement with China remains dense. Economic incentives will continue to promote this entanglement, while political and strategic concerns seek to contain and curb it. European-Chinese interdependence will be contested politically, and thus trade-offs will have to be made between economic gains, threats to national security and political integrity.

As for China, the Chinese Communist Party's overriding ambition is to remain in control of China. The Party will do everything it considers necessary to consolidate and enhance its power. If the CCP leadership considers meddling in other nations' affairs as necessary, it will do so, as it has done in Australia, New Zealand, Europe and even in the United States. Pragmatism persuaded China to open up to globalisation and pushed it towards global interdependence. But concern about the CCP's hold on power demands that the leadership carefully channel and control the

implications of globalisation. Moreover, ‘change through rapprochement’ can work both ways – deepening economic interdependence has changed both China and its partners, including Europe. China can use globalisation against the West. As China’s relative weight grows, it will lessen its own constraints, allowing it to expand its influence abroad. China is now aiming to project itself globally with a toolbox that includes persuasion, coercion and corruption, and cyber action, mixing inducements, blackmail and threats. The depth, scope and range of interference in other countries’ politics will be determined only by the motives and capabilities of the CCP leadership, not by any notions about appropriateness.

How should Europe respond to the challenges of its entanglement with China? That is the central question this paper aims to answer. First, however, we need to clarify whom we mean by ‘Europe’.

## Who is ‘Europe’?

For our purposes, Europe includes the European Union institutions, the EU’s member states and also other European countries. Europe’s collective identity is expressed by the EU, but also by any group of European states that act in line with the four core elements of its identity detailed below. Even its most influential member states cannot legitimately claim to represent Europe on their own, however – Europe is a collective endeavour.

Europe will need to base engagement with China on a definition of its values, interests and objectives that is shared among Europeans. Achieving this will require persistent political efforts to prevail against centrifugal tendencies within Europe and attempts by China to undermine a unified European voice. The nature of the European political process by itself favours long-term considerations over short-term ones and prioritises moderation over emotion. This also makes it likely that European positions will be compatible with those of middle power democracies such as Japan, South Korea, Australia or Canada, as well as with those of some ASEAN countries. In that sense, Europe seems well positioned in its ability to build coalitions – a key source of soft power in today’s international relations.

# I Europe's Objectives

## I.1 Europe's principles, norms, values and interests

How should Europe define its interests and objectives in its relationship with China? What will be the place in it for the liberal democratic values that Europe espouses? Can Europe avoid an economically damaging decoupling from China and maintain mutually beneficial ties while still remaining true to itself?

European values and interests express collective choices rooted in Europe's history. How Europe relates to China should reflect this European identity. Europe will have to do more than just delineating what it is *not*, and instead clearly define what it *is*. A 'Europe that protects' will ultimately fall apart if, for convenience or for commercial profit, it tries to stay aloof from the struggle over the future of the world order.

We suggest a number of core elements that constitute the European identity: Europe is democratic, for some predominantly liberal, for others predominantly social, never exclusive of either. For all, it is multilateralist, and it is increasingly espousing conservation of resources and greening.

Most Europeans today see the governance of their nations as irretrievably intertwined with the political values of the enlightenment and liberalism, but also with those of prosperity and social fairness. The way the EU functions in its day-to-day activities is a reflection of that. This does not mean that liberal democracy will necessarily prevail in all member states at all times (significant deviations already exist), but it does consider an illiberal, authoritarian European Union, were it ever to come about, as no longer representative of Europe. If a majority of member states, including its largest ones or its founding members, ceased to be liberal democracies, and if they succeeded in remoulding the EU into an illiberal, authoritarian entity, this would wreck the foundations on which the European project was built.

In international affairs also, the EU agrees to be bound by rules because this best serves its long-term collective interest. The EU is multilateralist because

it does not want to rely on the primacy of power (even if the security situation in its region increasingly forces it to agree on the need for a much stronger defence), but also because it is itself a multilateralist entity. It emphasises alternative sources of power, although it needs to be able to deter aggression and to defend itself. In terms of principles, the European Union not only remains part of the West, it could be said to epitomise its values as a multilateralist liberal democratic institution.

Finally, the European identity is increasingly 'green' because it is (predominantly) a prosperous and ageing society that is ever more aware of the fragility of its ecological environment.

Both EU member states and non-members will continue to see Europe's role in international affairs as multilateralist, i.e. supportive of a rules-based, liberal and democratic international order that is characterised by rule of law, rather than by rule of force, and by functioning international institutions.

As a group of liberal multilateralist countries, Europe supports a world economic order that facilitates flows of knowledge, goods, services and capital. On balance, EU-China economic interactions in the past have contributed to the prosperity not only of China, but also of Europe, though the gains have not been shared evenly between or within the two. China's rapid growth has drawn in European exports and thus supported employment in exporting sectors. Imports of cheap consumer goods from China have benefitted European consumers. Against this, there also have been painful adjustments as competition from China has damaged or displaced European industrial production and employment.

## I.2 Europe between China and the US

Europe prefers its economy to remain intertwined with both China and the US. It needs to sustain its economic prosperity with both, and to rely on the US for its security. China will, in all likelihood, remain the biggest growth market in the world for some time

to come; many European companies feel they cannot afford to abandon this market, be it as suppliers from outside or as producers within. Yet as long as China continues to be governed by the CCP (an assumption European policy makers have to make), it will pose a systemic threat to liberal democracies and the world order that our survival and prosperity depends on. European policy choices will therefore face contradictory pressures and incentives that may pose a dilemma.

The only way forward for Europe – both EU member states and others – is to develop its ‘strategic sovereignty’, which in practical terms means becoming more resilient and better able to set its own course. Doing so will require Europe to cultivate its influence in both Washington and Beijing, and that influence will need to rest on leverage. So far, Europe’s power has been largely based on regulating its huge internal market. This will not suffice in the future: Europe will require a capacity for formulating and implementing collective foreign policy strategies. It will also need the means to defend itself effectively. Contrary to a common view, strategic autonomy is not an alternative, but a prerequisite for a vibrant transatlantic alliance.

From Europe’s perspective, the US will be the natural partner and leader in promoting liberal and democratic norms, nationally and internationally, alongside other liberal democracies – provided it remains a liberal democracy itself. But as China’s rise challenges the existing regional order in East Asia and therefore the US role as a security provider, America’s resources and political attention may be increasingly divided between the Indo-Pacific and its commitment to European security. The way in which Washington ended its military presence in Afghanistan in August 2021 has rekindled fears of a new isolationism. Though the US has met Russia’s war in Europe with resolve, in a future European security crisis it is quite possible that the US will be tied down by a parallel crisis in the Indo-Pacific region. Europe therefore must shoulder more of the responsibility for its own security and for the stability of its immediate neighbourhood.

America and China, while economically still joined at the hip, are now locked in a fierce geopolitical contest, with far-reaching global implications. Ultimately, international relations are polarised between liberal democracies and groupings of authoritarian or neo-totalitarian states of which China is the most powerful, co-operating ad hoc with others (Russia, Pakistan etc.), wherever it considers this opportune. The United

States remains the natural leader of the first camp in this systemic struggle. But Europe must decide how to approach the nascent US-China bipolarity in international affairs. It is in Europe’s primary interest to prevent a dangerous confrontation between the two superpowers. Europe will need a reasonably co-operative US-China relationship in order to establish and maintain the effectively managed rules-based liberal democratic international order it needs to prosper. In order to be able to exercise some moderating influence on the US-China relationship, Europe will have to navigate each relationship separately, exercising its strategic sovereignty in dealing with both Beijing and Washington.

There are parallels between the US-China rivalry today and the Cold War, though there are also important differences. These differences include China’s enormous economic success and mounting potential, and the degree of its economic interdependence with market economies.

American and Chinese perceived interests and geopolitical objectives in East Asia are now incompatible because both sides demand a dominant position in that region for themselves. Those demands have deep roots in history, but also within their respective domestic politics: America has always considered itself a Pacific power, and the Chinese leadership uses its ‘China dream’ to revive China’s traditional dominance in East Asia as a means to support its hold on power. Both also possess vibrant, highly innovative economies, though in China, the economy is state-driven and the market is subjugated to the supremacy of the CCP. Both pursue industrial policies to strengthen their national and military power, though strategies again differ. In both societies, there is a political consensus that the other poses a threat, which must be met *inter alia* with a foreign policy backed up by military power. In the Chinese case, this political consensus is reflected in pervasive propaganda portraying the US as an enemy. In the US, while there is no official effort to promote anti-Chinese feelings, concerns about China’s covert influence in academia and elsewhere (not all of them unjustified), and criticism of China’s role in spreading COVID-19, have led to ethnic violence against individuals of Chinese origin, and unfair treatment of some people suspected of illicit links to China.

The most important difference lies in their respective political systems, in particular their ability to learn from mistakes and take corrective action. As long as the US functions as a democracy based on

checks and balances and the rule of law, it will retain this ability. This is much harder with the concentration of power and the ideological commitment that characterises the CCP. ‘Systemic rivalry’ is the competition to see which political order will be better at adapting to changing circumstances; and America can reflect on, and learn from, its mistakes and misdeeds. Thus, after the catastrophic NATO withdrawal from Afghanistan and the fall-out from the AUKUS agreement in Europe, Washington took corrective action with France and managed the Western response to Russia’s aggression against Ukraine effectively. China’s Leninist centralism, on the other hand, hardly recognises the possibility that the CCP leadership could ever be wrong.

# II The China Challenge: Partner, Competitor, Systemic Rival

*“China is, simultaneously, in different policy areas, a co-operation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance.”*

(Joint Communication of the European Commission and the High Representative to the European Council: *EU-China Strategic Outlook*, March 2019)

*“Competitive when it should be, collaborative when it can be and adversarial when it must be.”*

(Anthony Blinken, *A Foreign Policy for the American People*, March 2021)

*“We will invest in enhanced China-facing capabilities, through which we will develop a better understanding of China and its people, improving our ability to respond to the systemic challenge that China poses to our security, prosperity and values – and those of our allies and partners”.*

(*Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy*, UK government, March 2021)

In Europe, there are two widespread misperceptions and one accurate assessment about China. To start with the accurate assessment: China is indeed a great rising power, a juggernaut that is hurtling along at great speed. Since its leadership opened up and reformed its economy in 1978, China's share of world GDP has grown from less than 2 per cent in 1980 to 3.6 per cent in 2000, about 9 per cent in 2010 and close to 18 per cent in 2020. Chinese exports of goods and services rose from 0.5 per cent of world total in 1980 to about three per cent in 2000 and 12 per cent in 2020; valued in current US dollars, they grew from \$11.3 billion (1980) to \$2,723 billion, or \$2.723 trillion (2020). China's share of global CO<sub>2</sub> emissions doubled between 1980 and 2000 from seven to 14 per cent and then more than doubled again to 28.9 per cent in 2019.

The country seems set on overtaking the United States as the world's largest economy and, eventually, as the most powerful country worldwide. The first European misperception about China is that its rise is economically important but politically irrelevant for Europe. The second misperception explains the first:

Europeans assume that China is far away. In fact, while China's rise does manifest itself most visibly in economic terms, it is driven by politics and carries huge political implications for the rest of the world, including Europe; China's public support for Russia from the beginning of the Ukraine war has become the dominant topic in EU-China relations. Its propaganda apparatus has adopted Russian justifications for the invasion in their entirety, including disseminating Russian disinformation, as well as the basic line according to which NATO is responsible for the conflict. At the April 1<sup>st</sup> EU-China summit, the European side ensured that the war was the only current international issue discussed. Some minor agreements that were previously on course for signature have been postponed. The EU asked China to speak out in favour of a cease-fire, and failing that to join efforts to establish humanitarian corridors. Instead, China focused solely on sanctions as the problem to solve. China is no longer seen as far away at the other end of the huge Eurasian landmass, and present in Europe primarily through its goods and investments. China's support “without limits” for Russia has recast

Chinese influence in Europe and its strategic implications. This comes on top of Europe's recognition of China's increasingly long arm — not only economically, but also militarily, financially, and in terms of potential coercion in many third regions and countries. China's support for Russia's invasion also makes Europeans more aware of the danger of a possible major conflict around Taiwan in the world's fastest growing region: East Asia and the Indo-Pacific. Its implications — military and economic — are no longer remote possibilities after Ukraine.

China's leadership has learned to adapt its policies as the situation requires. When the CCP encounters resistance, it may enter into an all-out combative mode, or it may even momentarily change course, yet never lose sight of its short- or long-term objectives. In pursuing them, China will be impervious to moralising admonitions, threats or purely legal challenges.

The China challenge is now commonly reduced to a seductively elegant formula: according to this, China is a partner, an economic competitor and a systemic rival. Yet that formula obscures as much as it sheds light, by implying, for instance, that relations with China can be neatly compartmentalised, or that the three aspects of the relationship are equally important. In fact, systemic rivalry is at the core of the relationship with China, and it permeates the other two dimensions. The CCP sees the allure of liberal democracy as a deadly threat to its own model of governance: for it, the two models are not only incompatible, they are also irreconcilably antagonistic. While for Europe partnership and competition each follow their own logic of interaction, at least partly co-operative, the CCP leadership will always assess co-operation through the lens of its implications for the systemic rivalry. This means that elements of that rivalry will always be present and pervade all aspects of partnership or co-operative competition with China. At the same time, while the CCP's governance model in principle concerns the PRC only and is presumably not meant to be exported, systemic rivalry nevertheless extends outward. Aspects of systemic rivalry will therefore surface in the form of Chinese authoritarian influence in liberal democracies and in other countries, as well as in all aspects of regional and global governance. In other words, systemic rivalry involves a contest for influence over the future of the international order, its norms, rules, practices and institutions, over modes of governance in third countries, and ultimately even over the future of democratic governance in our own countries. The

rigid power structure that underpins the PRC's domestic system has already begun to spread beyond its borders, and will increasingly shape national, bilateral, multilateral and global power configurations worldwide.

## II.1 China as a partner

Co-operation with China is in principle attractive. Depending on what measurement one uses, the PRC already represents, or will soon represent, the single largest economy in the world. It has also become the most important trading partner for most countries in the world. The gravitational pull of its economic weight will be hard to resist, and few commercial actors (or their governments) will be in a position to ignore it.

Co-operation with China is also essential. In most global challenges, such as climate change, pandemics, or Weapons of Mass Destruction (WMD), the PRC is a major part of the problem, but therefore also an indispensable part of the solution. Effective co-operation on global challenges requires mutual accommodation and a willingness on the part of the parties involved to adjust how they define their national interests. Yet such co-operation would initially have to take place within existing parts of the old, liberal and democratic world order that delineate how co-operation should be conducted. These frameworks reflect the norms, rules and institutions that were established under the influence of the West but are now contested by China. Therefore, though China and Europe will need to build a partnership to resolve global challenges, systemic rivalry will persist over the frameworks that guide those partnerships.

### II.1.1 Partnering with China on global challenges

China has been the biggest beneficiary of the opportunities provided by the liberal international order. They enabled the country to register persistently spectacular growth rates over the last decades thanks to its export-led strategy. During those decades, the PRC has also significantly expanded its participation in global governance. But Beijing is now seeking to reform that order in line with its own preferences and perceived needs.

The PRC poses a twofold challenge to the international order. First, China's support for the inter-

national principles, rules and norms that underpin the present international order is heavily qualified: there is almost no international commitment or legal obligation that China is not ready to breach if its interests, as defined by the CCP leadership, require it. And there is certainly none that the CCP would respect if it saw this as threatening the Party's hold on power at home. It will therefore be hard to get China to comply with international rules for the sake of the world order, if China believes it would have to sacrifice advantages it presently enjoys.

Second, whatever China does or does not do on almost any global challenge will – for better or for worse – have worldwide consequences for others. Major contributions are needed from China to keep the world order functioning. Yet China balks at assuming such responsibility, preferring to limit itself to minor steps. This, in essence, often represents free-riding on efforts from the rest of the world. Moreover, China occasionally also decides to use its *de jure* (in the United Nations Security Council [UNSC]) or *de facto* veto power to block any progress towards effective global governance to meet challenges. Its meteoric rise places the PRC in the unique position of a developing country that is nonetheless asked to undertake large long-term investments in order to safeguard the commonly-shared international order.

### II.1.2 The case of climate change

In 2019, China accounted for 28.9 per cent of global CO<sub>2</sub> emissions, almost exactly twice the share of the US (14.5 per cent), and close to three times that of the EU (9.7 per cent). Together, the three represent well over half of the problem, and therefore of the solution that would be required. Working with China as a partner for the common good is therefore crucial. Getting the US, China and European countries on the same page for effective multilateral co-operation will be critical for our future. To the extent that this materialises, all countries will benefit, though not necessarily equally. Industrialised countries in North America and in Europe are responsible for about half of all CO<sub>2</sub> released into the atmosphere since the beginning of the industrial age (with China accounting for 12.7 per cent from 1751 to 2017), but this has now changed. Given its current climate trajectory, China's policies will by far be the most important.

While China's per capita emissions are still substantially lower than those in Western industrialised countries (in 2018, they stood at 7.3 tonnes versus

15.4 tonnes for the United States, 8.6 tonnes for Germany and 4.6 tonnes for France), emissions per unit of GDP are much higher than those of industrialised countries such as Germany or the United States, but also of a developing country like India: in 2016, CO<sub>2</sub> emissions, measured in kg per US dollar of GDP at purchasing power parity, stood at 0.529 kg, while they were 0.268 in the US, 0.175 in Germany and 0.311 in India. This indicates that China's overall economic activity is rather wasteful in terms of CO<sub>2</sub> emissions and offers huge opportunities to reduce specific emissions.

China's role in climate change has several distinct dimensions. First, will China reduce its GHG emissions by (or even before) 2030, and achieve carbon neutrality by 2060, as promised? Second, what will China do bilaterally and multilaterally to ensure that its economic partners will shoulder their share of containing global warming? And third, to what extent and how will China use its weight in the global climate change effort to ensure sufficient progress worldwide?

The central problem for the CCP leadership in this context is the particular socio-economic development model of (export-led) industrialisation that China has followed. It is highly energy-intensive and therefore produces high levels of GHG emissions. Re-directing that development model could lead to a considerable decrease in both energy and emission intensity. Yet this will be politically very difficult, given the deep roots of that model in China's economy and society, the hundreds of millions of jobs at stake, and the importance of this development model for the CCP's legitimacy. Even an honest, realistic and transparent assessment of actual emissions therefore already represents a significant political hurdle for the CCP leadership. Beyond that, there are the familiar problems of implementing ambitious national policies at the local level.

How amenable is China's climate change policy to outside influence? Nudging the Chinese leadership to review and recast its domestic climate change policies, whether by incentives, persuasion, bargaining or sanctions, though possible, will be quite a task. Yet this would only tackle one of the three dimensions of China's major role in the context of global warming. Its policies towards its partners and in the international legal and institutional framework for combatting global climate change – from the UN Framework Convention on Climate Change in 1990 to the conclusions of COP26 in 2021 – would still need to be addressed, if climate change were to be con-

tained effectively. China's commitment to end support for coal-fired power stations abroad at the COP26 in Glasgow indicates that China's climate policies are not impervious to outside influence: the PRC does care about its international reputation.

### II.1.3 Global health and the COVID pandemic

China's role in the global health system charged with combatting pandemics is ambivalent. On the one hand, China – as the Republic of China (RoC) – in 1946 was one of the founding members of the World Health Organisation (WHO), which forms the institutional core of this order. The PRC took over China's seat in the World Health Assembly when it replaced the RoC in the United Nations in 1971, and, as elsewhere in the UN system, used its influence to sideline Taiwan. During the first pandemic in this century, the SARS pandemic, which erupted in southern China in November 2002, China initially failed to co-operate adequately with the WHO: it tried to hide the dimensions of the problem and refused to ensure transparency and access. The then Director-General of the WHO, Gro Harlem Brundtland, pushed the PRC government into co-operation.

The COVID pandemic caused by SARS CoV-2 broke out in Wuhan, China in late 2019. After its initial failure to notify the WHO, even though the staff of medical facilities in Wuhan and the Taiwanese authorities, alarmed by travellers from China with the disease, were already warning of an imminent epidemic, the PRC leadership still permitted local authorities to stage large celebrations of the Spring festival and to allow about 5 million travellers to visit other areas of China and other countries. Thus, the disease had already spread abroad by the spring of 2020 when the PRC managed to control the spread of the COVID virus in China through a huge effort at tracing and containing outbreaks with its "Zero-COVID" policy. This included massive and strictly-enforced lockdowns in Wuhan and other parts of China. The PRC also went on a global offensive with its mask and vaccine diplomacy, contrasting its effective suppression of the pandemic with the policy failures in the United States and the West as a whole as a sign of China's superior governance performance. This narrative conveniently ignored the impressive, successful and consensually-implemented efforts of democratic governments in Japan, Taiwan, South Korea and New Zealand during the first wave of the pandemic.

China's participation in the WHO regime for combatting pandemics did include co-operative policies that contributed to global welfare, such as supplies of Chinese vaccines. After months of procrastinating, China also allowed a WHO team of international experts to visit Wuhan to explore the origins of the pandemic, albeit with significant restrictions. Yet China continues to withhold critical information, for example key epidemiological data on the 174 earliest known cases of COVID-19 in Wuhan. It also tried to instrumentalise the WHO in its efforts to constrain Taiwan's international space. In sum, China's performance in the global system for combatting the pandemic combined co-operative policy initiatives with efforts to promote its own agenda vis-à-vis Taiwan and advance its objectives in its systemic rivalry with liberal democracies. Even on an issue such as fighting a global pandemic, the imperative of international co-operation was thus overshadowed in China's policies by the competitive and antagonistic aspects of its relationship with the rest of the world: its 'People's War' against COVID had become an element of its systemic competition with the West.

### II.1.4 The case of WMD proliferation

It has long been the PRC's declared policy to contain the spread of WMD, particularly of nuclear weapons. Yet in the past, the PRC has contributed to the illicit proliferation of nuclear weapons, notably with regard to Pakistan's nuclear program and the missile technology required to deliver nuclear warheads. China has thus indirectly also contributed to the further proliferation of nuclear weapons through the activities of the Pakistani A Q Khan and the Pakistani military network with Libya, Iran and North Korea in the 1980s and 1990s. On the other hand, the PRC acceded to the Nuclear Non-Proliferation Treaty (NPT) in 1992. It joined the Nuclear Suppliers Group in 1994 (later blocking India's entry) and signed (but has not ratified) the Comprehensive Nuclear Test Ban Treaty (CTBT) in 1996. It is thus playing a part in the nuclear non-proliferation regime.

Yet Beijing's commitment to enforcing non-proliferation seems ambiguous. On the one hand, China did play a highly visible role in talks to contain the spread of nuclear weapons and missiles in North Korea and Iran. It initiated the Six-Party Talks dealing with the North Korean nuclear weapons programme, albeit without tangible results. It supported a sanctions regime against the DPRK, imposed by a series of

UNSC resolutions, when North Korea tested nuclear devices and long-range delivery systems. On the other hand, it has increasingly used its participation in the Panel of Experts established by the United Nations pursuant to these sanctions in order to mitigate the content of reports on implementation. Its ports and commercial ships are often involved in trade sanction evasion. Beijing's priority has been to ensure the stability of the DPRK regime and assert its geo-political influence on the Korean peninsula. Moreover, China actively assisted Pakistan's nuclear weapons programme in the 1980s and 1990s, even after Beijing acceded to the nuclear non-proliferation treaty (NPT) in 1992; and it has continued to help Pakistan with its missile programme, despite having pledged in 2002 to respect the rules of the Missile Technology Control Regime, designed to prevent the transfer of missiles able to carry weapons of mass destruction.

Despite being a member of the E3+3<sup>1</sup> and thus also responsible for the international sanctions regime against Iran on the nuclear issue, China still has remained Iran's number one trading partner, even after the US under Donald Trump left the JCPOA in 2015 and imposed new sanctions. The US mostly gave a pass to China over its actions in Iran until 2019, when the Trump administration sanctioned two CNOOC subsidiaries. China then pulled out of the South Pars gas field. Clearly, while China would not risk its relationship with America over Iran, Beijing remains keen to secure access to Iran's rich energy resources, and a wide-reaching co-operation agreement concluded in 2021 suggests that Beijing is also cultivating its relations with Iran to increase its overall influence in the Middle East. From the perspective of an increasingly strained non-proliferation order, the question is whether China will be willing to pull its weight, be content to rely on the efforts of other countries, or even seek to undermine such non-proliferation efforts in the pursuit of other strategic aims. So far, the evidence on this is inconclusive.

## II.2 Co-operation and competition with China in markets

Liberal economic thought since Adam Smith and David Ricardo has been based on the idea that competition between companies over market share and

profits maximises economic efficiency. This has been one of the core tenets of the post-World War II international economic order. This notion of competition also broadly aligns with the logic of economic globalisation, in which the allocation of capital and resources is driven by the search for efficiency gains. Today, competition often takes place between highly intricate transnational supply chains.

China has been at the centre of globalisation. It has become the number one trading partner for most countries in the world. Corporations (and their governments) will therefore be keen to work together with Chinese partners for mutual benefit. This applies to Europe as well. Despite continuing concerns about the absence of a level playing-field in China's huge market, many European corporations remain committed to it and hope to expand their sales. Efforts in both China (the dual-circulation economy project) and in the West (concerns about supply-chain vulnerabilities) notwithstanding, therefore, economic interdependence between China and the European Union seems destined in principle to continue into the future, albeit the specific patterns may well change. The actual trend may well be subject, however, to geopolitical events, a term used by the Chinese leadership itself. For instance, increased Sino-Russian co-operation to evade the present sanctions against the Russian economy or to provide weapons for Russia's attack on Ukraine would inevitably bring to the fore the issue of secondary sanctions against Chinese entities. Depending on what China does during the course of the war, the impact of such secondary sanctions may differ, as sectors as different as finance, digital industries and aerospace are concerned.

In partnering with China for economic gain, a number of issues arise: who exactly benefits, how, and how much? What kind of benefits are they? Conversely, who suffers? With what consequences? If we take the example of bilateral trade, for Europe, direct benefits go to the commercial actors involved, the companies, their shareholders and those employees who have not lost their jobs. Indirect benefits could include contributions to national prosperity, economic strength and even national power.

The latter is a key concern for China in its economic relationships with other countries. This raises another, more fundamental question about the partnership with China: do both sides operate on the same assumptions? In China's economic partnership with Europe, the two sides may share the same bed, but

<sup>1</sup> The members of the E3+3 are France, Germany and the UK (the E3) plus China, Russia and the US.

they dream very different dreams. The PRC is a 'power trader' (see chapter II.2.3 below, p. 20): its leadership perceives the pursuit of wealth as a way to build international power, status and influence. This, in turn, helps to support the CCP's legitimacy at home and thus to cement its hold on power.

### II.2.1 Same bed, different dreams: China as a competitor

One of the great strengths of the Liberal Democratic International Order (LDIO) has been its capacity to integrate newcomers, including rising powers. This is apparent in four waves. The first concerned West Germany and Japan during the 1950s and 1960s. Their post-war economic recovery would not have been possible without the liberal international economic order offering access to capital, export markets and technology.

The second wave of enlargement came with the rise of a newly industrialising Singapore, Hong Kong, South Korea and Taiwan (soon called the 'Four Little Tigers'), followed by the emergence of ASEAN countries. Capital from American and European, but above all from Japanese firms and the Chinese diaspora dominated in this second wave. Japan also provided a successful model for export-oriented industrialisation promoted by government policies.

The third wave came with the dismantling of the communist system and planned economies in Central and Eastern Europe in the late 1980s and early 1990s. By 2013, ten former communist countries had acceded to the EU. Through its neighbourhood policies and association agreements, the EU had also developed a wider network of ex-communist partners in the Western Balkans, Eastern Europe and the South Caucasus who were integrated (to a greater or lesser extent) into the liberal international order.

China represents the fourth wave. It is the most recent, most extensive and most problematic example of an industrial late-comer's integration into the liberal international economy. Although its integration began before the Cold War ended in 1990, the bulk of China's rise has taken place in the three decades since, in particular since its accession to the WTO in 2001. Its successful integration into a (largely) open world economy brought huge economic benefits, not least to China. Thus, China has become the single largest location of world industrial production, accounting for 27.6 per cent of world manufacturing value added in 2015, according to UNIDO data.

Its ability to plug into existing networks of globalisation and develop new ones played an important role in China's enormous achievements in lifting hundreds of millions of Chinese out of poverty. In that process, many others elsewhere greatly benefited as well, starting with Western and East Asian companies that invested in production facilities in China, but the rise of China also had far-reaching and often disruptive consequences throughout the world economy. It also resulted in a major shift in international power and provided the economic foundations for China's military armament. Finally, as China's weight in the world economy grew, deep tensions emerged between its own economic policies and the principles and norms of the international order, of which it became an ever larger part.

China's particular economic development, its 'Reform and Opening' policies since 1978, were inspired, as in the case of other East Asian countries before, by Japan's post-war model. Yet its development over time has evolved with a distinctively Chinese trajectory. In it, the CCP was able to retain – or recover and even strengthen – its iron grip on the economy, which it sees as the foundation of China's power in the world and as a crucial source of its own legitimacy.

In the context of competition between countries, commerce is both an end and a means. It will be an end for the business actors involved, but a means for the governments that want to draw on the money and knowledge generated by these actors, for their own power purposes. In this, China is following an ancient Chinese slogan upon which Japanese reformers of the 19<sup>th</sup> century imprinted a modern meaning: 'rich country, strong army'.

### II.2.2 A rigged domestic market in China

China does not seek complete autarky. In recent years, as the US increasingly veered away from its traditional support for free trade, China has even presented itself as the guardian of an open, multilateral international economic order. Yet its support for economic openness is conditioned by mercantilist concerns about power and control. Self-reliance and independence from international supply chains, so-called "domestic circulation" have been stressed more frequently under Xi Jinping. It will use levers of economic interdependence and weaponise them to advance its national power. Nor will the PRC hesitate to decouple and protect its economic activities from the global

economy where it perceives national security vulnerabilities or opportunities to enhance China's geopolitical clout. Overall, the PRC's engagement with global trade and finance has produced far-reaching change in China, but has not resulted in a political or even a comprehensive economic opening of the country.

From the perspective of the CCP, China's economic rise is both an end and a means. It is an end in that the Party draws much of its legitimacy from the material benefits its policies have provided for the Chinese people. Yet it is also a means to secure China's return to its pre-modern dominant position in East Asia and its rejuvenation as a respected world power. China therefore pursues expansive national objectives through its domestic and foreign economic policies.

Domestically, competition between foreign-invested and Chinese companies in China takes place inside a space circumscribed by the CCP's interest in allowing foreign competition for reasons other than enhancing individual welfare and creating private wealth. Such reasons may include the wish to spur innovation in Chinese-invested companies. While the link between commercial competition and political power in China may be weak enough in broad areas of economic activity to allow for lucrative activities by foreign-invested companies, fair competition and a level-playing field cannot be expected whenever the CCP sees its power at stake. Moreover, under the policy of 'civil-military fusion,' promulgated in 2014, the party demands that *all* domestic economic activity contribute to China's military strength. China can be expected to impose civil-military fusion on all commercial actors within its reach, including foreign companies operating in China. While in practice enforcement of the policy may not always function all that well, it is characteristic of the way in which China looks at the benefits of economic partnership. Moreover, given the huge share of intermediate goods and services within supply chains in China's external trade and the CCP's obsession with (military) power, concerns over possible security implications of collaboration with Chinese corporations – e.g. Huawei's part in building the emerging 5G telecommunication infrastructure in the West – seem reasonable.

China's formally ambiguous but *de facto* largely supportive stance towards Russia's invasion of Ukraine has given a new salience to these issues. Both countries have new international payments arrangements that – they hope – could make up for Russia's

exclusion from SWIFT, at least to some extent. China's main exports to Russia are in the telecoms and digital equipment sector, but the initial response of Chinese firms to Western sanctions was to reduce exports to Russia. Presumably they feared either that Russia's banking problems would prevent them getting paid, or that violating US sanctions would result in more negative consequences than losing market share in Russia. The two countries have plans for co-operation in civilian aerospace, as well as a strong military relationship. They trade increasingly in euros: estimates range between 40 and 60 per cent. Russia, which already supplies gas from eastern Siberia to China via the Power of Siberia pipeline, is keen to have the option of selling China gas from Western Siberia via a second pipeline (currently in the earliest stages of survey and design). Together with additional interconnectors, the new pipeline would enable Russia to supply China with gas that would otherwise go to Europe.

Like other industrial latecomers, China encouraged domestic firms to adopt superior technologies to get ahead of their competitors. Through a host of specific industrial policy instruments such as credits, direct financial support and preferential government purchase arrangements, it also supported Chinese corporations (often state-owned), over non-Chinese ones. With the 'Made in China in 2025' project (described in more detail in chapter II.2.4 below, p. 22), it became clear that China aims for Chinese companies to dominate the most important and advanced industrial sectors – not only in China but worldwide.

### II.2.3 Power trader: China's mercantilist challenge

In its foreign economic policies, China has been called a power trader, along the policy lines pursued by Germany towards Eastern European countries during the late 19<sup>th</sup> and the first half of the 20<sup>th</sup> century. Those policies were analysed, in a seminal work first published in 1945, by the German-American economist Albert O. Hirschman. His work has recently been applied to China. According to this argument, China today deliberately tries to enmesh smaller and weaker countries through one-sided ties of trade, financial flows and currency arrangements so as to make them politically dependent and malleable client states.

While the Chinese market is systematically rigged against foreign corporations, the situation is different

in Western and third countries' markets and in international markets. Yet there, too, China may try to shape the rules, regulations and institutions to its own advantage, through means fair and foul. One important legitimate way to do so is to set industrial and commercial standards. Corruption, placing personnel in key positions and conducting political influence operations to shape regulatory frameworks are other ways in which China may try to tilt the rules in its favour.

Co-operation and competition between corporations take place in both national and transnational markets, in accordance with formal and informal rules that reflect the regulatory frameworks within which they are embedded. The broadest regulatory framework for international competition is the WTO. There are serious doubts among experts as to whether China's domestic and external economic policies are compatible with the letter, let alone the spirit of the WTO. This is hardly surprising, given the primacy of politics (i.e. the CCP's unfettered control) in China. In the conception of the party, rules and laws are tools for exercising power. They are to be observed by others, but China will only observe them when convenient. China's approach to rules was demonstrated when the PRC imposed economic sanctions on Australia to express its displeasure about Australian demands for an international inquiry into the origins of the COVID-19 pandemic, shortly after the two countries were among the signatories of the Regional Comprehensive Economic Partnership (RCEP) Free Trade Agreement. It has been demonstrated again in the case of Lithuania, where China used informal but harsh trade sanctions against Lithuania and companies using Lithuanian components in retaliation for Lithuania's decision to allow Taiwan to open a representative office in Vilnius under the name 'Taiwan' rather than 'Taipei' which, Beijing claims, indicates the recognition of Taiwan as an independent state.

One of the most powerful tools available to governments in the context of foreign economic policy is the exchange rate of its currency, which affects the prices of all internationally-traded goods and services. By carefully restricting the opening of its economy in terms of capital flows – allowing huge FDI inflows, yet controlling outflows through the purchase of foreign currencies that resulted in huge reserves – China was long able to secure an exchange rate that benefited exporters. Today, a more pressing issue is that of WTO reform. The organisation lacks a mechanism to define how developing economies join the

ranks of developed economies. It is behind the times in several regards: sustainable development and labour rules are not legally enforceable within WTO rules; service and finance sectors – now as important as trade in goods, or even more so – are inadequately covered by these rules. The catch is that changes to WTO rules require unanimity.

#### II.2.4 China and technological innovation

The European Union's China strategy defines China as an economic competitor. Today, the most important element in that competition is the national capacity to innovate; this, in turn, will help companies and governments to shape international standards and norms. The race to innovate takes place among entrepreneurs and corporate actors, but it also involves the national and transnational institutions that generate the knowledge needed (i.e. universities and research laboratories). The purpose of innovation is to develop new products and processes that address individual and social needs. It serves to enhance both social welfare and national power. The demands of the military and security sectors represent an important driver of innovation, though nowadays most innovation originates in the civilian sector, and is transferred from there into military R&D. Competition between national innovation systems therefore displays a dual nature: it relates to socio-economic prosperity, but also geopolitical rivalry and national security.

It was Western (military and commercial) technological superiority that led to the decline of the Manchu Dynasty ruling China during what is now called the 'century of humiliation', and the Chinese leadership is acutely aware that technological prowess is the key to China's future wealth and power. In this context, technology for China is both an asset and a source of vulnerability: it is an asset as a critical input in the quest for economic advance beyond the middle-income trap, and for industrial and military dominance, but a source of vulnerability insofar as China still lags behind Western industrialised countries and depends on their embedded technologies, as in the case of microprocessors.

China's government is certainly not alone in deploying a range of policies and institutions to support technological innovation. Most if not all industrial countries provide support for economic activities on their territory and for national champions abroad. This can come in the form of subsidies, structural

policies, industrial policies and support for R&D. China's policies are unique, however, not only in their specific combination of policies and tools, but also in their comprehensiveness, in their level of ambition and in their dedication to an all-inclusive national power. In this, China benefits from the advantages of its Marxist-Leninist model of centralised control, that is the ability to mobilise society quickly and top-down in pursuit of the CCP's orders. Certainly, this also comes with disadvantages and inherent risks of catastrophic failure, as the experience of the PRC under Mao showed. Yet since the initiation of reforms in 1978, China has largely been successful in its efforts to steer the economy towards comprehensive national power.

To strengthen its competitive position and reduce its vulnerabilities, China in the past largely relied on the acquisition of foreign technology, by legal (licensing) as well as by 'grey' (forced transfers) or illegal means (industrial espionage). While this policy continues, more recently, the Chinese leadership has also embarked on an ambitious effort to gain benefits from and, wherever possible, achieve technological leadership in key future technologies, such as semiconductors, robotics, quantum computing or artificial intelligence. They have done this through efforts to acquire intellectual property, by fair means or foul, and a range of industrial policies that involve the injection of massive amounts of public money. In doing so, the Chinese leadership pursues both mercantilist and military objectives. From a mercantilist point of view, its ambition is to achieve Chinese leadership or even dominance in world markets for Chinese companies in a range of key industries, as spelled out in 'Made in China 2025'. The sectors identified by this policy, launched in 2015, include information technology, computerised machines, robots, energy-saving vehicles, medical devices, and aerospace technology, as well as maritime and rail transport. Geopolitically, the aim is to strengthen China's military capabilities and its capacity to project power regionally and globally with a view to matching and eventually surpassing the United States. Here, the leadership relies on the policy of civil-military fusion, ambitiously designed to put all civilian economic resources at the service of China's military power. The two objectives are mutually supportive; China's technology policies are thus a two-pronged effort to enhance China's national comprehensive power.

The next phase envisaged by those policy efforts is to reduce and eventually end China's dependence

on foreign technology (whether in the form of knowledge, or embedded in high-tech products, such as semiconductors), and thus eliminate its vulnerabilities in this sector. This effort is supported by other economic policies, such as dual circulation, that are intended to reduce vulnerabilities and strengthen the resilience of the Chinese economy against external shocks or sanctions. This seems to hark back to earlier periods when the PRC's economic policies aimed at autarky, and it sits uneasily with China's professed commitment to globalisation, which presupposes open economies and interdependence and thus inevitably implies dependence on and vulnerability to the rest of the world. There thus appears to be a fundamental contradiction between the realities of a globalised world and the impulse of the Chinese leadership to exercise control. Already, China's technology policies have created a significant backlash in the West, exacerbating the geopolitical aspects of the competition. The backlash is driven by two aspects of China's behaviour that contradict European expectations of globalisation, namely China's predatory exploitation of open markets and access to foster its own advantages, and the threats to European economic and national security that China's insistence on control poses.

One way to mitigate those contradictions would be to decouple dual-use or even critical high-tech industries and forge separate Western and Chinese 'technology blocs'. Enhanced efforts by both China and the West to strengthen controls over technology exports and closer (military) technology co-operation between China and Russia point in this direction. In this scenario, technological globalisation would be divided into two areas, and the authoritarian sphere would not have the upper hand. It seems doubtful, however, whether the forces that have opened economies and societies around the world can be rolled back successfully. Knowledge will continue to leak, and probably spread even more rapidly than in the past, accelerating innovation worldwide. The outcomes of technological competition will therefore be shaped above all by the speed at which advances produced within the networks of national or transnational scientific-military-industrial complexes are diffused widely, raising productivity or (in the military sphere) increasing capabilities.

Another option is therefore more or less mirroring China with industrial policies including government guidance and subsidies or border adjustment taxes (such as the carbon border adjustment mechanism

presently under discussion in the European Union) to prevent unfair competition. This would be a ‘more like China’ policy approach reminiscent of Japan’s industrial policy rule book before the 1980s. The technology and innovation race, which focuses on the ability to translate advances into new generations of services and products, is a global race. In this race, China has a lead in terms of capital investment because of its massive and centrally-managed savings. The US relies on venture capital, on government-driven innovation, and on scale. Europe shares with the US reliance on the free flow of human resources and cross-border scientific linkage.

The two prongs of technology innovation, the civil and military applications of scientific knowledge, will continue to merge, not only in China but also in the West. Europe lags behind badly in both, but particularly so in technologies with military implications. It therefore is in acute danger of being left behind in this competition, with profound consequences for its ability to support its future prosperity, to retain a modicum of international influence and gain some strategic autonomy, and to defend itself adequately.

Technology provides the tools that allow us, individually and collectively, to realise our ambitions. Yet those tools reflect our own preferences and inclinations, and their use changes us: humankind and its tools have co-evolved since the dawn of history. Technology thus is closely intertwined with its social context and its respective normative foundations. The competition in technological innovation therefore also will have profound importance for the future of societies and cultures, pitching Europe’s human-centric approach to technological innovation against the power-centric approach pursued by the CCP.

### **II.2.5 China’s commercial and diplomatic expansionism: the Belt and Road Initiative**

One of Xi Jinping’s earliest major political-economic projects, which raised the question of a Chinese grand strategy in the international discussion, is that of the Belt and Road Initiative (BRI). It began in 2013 with Xi’s announcement in Kazakhstan that he intended to build “a Silk Road Economic Belt” through Eurasia with the help of Chinese funds. It developed into a large portfolio of different projects all the way to Europe, Southeast and South Asia, Africa (along a so-called ‘Maritime Silk Road’), and even Latin America. China has so far spent about \$200 billion on its am-

bitious initiative. China has also proposed a ‘Digital Silk Road’ (improving digital infrastructure in target countries), a ‘Polar Silk Road’ (building infrastructure and encouraging the use of maritime routes in the Arctic) and a ‘Health Silk Road’ (strengthening international health sector co-operation) – though none has progressed very far in practice.

The grand project is often compared to the Marshall Plan after the Second World War, whose financial scope it exceeds by far. A more compelling analogy might be imperial Germany’s visionary infrastructure project, the Berlin-Baghdad railway, as a means to challenge the established colonial powers. Like those historical analogies, the BRI merges a geopolitical grand strategy with domestic economic objectives: the BRI supports the Chinese government’s efforts to ensure that Chinese companies always have plenty of business, whether they are exporters, investors or importers of raw materials, and to secure reliable footholds in the countries of the global South. The BRI is thus designed to underpin an expanding Chinese economy, as well as serving as a geopolitical grand strategy. The problems that BRI projects encounter are frequently similar to those of Western projects in the countries of the South: corruption, unreliable cost-benefit analyses, political influence.

Some aspects distinguish BRI from models of Western economic co-operation, however, and make it seem a prime example of systemic rivalry. They were therefore the reason for the development of competing projects in Western countries (such as the EU’s ‘Global Gateway’, announced in 2021). Such differences lie primarily in the so-called ‘debt trap’ nature of large BRI projects: if partners cannot service the loans granted by the Chinese, the projects become the property of the lenders (the most famous example is the Hambantota port in Sri Lanka). Another difference lies in the often overriding political objective of uneconomic projects (the Gwadar port in Pakistan, or the new highway in Montenegro). Finally, the role played by the CCP is striking. If, for example, it is contractually stipulated that Chinese courts have jurisdiction in disputes, this means courts in China that follow the guidelines of the CCP. Thus the CCP ultimately adjudicates disputes with international partners (while the Chinese company often is one of the large Chinese State Owned Enterprises).

BRI is therefore by no means uncontroversial among China’s global partners. Major project partners such as Malaysia and Tanzania have pulled out of large-scale projects. The EU has criticised Chinese

investors for tempting the states of the formerly so-called ‘17+1’ – now ‘16+1’, i.e. 16 European states, including ten from the EU, and China – to disregard the EU’s procurement guidelines and complains that China is pursuing a strategy of divide and rule; Lithuania pulled out of the group in 2021 due to unfulfilled expectations. The militarisation in the background of many projects arouses suspicion, such as the construction of a large naval base in Djibouti or training for rescue operations with the German Bundeswehr (‘Combined Aid 2019’), expressly justified by the Chinese on the basis of the possible need to come to the aid of Chinese companies in BRI projects. The results of the BRI are therefore mixed, but the PRC has succeeded in presenting itself as a helpful donor, with the assertive power of the second largest economy in the world, in the area of economic co-operation with the countries of the Global South. This gives the notion of systemic rival another concrete meaning.

### II.3 China as a systemic rival: the CCP’s quest for power and influence

Some competition between nations is natural; what makes the competition between China and liberal democracies problematic is that it is underpinned by systemic rivalry. The model of liberal democracy (which puts individual human dignity at the centre of its politics) and liberal markets presents a challenge to the neo-totalitarian alternative pursued by the CCP leadership. This systemic incompatibility stymies efforts to compartmentalise relations with the PRC. Ultimately, all three dimensions in Europe’s relationship with China – co-operation, competition and systemic rivalry – are interrelated. Yet systemic rivalry is at the core of the relationship, permeating both competition and co-operation. The CCP considers this challenge as existential and therefore is determined to defuse it by all and any means. This threatens Europe’s interest in the survival of the liberal international order.

China’s rise is a political project, promoted and relentlessly pursued by the leadership of the CCP. It claims that this project does not involve territorial expansion beyond its (self-defined) national boundaries (though for some of its neighbours, China’s policy does feel a lot like expansionism). Yet the project also has far-reaching international ramifications. This starts with China defining itself as a modern nation-state, but one whose boundaries include not only

Tibet and Xinjiang (non-Han Chinese), but also Hong Kong and Taiwan, the features and islands in the South and East China Seas and significant territories now controlled by India. China’s new border law, which entered into force on January 1<sup>st</sup> 2022, also created new anxieties about Chinese encroachment on the national territory of Bhutan and Nepal.

Unlike the former USSR, China does not present its own socio-economic and political model as universally applicable. China has also advocated co-operation based on the promise of mutually-beneficial relations between itself and liberal democracies, and the desire for the Chinese to become rich and strong both individually and collectively has provided fertile ground for such pragmatism. Yet in recent years the CCP leadership has begun to suggest that its own model is superior to that of the West.

In practice, all these considerations exist alongside the CCP’s persistent sense of insecurity, bordering on paranoia, about its hold on power at home, and threats to it from abroad. It is difficult to assess whether China’s ambition is to erect a new Chinese empire in the way the Soviet Union did in Eastern Europe and Central Asia, but it does want its own sphere of influence in East Asia, at a minimum. The CCP also wants others to accept and facilitate its claim to absolute power at home, and thus seeks to influence the politics of other countries and to put its stamp on international organisations. The challenge for liberal democracies (and any other political order outside China) therefore is to be able to pursue their own political course against Chinese wishes.

#### II.3.1 Prosperity, wealth and (in)equality

Securing prosperity and material growth for the Chinese people has been a key source of legitimacy for the CCP’s claim to absolute power. Since the 1978 economic opening, this strategy has been remarkably successful. A very large majority of the Chinese have seen their material circumstances change dramatically for the better, and most of them look forward to further advances in the future. If the economic situation changes for the worse, however, the CCP could find its legitimacy called into question; it is even possible that disappointed economic expectations could spur popular unrest.

In China’s remarkable growth story, some Chinese have become especially rich. In 2020, the Forbes list of the world’s top hundred billionaires included 15 Chinese, together representing an estimated net

worth of \$290 billion (34 Americans are on the list). As a result, the PRC has seen rising social inequality, with wealth and power concentrated in the hands of an elite coalescing around the core of the CCP. The story of Jack Ma, the co-founder and former executive chairman of Alibaba Group, chastised by the leadership and ultimately disappearing from sight when he criticised official policies, is highly instructive in this context: his entrepreneurial talents made him very successful, very rich and very well-known — courtesy of the CCP. When he dared to criticise some aspects of the CCP's policies, however, the party leadership cut him down to size. In the cohabitation between business and politics in China, there is no doubt who is in charge: the CCP. Many of its leaders and their families are therefore also rich, very rich.

Yet in its own, very paternalistic ways, the CCP does care about the welfare of the (Han) Chinese. Lifting the population out of poverty and providing for its material well-being has been an objective of the leadership since Deng's ascent to power. This concern persisted under the Hu-Wen leadership (2002 – 2012) with the appearance of local minimum wages, some social redistribution and retirement systems, and under Xi with a new focus on the fight against poverty and levelling up backward regions. At the same time, the Party also needed to address problems that resulted from rapid economic growth and advances in material well-being, notably pollution and environmental destruction, that gave rise to complaints from the urban middle classes. Today, these negative effects of hyper-growth, and the stark inequalities of wealth and income that it produced, have eroded the link between China's material growth and the CCP's legitimacy. The party has had to look to other sources to bolster its legitimacy and justify its iron grip on power.

### Demographic transition

After Mao's effort to increase China's population quickly ("every head has two hands") and Deng Xiaoping's goal of stopping population growth, including with the help of coercive measures (the one-child policy, introduced in 1980), China's leadership is now concerned that the foreseeable drop in population growth could harm the country socially and economically. The birth rate in the world's most populous country, with 1.4 billion people, is lower than it has been since the founding of the People's Republic: 10.48 births per 1000 people in 2020, with Chinese women giving birth to 14.65 million children, almost

four per cent fewer than in the previous year. Demographers expect that in 80 years there will only be 730 million people living in China.

The relaxation of the one-child policy — since 2016 families have been allowed to have two or even three children — has not had the desired effect. The reason for the slump in births is a far-reaching change in Chinese society. The success of the one-child policy was due to strong urbanisation and rising housing costs in the big cities, as well as ruthless enforcement. In addition, more and more young women are highly educated and have competitive positions in professional life; they choose not to have large families. The desire of parents to offer their children a better quality of life in smaller families and the cost of a very competitive educational system have also contributed to this development.

The population will therefore age much faster than previously thought, and the growth of China's economic power could suffer from this, unless the decline in the working age population can be balanced by large increases in productivity. China has an inadequate old-age pension system, condemning many of those who do not work to poverty. But economists and demographers disagree on the extent to which a sharply declining birth rate will actually be problematic for China's society and economy. It is simplistic to assume that when old people retire, they become unproductive; and that only young people go to work and are therefore productive. Finally, the forecasts for China are not set in stone. Some experts estimate that if the birth rate recovers, the population could well be more than one billion people by the turn of the century.

### II.3.2 Totalitarian China and the CCP's ideology

As its constitution proclaims, the PRC is a "dictatorship" (zhuanzheng) under the "leadership of the Party". This is traditional Leninist thought. Lenin's effort to place the exercise of power at the centre of his politics was copied and improved on from the time the CCP was founded — one might compare Lenin's remarks on the importance of power and violence in the political process to Mao's more graphic remarks that revolution is not a dinner party, and political power comes from the barrel of a gun. In the Soviet Union, Lenin's successor Stalin showed what dimensions totalitarian power can have. The Chinese Communist Party is on a par with the Com-

munist Party of the Soviet Union in this respect. However, the Leninist vanguard party led by the ‘proletariat’, formally has opened its doors to other strata of society in a series of steps. It is at the centre of all aspects of China’s governance today.

With more than 90 million carefully selected members, who are prepared for their task in a rigorous selection and training process, it is both the dynamo and the handicap of China, which in any case owes a good part of its extraordinary growth history to this party.

After the founding of the PRC, the group of the so-called Nine Immortals, those generals who had led the People’s Liberation Army to victory in the civil war, and their families, became the core of the party (Xi Jinping belonging to one of the families). The one-man rule of Mao Zedong was that of a charismatic leader in the war, and of an effective ideological propagandist, who, nevertheless, had to fight for power again and again. Next followed 30 years of collective leadership, often stodgy and averse to major changes, established by Deng Xiaoping. Since 2012, Xi Jinping has ruled, once again a one-man rule, but this time by a leader without charisma, yet in possession of all the levers of power. With the essential elements of Leninism and modern instruments of centralistic rule at the Party’s fingertips, China is now almost a textbook version of a modern totalitarian state.

The difference between authoritarian and totalitarian governance may be defined as the latter recognising no boundary between the state and the lives of citizens, including areas that are not relevant to governance. For decades, the PRC has wriggled back and forth between the two, with democratisation only theoretically and occasionally discussed as a possibility. Under its present leadership, the CCP has gradually shifted back to controlling the lives of its citizens, restricting both political and non-political individual liberties.

The communist, socialist, or marxist orientation of the CCP has been adapted to its changing needs throughout its history, each time labelled as one thing or another ‘with Chinese characteristics’. Since the 1990s there has been a need to express the *de facto* change of the PRC to a state capitalist form of governance without dropping the rhetoric of Marxist tradition — but it is now ‘Marxism with Chinese characteristics’. Those adjustments proved insufficient, however, to support the narrative of the CCP’s right to hold on to power. The official ideology was therefore supplemented by a recourse to ‘patriotism’. In that narrative, it was the CCP that defeated the Japanese

in the Second World War, and then led China to regain its ‘rightful place in the world.’ Under Xi Jinping, there was a gradual evolution of this narrative. The term ‘Chinese Dream’ became Xi’s signature motto, signifying that the CCP had led China from the ‘century of humiliation’ to the present “Great Rejuvenation of the Chinese Nation” (Xi Jinping). This is the new master narrative giving a new ideological foundation to the idea of ‘China’ as such, integrating older imperial as well as Communist narratives. It thus gave the Party a central role not only in current Chinese politics, but also in the ‘5000-year history of Chinese civilisation’. And as retired PLA colonel Liu Mingfu’s 2010 bestseller *The China Dream* proclaims, it is China’s “destiny” to “lead the world”.

What had begun under Jiang Zemin as an effort to nurture patriotic sentiment, now turned into what might be called ‘Party-patriotism’, with the Party seen as the embodiment of the nation that expected loyalty from citizens. The younger generation in China has been imbued with this ideology since early childhood, as part of the social engineering pursued by the CCP. Schools, from the elementary level to universities, are now required to teach ‘Xi Jinping Thought’, which has been incorporated into the Constitution. Children, teenagers and adults are required to participate in group tours to places that provide ‘patriotic education’. A far-reaching (and still growing) Xi personality cult is merging with nationalist sentiments and rendering the Party and country almost identical.

Careers and lives, including the number of children permitted, have always heavily depended on guidance by the Party. Under Xi, and with the help of AI, this guidance has reached another level. Not only is the internet tightly controlled by algorithms, it also serves as a basis from which to launch attacks against Chinese (or foreigners) not adhering to the Party’s rules. Furthermore, AI has enabled the CCP to introduce what is referred to as a ‘social credit system’. Though still in its experimental stage, this system is the farthest developed in Xinjiang, where it is the basis for internment of individuals. It enables the state to use facial recognition to monitor citizens outside their homes and to follow their activities, giving them credit points depending on their behaviour. Such points determine the benefits that citizens may receive or be deprived of, such as permission to purchase travel tickets. Algorithms monitor the internet to delete — or report to security authorities — even single words. Algorithms track the use of prescribed reading (‘Xi Jinping Thought’) and reward or

punish it. Cameras enable AI tools to recognise individuals and punish or reward their behaviour (with particular consequence in Xinjiang). These technologies are still being tested in different versions in provinces across China with a view to introducing them nationwide – a development that led the German commentator on China Kai Strittmatter to speak of a “reinvention of dictatorship”. These technologies are also exported to like-minded governments.

The CCP's national ambitions to employ indoctrination and social control through old and new technologies of surveillance and repression have international repercussions. Given the degree of China's exposure to and involvement with the rest of the world, realisation of those ambitions will require the CCP to shape narratives and exercise influence over people's behaviour abroad. Implementation of the political strategy used to achieve such indoctrination is largely the responsibility of the 'United Front', a designation that covers the CCP's alliance with remnants of democratic parties at home. With more Chinese abroad, United Front activities today cover a wider field than in the past. Students, for example, are organised through Chinese missions abroad and are required to represent their country. Teachers in universities outside China may face criticism from their Chinese students and feel obliged to censor themselves on certain topics (e.g. Hong Kong, Taiwan). Publishers may want authors to avoid 'sensitive' remarks in their books and companies can expect online backlash should they criticise the treatment of the Uyghurs. Australia was told its members of parliament needed to stop criticising China, or else risk its advantageous trade relationship with the country. If such 'persuasion' is ineffective, China can also try to use extra-territorial legal measures to control what Chinese and non-Chinese citizens do and say: the National Security Law imposed on Hong Kong by the Beijing authorities allows prosecutions for 'national security' crimes committed abroad, including by the nationals of other countries. Wherever the CCP sees it as desirable, it is inclined to indoctrinate at home and abroad.

### Concentration of power

The governance of totalitarian states is almost by definition open to the abuse of state power in all social spheres. China is no exception. Corruption, mainly for the benefit of Party members or Party organisations, is endemic. The CCP has repeatedly sought to curb it, especially under Xi Jinping, and also uses the

fight against corruption as an instrument in intra-party power struggles (“slay tigers and swat flies”, or fight corruption at both the bottom and the top of the Party, as Xi put it in 2013). China is a signatory to the 1948 United Nations Declaration of Human Rights. However, it has not acceded to several subsequent conventions, notably on civil and political rights, enforced disappearances, migrant workers and forced labour. In practice, human rights problems range from the control and restriction of individual freedoms (such as electronic surveillance, censorship, forced birth control), and the determination of citizens' lives down to the micro level (e.g. their place of residence, choice of study and profession, and freedom of movement), to the imprisonment and murder of opponents of the regime (e.g. the Nobel Peace Prize laureate Liu Xiaobo, who had called for democratic freedoms in *Charter 08*, or Ilham Tohti, the Uyghur academic) and kidnappings abroad. Criticism of China in the UN Human Rights Council has failed for years due to the success of the PRC's efforts to organise majorities – mainly of non-democratic Council members – to support it (see chapter II.3.5 below, p. 32).

More than almost anything else, the pandemic and the response to the Ukraine war have shown how the CCP has succeeded in unhesitatingly holding on to power. Admitting mistakes is considered a weakness. All institutions and organisations, be they in the executive, judiciary, administration, media, economy or civil society realm, are controlled by means of strict guidelines, surveillance or direct Party presence. All of these characteristics are typical of the ambitions of governments in other totalitarian, dictatorial or even autocratic states. There is, however, one major difference between such states and the PRC today: China's economic strength. It is this that makes the totalitarian character of Chinese governance appear so effective.

### II.3.3 Nationalism and minorities: the 'Chinese dream' is ethno-nationalist

Most, if not all, of China's problems with the (official) 55 ethnic minorities in the country, or 8.89 per cent of the population (2020), stem from the same root: the violent disputes over the modernisation of the Chinese state.

The origins of what we today understand as Chinese culture can be traced back to the second millennium B.C. Although this does not support the case for 5000 years of continuity in the Chinese civilisation, various empires ('dynasties') both ethnically Han and

not, existed on all or parts of what today is China's territory, with a unifying period under the Han dynasty (202 BC–220 AD). During the 19<sup>th</sup> and early 20<sup>th</sup> century – i.e. the latter part of the Manchu-Qing dynasty (1644–1911) – Western imperialism and colonialism increasingly encroached on China. In response, Han and Manchu elites strove to modernise the country. That included the notion of a Chinese state in the prevailing Western sense of an ethnically homogenous nation. After the fall of the Qing, first the Republic of China and then after 1949 the People's Republic continued this project; the various ethnic groups that had coexisted within the boundaries of consecutive empires with their own traditions and cultures thus became victims of Sinicisation efforts, leaving remnants of the minority's original cultures as artefacts of 'traditional' touristic sights. A lasting exception has been the Mongols, however, a coalition of nomadic tribes allied with the Manchu who conquered China in the 17<sup>th</sup> century. The two ruled together until the Qing Dynasty fell in 1911 and the Manchu were deposed. The Mongols then returned to their nomadic 'independence'. Stalin, for his own reasons, helped defend this Mongol state, which formally became independent in 1921, resulting in today's division between a Chinese ruled Inner Mongolia and Mongolia proper. Inner Mongolia, meant as a showcase for the people of Outer Mongolia, was spared cultural repression and enforced Sinicisation until very recently.

The Tibetans were less fortunate from the outset. After the end of the Qing dynasty, Great Britain supported a fully independent Tibet. The People's Liberation Army conquered and annexed the whole territory in 1951, and in violation of the agreement imposed on Tibet at that time, the CCP increasingly took over the Tibetan government, suppressing its culture and Tibetan Buddhism. This led the Dalai Lama to flee in 1959, and to set up a government in exile in India. With the Dalai Lama becoming an internationally influential personality and the growing importance of human rights in the international system, Tibet remains a bone of contention between China and democratic countries. Due to economic modernisation and Han immigration, the original fabric of Tibetan society has already changed significantly, and by the time the Dalai Lama (who was born in 1935) dies, Beijing may be able to control the expected protests effectively, and possibly to install a new Dalai Lama chosen by the CCP.

The situation in Xinjiang has only recently attracted the attention of outside observers. A large multi-

ethnic and largely Muslim region, Xinjiang had often been fought over. Although the Soviets briefly supported an Eastern Turkestan Republic during World War II, there was little resistance to its incorporation into China after the Communists took over in 1949. Xinjiang then experienced large-scale Han immigration. But from the 1990s onwards, demands for the creation of an independent 'East Turkestan' became louder among the major ethnic group in Xinjiang, the Uyghurs. Supported and influenced by radical Islamist groups, the East Turkestan Independence Movement instigated a number of terrorist attacks on Han Chinese in various parts of China. This led to repressive measures by Beijing which turned into an increasingly systematic effort to eliminate both Islamic religion as an actively practised faith and Uyghur culture as distinct from that of the Han. These measures were much farther-reaching and were implemented more quickly than the cultural eradication measures in Tibet. They culminated in 2017 with the establishment of internment camps, devoted to rigorous re-education, forcing internees to go against Islamic faith practices. By 2020 these held at least one million Uyghurs (of around 12 million in Xinjiang). In addition, a system of electronic and personal surveillance has been established throughout the region, Uyghurs are forced to move to other parts of China as labourers. Coercive birth control has been imposed, leading to a precipitous drop in births.

These ethno-nationalist policies have led the American government and some Western countries to accuse China of either genocide or 'cultural genocide', though others prefer to term these major human rights violations crimes against humanity. By 2020, at the UNGA Third Committee (responsible for human rights and social matters), 39 countries denounced Chinese human rights violations in Xinjiang while 29 – including Islamic countries – opposed the resolution. A number of countries have imposed sanctions. In spring 2021, when the EU imposed sanctions against one Chinese government institution in Xinjiang and four individuals responsible for human rights violations, the Chinese government announced counter-sanctions against four EU institutions or organisations (among them the Human Rights Committee of the European Parliament and the Political and Security Committee – the committee of EU member states' representatives that deals with EU foreign and security policy) and ten individuals (members of parliament or China researchers).

### II.3.4 The external dimensions of suppressing dissent

#### Hong Kong

The Hong Kong Security Law of June 30<sup>th</sup> 2020 represented the PRC's *de facto* takeover of Hong Kong. As it is enforced by PRC, rather than Hong Kong, authorities, it marks the end of the so-called 'One Country, Two Systems' period, agreed by Great Britain and the PRC in the 1984 Sino-British Joint Declaration. According to this treaty, Hong Kong was supposed to retain its own system of governance and a high degree of autonomy until 2047. After the promulgation of the Security Law and the various measures that have followed it, the British government declared China to be in a "state of ongoing non-compliance" with the Joint Declaration, violating international law.

The termination of Hong Kong's special status also ended a period characterised by increasing unrest among younger citizens and members of democratic movements. The CCP had lost the bet it had placed on the 'One Country, Two Systems' principle: despite economic success, Hong Kong citizens did not feel drawn to living under the mainland's Communist regime, and showed it by their votes and demonstrations. Two possible developments seemed particularly threatening to Beijing. One was a larger conflict in Hong Kong, possibly spilling over into the mainland and jeopardising relationships with China's international partners. The other was the prospect of having to control citizens for decades after 2047, as they would not automatically pledge loyalty to the PRC at the end of the 50-year grace period.

The solution to both problems was obvious to Beijing: end the Hong Kong experiment with an iron fist as quickly as possible, and do so while COVID-19 was raging, as the world was focused elsewhere. This solution caused fury and desperation in Hong Kong and outrage in the West. The UK responded by offering holders of British National (Overseas) passports and their dependants – more than 5 million Hong Kong citizens – the right to migrate to the UK. The British government estimated that between 260,000 and 320,000 people might take up this offer. China described the scheme as a violation of international law and interference in its internal affairs. Despite this, the CCP has good reason to be satisfied with the outcome of its crackdown in Hong Kong. After all, the Party had shown its resolve, its dislike for compromise and its strength to all potential enemies, whether in

Hong Kong or in the world at large. The cost – a drop in Hong Kong's international economic role – was judged to be bearable.

#### Taiwan

The manner in which the CCP has brought the Hong Kong model to an end is a clear and ominous sign for Taiwan. If 'One Country, Two Systems' is not an option anymore, what is? Since 1983, when Deng Xiaoping presented the model for Taiwan, the message had always been that the PRC wished for a peaceful reunification, but was ready to resort to military force should such a resolution not be possible in due (but undefined) time, and in a number of predefined but vague circumstances including civil strife or chaos on the island. As the younger generations used to democratic governance started occupying positions of power in Taiwan, the Kuomintang, the stalwart Republic of China defender, gave way to the Democratic Progressive Party, historically advocating independence. This shift in Taiwanese public opinion reflects the evolution of a new Taiwanese identity, which has occurred in parallel with the PRC's political rise and economic successes.

The past decade has thus seen an increase in tensions around the Taiwan Strait. On the one hand, Taiwan's leaders have become increasingly defiant of China, and they are supported by a majority of Taiwanese, even more so after the events in Hong Kong. On the other hand, the CCP has seen the chance for voluntary unification slip away. As a consequence, the CCP increased political and economic pressure on Taiwan, while Taiwan's leaders turned to the US for reassurance. In his 2020 and 2021 New Year's speeches, and again in July 2020 when he vowed to "smash" Taiwanese independence, Xi Jinping broke the tradition of mentioning the hope of reunifying peacefully (though he did talk about his preference for peaceful reunification again in October 2021).

Under President Donald Trump, the US Congress passed legislation in 2020 designed to create more international space for Taiwan. It also supported the supply of advanced weapons systems, and the US navy regularly sends ships through the Taiwan Strait. President Biden has largely followed his predecessor's approach. The PRC, for its part, severely reduced economic exchanges with Taiwan, and pushed for countries that recognised Taiwan as the Republic of China to switch to the PRC instead (with some success). Maritime incursions beyond the Taiwan Straits median line have gone up, and the People's Liberation Army Air

Force (PLAAF) now routinely enters Taiwan's Air Defence Identification Zone (ADIZ).

The greatest military threats against Taiwan, however, remain the thousands of short- and medium-range missiles based in coastal China and China's vastly increased amphibious capabilities. Taiwan, a comparatively small island close to the shores of the PRC, would struggle to defend itself against the newly acquired military might of China. Its survival therefore depends on US support. Under the 1979 Taiwan Relations Act, the US implicitly promised to come to Taiwan's defence if the PRC were to attack. Recent discussions in the US, however, often conclude that America might be hard pressed to win a war in the Taiwan Strait against China's growing military capabilities. On the other hand, the difficulty Russia's numerically superior forces have had in defeating Ukraine's smaller but highly-motivated troops might inspire the Chinese leadership to be cautious about trying their luck in an attack on Taiwan.

Taiwan is strategically crucial for Asia, allowing control of some of the major sea lanes into the Pacific. It is also a key innovation and production centre for the world's IT industry, and especially for semiconductor production. If Taiwan were to be conquered by the PRC, China would pose an even larger threat to Japan to the island's north and the Philippines and other southeast Asian countries to its south. The countries in the region might thus find themselves forced to re-examine their strategic and political calculations. In many ways, Taiwan is a prize worth fighting for to both the PRC and the US.

For Europe too the question of Taiwan's status is of importance. The economic weight of European countries' exchanges with Taiwan is great and continues to grow, especially in the high-tech sector. Taiwan is responsible for more than 60 per cent of the world's semiconductor production, making it vital to European manufacturers in many fields, including the automotive industry. In addition, social and political like-mindedness, based on liberal and democratic values, has continued to grow since Taiwan's transition to democracy in 1987. However, despite the importance of these two strands of development, their practical impact on Taiwan's situation will remain marginal, compared to the importance of Taiwan's relationship to the US and to its geographical neighbours.

Any major change in Taiwan's status would, however, have a significant effect on Europe's relations with Taiwan. Unification of Taiwan with the mainland, even if brought about democratically — for in-

stance by a Kuomintang-led government in Taipei — would downgrade European relations with Taiwan. Unification by force would lead to a serious deterioration in relations with the PRC as a whole. A violent confrontation with China would mean that Europe would have to choose one of the two sides more or less clearly (presumably with the US on Taiwan's side); this would have corresponding consequences for Europe's role in the Indo-Pacific region as a whole and in its relationship with the PRC in particular. Taiwan's independence — imaginable only with the support and recognition of the United States — could conceivably come about as an element of a new Cold War, now with the line drawn through the Taiwan Strait, and with Europe on the side of the US.

Alternatively, it might result from a (temporary?) disintegration of the mainland state or from a consensual settlement — conceivably in the wake of a democratisation and federalisation of the PRC. This would give Taiwan — the only democratic Chinese society to date — a role in the further development of the mainland. Here, Europe would presumably provide significant support to Taiwan in building rule-of-law institutions and civil society in China. Security questions relating to Taiwan therefore deserve to have a high priority on Europe's agenda.

They must also be approached with caution, as Europe does not have the military leverage to back major changes. Expanding all relations below the formal state level with Taiwan's vibrant and innovative society is a requirement. Reacting to Chinese moves against the present status quo is desirable. Supporting irresponsible moves towards any formal independence is not.

### II.3.5 Contradictions of China's international public diplomacy

In 2020 Chinese foreign ministry spokesman Zhao Lijian, in reaction to an Australian government report about Australian war crimes in Afghanistan, tweeted a digitally-manipulated image of a child having their throat cut by an Australian soldier. It seemed like the apogee of what inside and outside China is called Beijing's 'wolf warrior diplomacy', and a new level in the deterioration of China's international image. Exhorted by Xi Jinping in 2021 that "China needs a voice that matches its national strength", the country's diplomats are making efforts to "stand in the way of mad dogs that attack China" (as the Chinese ambassador to France, Lu Shaye, put it). Even more

ominously, China's mass disinformation practices are converging with Russia's in their treatment of the invasion of Ukraine: for instance, China has been relaying Russian propaganda, including allegations that the US is developing biological or chemical weapons in Ukraine. Far from defending China's interests, however, Chinese public diplomacy is contributing to the outside world's lack of confidence in Chinese leaders doing the right thing in world affairs, a distrust shared by 78 per cent of the public in Western countries, according to polling by the Pew Research Center in 2020.

Hostile diplomacy has been a long-standing hallmark of the PRC's relationship with other countries, especially during the first three decades of its existence. Even after Deng Xiaoping began his policy of 'peaceful rise' based on economic reform and opening, and the principle of keeping a low profile in international affairs, there was little restraint in acting and speaking outside the bounds of traditional diplomacy. For example, after Governor Chris Patten initiated steps towards universal suffrage in Hong Kong in 1995 then Director of the Chinese Hong Kong and Macau Affairs Office Lu Ping called him a "sinner for a thousand years".

The most visible negative impact on the PRC's image abroad, however, came from its human rights violations. In 1980, there was the suppression of the 'Democracy Wall' activists, then came the Tiananmen atrocities and their years-long aftermath, and, through the 1990s, international disputes about the situation of Tibet. For a decade after the Tiananmen crisis, China's government occasionally made case-by-case concessions on its political prisoners. This has entirely stopped under Xi Jinping, and dual nationals or holders of foreign passports are increasingly targeted or taken as quasi-hostages. The human rights situation contributes significantly to China's negative image in Western countries, as shown by the extent to which the Winter Olympics in Beijing in February 2022 were marred by reports about the situation in Xinjiang, and by the repressive control exerted on foreign participants in the Games.

The Chinese decision to apply for WTO membership and the PRC's efforts to achieve it during the latter part of the 1990s put extraordinary pressure on the CCP institutions involved, the government, economic experts, media, and of course Chinese industry and business as a whole. The pressure on all these groups to adapt to the ways of the outside world was enormous. It led, aside from the final success in 2001,

to previously unknown levels of acceptance of internationally established rules in negotiations and general attitudes. That complemented changes already affecting the mind-set of the hundreds of thousands of students, scientists and business people who were now living abroad for significant periods of time.

As a consequence, for about a decade China made significant progress in integrating into the globalised international system. Even when there were disputes (most often concerning human rights violations in China), dialogue seemed possible, despite frequently harsh Chinese reactions to criticism from abroad. China's image worldwide visibly improved, and there was an expectation that China would be a strong but co-operative actor on the world stage.

The change to an unabashedly assertive China came around the year 2008, and three major factors contributed to it. There was an uprising in Tibet, resulting in sharp international criticism of China, which seemed to prove to the CCP that there still was unmitigated ill-will towards China in the West. Then the success of the Beijing Olympics reassured the CCP that it had demonstrated the scale of its achievements to the world, and to the Chinese people. Lastly, the global financial crisis, which China weathered with the help of state interventions, seemed to prove the traditional Marxist contention that capitalism was dangerously crisis-prone and thus weaker than an intelligently managed state-led economy, and therefore showed at least potentially the superiority of the Chinese 'socialism with Chinese characteristics'. Those in the Chinese leadership who believed that the time had come to pursue Chinese interests more uncompromisingly were strengthened. Their policies affected the following five areas, all of which contributed to a gradual deterioration of China's international image.

First, there was the adaptation of the Chinese economy to the rules of the WTO. China had promised that within fifteen years it would bring its domestic rules in line with those demanded by the WTO, in order to meet the requirements of market economy status. It turned out, however, that by and large promises remained promises and therefore in 2016 China was denied market economy status, a decision that made the CCP feel slighted by the West, while Western observers concluded that agreements with China could not be trusted.

Second, China began to pursue its expansionist territorial ambitions with new zeal. From 2010, it used its navy and air force in various ways to push its

claim that the Senkaku (Diaoyutai) islands in the East China Sea should belong to China, not Japan. Despite Xi Jinping stating in 2013 that the PRC would not militarise the South China Sea, it did exactly that. Chinese armed forces repeatedly crossed the border into disputed territory between India and China, and Bhutan and China. It stepped up its aggressive military gestures against Taiwan (naval vessels and military aircraft approaching Taiwan's maritime or air space). Now it is substantially upgrading its nuclear arms arsenal, both in the numbers of warheads and the capabilities of its missiles.

Third, with Xi Jinping's arrival, a new assertiveness entered foreign policy in more creative ways than ever before. The Belt and Road Initiative of 2013 is an example of how such foreign policy initiatives breed misgivings about China's activities even in parts of the global South.

Fourth, with its new strength China began to expend political energy on systematically reinterpreting or changing rules that were not to its liking. It focused mainly on the UN system. Thus, the PRC made efforts to bring qualified persons from its own administration into important positions in international organisations, preferably as their heads. China also tried to introduce political and technical terms from Chinese governance discourses into UN documents, thus changing their orientation, and to rewrite norms and manipulate existing procedures to China's advantage. An example is the UN Human Rights Council, where China regularly succeeds in neutralising the ability of the UNHRC system to hold any government accountable for serious human rights violations by winning enough votes to defeat resolutions critical of China. Chinese tactics have already had a significant impact on the UN system, in line with China's declared objective of establishing "a new type of international relations" (Xi Jinping) by inserting 'Chinese' political notions into UN texts (most notably in recent years the "community of shared destiny of mankind").

In the economic sphere, China, as a rising economic and technological power, is making considerable efforts to influence international technical norms in order to reflect its standards, or to define new norms such as 5G. The participation of large groups of experts from Chinese companies in international consultations on standards and the influence of China in such key standard-setting UN institutions as the International Telecommunications Union (ITU) exemplify Beijing's approach. China is also trying to subordinate international laws to its own justice system

where Chinese interests are involved, and to ensure that disputes involving Western investors in China are decided in Chinese rather than international courts of arbitration.

Lastly, under Xi the United Front's work abroad has expanded: in Chinese-controlled organisations of any kind – such as Chinese media or Confucius Institutes – Chinese nationals, ethnic Chinese and others are now expected to tell "the China story", as Xi Jinping calls it. Through its UF measures, the CCP has moved to influencing societies worldwide with activities stretching from simple intelligence work to using established or newly created co-operation mechanisms. In several European countries (Czech Republic, France, Germany, United Kingdom), Chinese or national agents of influence are now being identified, as well as their targets, who include politicians, former officials and members of parliament. Thus, it seems that in its activities abroad the CCP copies the tactics that it employs successfully in China itself.

As the parameters of political activity inside and outside China differ vastly, these efforts are more of an obstacle to China's foreign policy than an advantage. It may well be that the actual goal of Chinese policy has been defensive: to make the world safe for the CCP and its hold on power in China. Increasingly, however, China plays an offensive game, with the expectation that the world will follow the country's discourse and interests to a degree most countries find unacceptable. The spectre of a hegemonic or neo-imperialist China is hardly attractive to European democracies.

# III America, China and The New Cold War

## III.1 A Fraying Liberal Democratic International Order

The backdrop to the development of a European strategy towards China is the fraying of the Liberal Democratic International Order (LDIO) – a process that for some began with the US invasion of Iraq in 2003, for others with the rise in influence of populist leaders in democracies. The LDIO was born during World War II but its foundations also include core norms of sovereign equality, inherited from the Westphalian order that arose in the middle of the 17<sup>th</sup> century. Those norms were then broadened to include open economies, the right to self-determination, democracy and human rights. Institutionally, the LDIO comprises a number of partly overlapping sub-regional and regional orders (e.g. European and East Asian regional orders) and a host of global functional orders (e.g. including the World Trade Organisation or the nuclear non-proliferation regime) under the overarching UN umbrella. The US has long underpinned UN authority.

To many observers, the Russian invasion of Ukraine in February 2022 signalled the demise of the LDIO and the return of raw power politics. Yet this may be misleading. A more accurate assessment would be that the LDIO has now become openly and violently contested; the outcome of this struggle remains to be seen. Moreover, the LDIO is multi-dimensional, and some of its components continue to function reasonably well. Others, such as the nuclear non-proliferation treaty, have long shown serious strains. Overall, the LDIO has very significantly eroded over the last two decades. This erosion has taken place as a result of transgressions by Russia, China and the United States itself, and the challenges that these have posed to the LDIO. China's position on the LDIO has shifted from "keeping a low profile" (Deng Xiaoping) to "striving for achievements" (Xi Jinping). Today, China's priority is to turn East Asia into its own sphere of

influence. It also aims to modify the global order to give the PRC a blocking stake, if not dominance.

Perhaps the most consequential assault on the LDIO, however, until the Ukrainian invasion by Russia, came from its principal architect and beneficiary, the United States. The legitimacy of the 1999 NATO offensive against Serbia, without a UN vote, had already raised doubts, but could be justified as a humanitarian intervention – a principle later described as the 'Responsibility to Protect', which could override the sovereignty of states. With its disastrous 2003 military intervention in Iraq, which took place without a clear United Nations Security Council (UNSC) mandate, America skirted international law. The Iraq war was then followed by the 2011 Western intervention in Libya, which exceeded the UN mandate that it had received, and similarly failed to establish a new viable political order. Both events have undermined US and Western credibility.

The LDIO is thus challenged in three ways. First, all great powers have at times opposed the authority of international law and institutions, abusing the special privileges given to them as UNSC permanent members. Russia and China have also violated human rights and democratic norms, both at home and through their support of repressive regimes elsewhere. Second, great powers have at times used superior force to engineer domestic and/or international changes to the status quo. And, third, the rise of authoritarianism and the retreat of democracy threatens important links between the LDIO and democratic governance at the national level. The protection of human rights will only be assured if there is rule of law, transparency, and checks and balances within states to ensure accountability and constraints on the exercise of power. It therefore is difficult to envisage a vibrant and sustainable LDIO in the absence of at least a solid group of liberal democracies to endorse and carry it forward.

There is a clear link in both Putin's Russia and Xi's PRC between domestic political paranoia about loss

of control, the cultivation of military power and assertive foreign policies that rely on stoking ethno-nationalist fervour. The issue of democracy is also a major source of tension between Taiwan and the PRC: the CCP may well find a successful and prosperous Chinese democracy at its doorstep intolerable if and when the PRC's domestic situation becomes more troubled than has so far been the case.

### III.2 A new Cold War? The conflict between America and China (and how other powers fit in)

The rise of China has put it alongside America as one of the two world powers. But this evolving bipolarity in world affairs does not share all the traits of the former Cold War. There are important differences – most importantly the dense webs of economic interdependence between America and China.

China and the US differ from other major powers, which do not have the full spectrum of economic, military and societal assets needed to fulfil the same role. The European Union has the economic capacity but lacks unified defence capacities and political will and cohesion. Other great powers, such as Russia or India, do not have comparably broad capabilities. Russia is reasserting itself in its region as a strong and brutal military power, but it lacks the demographic and economic foundations of the US and China. As its alienation from the West (to which it looks, culturally) has grown, it has been drifting into a position of dependence on China, and can only team up globally with China in pursuit of common ambitions to degrade the power of the West and the LDIO. India may develop into a world power eventually but does not yet have the capabilities, while Japan is constrained both by its asymmetric security alliance with the United States and domestic constraints on its military power.

The nascent bipolarity will be similar to the Cold War in that the conflict between America and China ultimately rests on the threat that each perceives the other's domestic political model and its foreign policy behaviour as posing to its own model of governance and/or their status and role in world affairs. For China, the rejuvenation of China as a world power represents a key element of the domestic political legitimacy of the CCP; for the United States, its dominant role in world affairs has come to represent an important element of its identity, certainly in the eyes of the (broad majority of) elites and the foreign policy

establishment. While both sides insist on the superior performance and quality of their own model, and both are engaged in promoting their views internationally, the US, especially after the failure of the Arab Spring movements and the Afghan debacle, has considerably scaled back attempts at transformative diplomacy. While it is true that the competition between two different models of governance does not, unlike the old Cold War, involve efforts by either side to export and implant its own model of governance wholesale elsewhere, it does involve activities to undermine the other model through strategies and policies of interference and subversion.

As during the Cold War in the past, a new Cold War implies conflicts between the two world powers America and China over their respective roles and status in world politics.. This conflict stretches over the realms of domestic, regional and global governance. One particularly important focus of that conflict concerns the regional order in East Asia, where America and China compete for dominance through efforts to build up superior military power. The strategies that America and China employ to prevail in the conflict over status, role and security include policies to exercise influence within other countries and internationally in regional and global fora of governance – yet another similarity with the previous Cold War. Finally, the conflict between the two world powers and their allies and partners tends to encompass new issues, stretching now to technological innovation, economic exchanges, and the competitive projection of international soft power.

Differences between the old and the new Cold War include the relative importance of military alliances and political blocs. Although the United States continues to rely on its traditional collective defence alliances, China generally rejects alliances and relies instead on broader but less binding strategic but non-military partnerships. This may be related to another important difference, namely the extent and universal reach of globalisation, which has resulted in high levels of economic interdependence between America and China. This interdependence, in turn, engenders mutual vulnerabilities.

### III.3 Other great powers (Russia, Japan, India)

#### Russia

Under Vladimir Putin, Russia has increasingly aligned with Xi Jinping's China in an arrangement of mutual convenience. The two regimes are united in their hostility towards the liberal democratic agenda of the West, which they consider as a threat to their domestic political control, and they share a desire to recast the international order to their own advantage. In their joint declaration of February 4<sup>th</sup> 2022, Xi Jinping and Putin describe their countries as “world powers with rich cultural and historical heritage [that] have long-standing traditions of democracy” and whose “friendship has no limits”. Xi explained that the “relationship even exceeds an alliance in its closeness and effectiveness”. Thus both demand recognition of an elevated status as great powers on a par with America and a sphere of influence in their own neighbourhoods in Eastern Europe and East Asia, respectively. Both rest their claims on the historical missions of their countries and their present leaders. Both rely importantly on military power to advance their ambitions. China's use of force so far is both limited and applied to cases where it has clear superiority — at sea with Vietnam or in the heights of Ladakh with India. It is intended to signal and to compel accommodation, but even China's vast claims over the South China Sea involve by definition a space without population. Taiwan, of course, looms as the potential exception.

Neither Russia nor China is interested in developing their close co-operation into a formal alliance, and there are also important differences in their perceived interests and strategic objectives, notably in Central and South East Asia, but also, as the conflict between Russia and the West has laid open, in Europe. Given the huge discrepancies in their respective demographic weight and economic performance, Russia is wary about being reduced to a junior position in its alignment with China and tries to hedge against this. Yet their alignment, which includes mutual diplomatic and political support, extensive Russian arms sales to China and close military co-operation through joint exercises in, inter alia, the Mediterranean and the Baltic Sea, is close enough to represent a joint challenge to the West, in general, and to Europe, in particular.

The rapprochement between Russia and China also complicates Europe's energy security. Since the Soviet

era, the pipelines from Russia's major gas fields have mostly led West, to European customers. Since the West imposed sanctions on Moscow in 2014, however, Russia has also increased its gas supplies to China. So far, much of the gas has come from Far Eastern fields that would not be economically viable as suppliers to European markets. China has also invested in the production of liquefied natural gas in Russia's far north — gas which can now be sold to Asia or Europe, depending on where the best price is to be had. But it has long been Russia's ambition to have the option of selling piped gas to either China or Europe from the same fields in Western Siberia. China was for a long time reluctant to get involved in what promised to be a costly project. Moscow and Beijing (and Mongolia) have now agreed, however, to start surveying the route and designing a pipeline that, with the help of some connecting infrastructure to be built by Russia, will potentially enable Gazprom to divert 50 billion cubic metres of gas a year from Europe to China — something which the state-owned behemoth could do either for economic or political reasons.

By co-ordinating their diplomatic efforts in international forums, China and Russia enhance their chances of blocking Western initiatives and advancing their own agenda, for example through their initiative to organise the ‘Group of Friends in Defence of the Charter of the United Nations’ in an effort to recast the UN in line with their own preferences (the initiative has been joined by fifteen other countries, including Cuba, Iran, and North Korea, to promote their authoritarian interpretation of the UN Charter).

Through their co-operation, China and Russia enhance their respective military, diplomatic, economic, and technological capabilities. They both benefit from exchanging their experiences in hybrid warfare and disruptive cyber operations, and each may use opportunities to advance their own objectives that arise out of tensions and crises in relations between the other and the West. Thus, China's military and geopolitical challenge to the United States in the Indo-Pacific tends to draw the latter's attention and resources away from Europe and to strengthen Russia's position there, as well as vice versa. The inclination of both China's and Russia's leaderships opportunistically to exploit any openings they may see means that Europe needs to include the possibility of a combined challenge from both simultaneously. Indeed, Russia and China already are conducting comparable forms of hybrid warfare, such as systematic disinformation

campaigns to undermine trust in government and social cohesion in many Western countries, in ways that, while probably not formally co-ordinated, enhance their impact through parallel activities. It is entirely plausible to assume that Russia and China could also challenge Europe's security through parallel, perhaps even loosely co-ordinated initiatives.

Russia's invasion of Ukraine was the first instance where the question of such co-ordination arose. Yet this invasion is confronting China with both immediate and strategic challenges. In the short term, the PRC leadership will have to weigh the benefit it perceives from Russian (and Western) entanglement in Ukraine against the costs of supporting Russia in this war. It will have to judge the impact on China of the war's global economic and political fall-out. The PRC finds itself aligned with a strategic partner with a steeply declining international standing, reputation and influence. While that will make Russia more dependent on China it may also make it more of a drain on Chinese resources. Moreover, Russia, whether under Putin or his eventual successor, will be an unreliable and possibly highly erratic partner.

Putin's Ukraine War was instructive for the CCP in several respects. Firstly, in assessing China's 'strategic partnership' with Russia; secondly, in assessing its relationship with the US; and finally, in terms of China's planning for the unification of Taiwan with the PRC. Putin's joint appearance with Xi at the opening of the Olympic Games in Beijing on February 4<sup>th</sup> served as a warning to the West by both. Whoever made one an opponent on issues such as Ukraine would also have to reckon with the other. It is impossible to say whether China's leadership was surprised by the initial weakness of the Russian troop advance. But China, as the only country possibly able to restrain Putin, apparently did not even try to use its influence on Moscow. In several similar statements, Beijing declared that it stood by the principle of the territorial inviolability of all states, but recognised the special situation of Ukraine; after NATO's eastward expansion five times, Russia had a legitimate right to have its security demands taken into account; and the China-Russia relationship was "rock-solid". Beijing thus reaffirmed one of its traditional principles in the international discussion — the importance of national sovereignty — but without distancing itself from Putin in this specific case. The precise rhetorical choreography of Beijing's comments on the Ukraine war was reflected in China's abstention on the draft UNSC resolution and in the

General Assembly when 141 states condemned Russia. China is trying simultaneously to stand shoulder-to-shoulder with a not entirely predictable and dangerous, but in many respects useful partner — and possibly a future client-state — while also expressing a degree of reserve.

This reserve was not on display at the April 1<sup>st</sup> EU-China summit, where PM Li Keqiang and Xi Jinping himself stonewalled European requests to use China's "uniquely close relations with Russia" to help bring an end to the war, "consistent with its role in the world as a permanent member of the UN Security Council". Instead, Xi Jinping put the onus on the West, saying that China "supports the EU playing a leading role in talks" and supports dialogue "between Europe, Russia, the United States and NATO". It is likely that China's actual course of action will be conditioned by the risks it assesses from secondary sanctions. Although imports from Russia have shot up in the first quarter of 2022, there are some indications that China is currently cautious about speeding up the gas pipeline construction that would enable Russia to switch more of its production towards Asia. Reportedly, state companies are not increasing their investments, and there is even a report that some scientific co-operation is being curtailed. If they are confirmed, these trends would indicate fear of secondary sanctions and pessimism about the ultimate result of Putin's 'special operation'.

The Chinese assessment of the social and political weakening process of the US, which has lasted over three presidencies, is still tempered by respect for its economic, technological and military performance. In addition, there is the fear of domestic developments in Washington that are difficult to understand and could make Beijing's strategy risky: America is a falling giant, but one that might suddenly lash out. More than Putin's invasion, therefore, the West's quick and effective reaction may have surprised the Chinese leadership. On the one hand, the US and its allies did not respond in kind to Putin's backyard belligerence; on the other hand, they decided unexpectedly quickly on effective sanctions. Beijing is now likely to analyse the measures taken, in case they might be applied to China one day. The otherwise chronically divided EU went through a rapid process of agreeing on comprehensive measures, from aid for refugees to economic and financial sanctions (which even Switzerland joined) to arms deliveries to Kyiv. There was a similar pattern of renewed unity in NATO, where no discord was evident. Even Turkey — regularly at odds with its

allies in recent years, including over arms purchases from Russia — closed the Bosphorus. The US did not try to assert its dominance in a way that might have caused intra-alliance frictions. In fact, the orchestration of the allied response to Russia's invasion by the Biden administration was impressive — a stark contrast to the previous disaster in Afghanistan and the badly-handled AUKUS agreement. The first reaction from Beijing was to emphasise both in its media and in its official or semi-official contacts with Europeans how damaging Europe's support for America's intentions would turn out to be, and to argue that it had better make efforts to mediate in the conflict.

A Beijing reassessment of its strategy for dealing with both the US and the EU would therefore not be surprising. China must now expect a stronger and more united West than Beijing's wolf warrior diplomacy had become accustomed to in recent years. Whatever the outcome of this analysis — more restraint on the international stage or more robust behaviour — it will have an impact on China's Taiwan policy.

In the first weeks after the start of the Ukraine war, the Chinese internet was still flooded with patriotic voices — often belonging to the Maoist Left — admiring the 'Great Tsar' Putin and calling on the CCP to follow the Russian example: Taiwan was China's Ukraine, and at least as Putin initially did with the Donbas, so China should do with the Taiwanese islands of Kinmen and Matsu, so close to the mainland. The quickly evident resilience of the Ukrainian armed forces against the large, well-equipped army of a great power had a sobering effect on the arm-chair generals on the Chinese internet. Meanwhile, the media swung to the same line as that pursued by Russia, and the internet followed suit: it was the US which, together with NATO, had provoked Russia intolerably for decades, for example with NATO's eastward expansion, just as the US always provoked China in the case of Taiwan.

Even if this remains the Chinese position, the Chinese leadership is likely to rethink its Taiwan policy in the light of events: the small island may not be conquered within only 100 hours, as the Chinese general staff allegedly presented to Xi Jinping at the Party Congress in 2017. And the West may not remain on the sidelines, disunited and ineffective. The CCP might thus return to a greater emphasis on diplomatic measures to achieve the goal of unifying Taiwan with the mainland under communist leadership.

## Japan

In several ways, Europe could look at Japan as the polar opposite of Russia. Where Russia has been drifting ever closer to China, Japan has retained, and indeed strengthened, both its bilateral security alliance with the United States and its co-operation with other liberal democracies. It has also deepened and widened its relations with Europe, in general, and with the European Union, in particular. Enhanced co-operation between the two recently culminated in the comprehensive EU-Japan Economic Partnership Agreement, which entered into force on February 1<sup>st</sup> 2019. Both Russia and Japan aspire to Great Power status (Japan, with Germany, has long tried to secure a permanent seat for itself on the UN Security Council), though they do so on the basis of very different power capabilities and strategies: while Russia basically relies on military power and energy resources to pursue its ambitions, Japan builds its claim on its extensive economic capabilities, its diplomatic influence and its soft power. It does so quite successfully: the Lowy Institute's fascinating Asia Power Index, which offers a very sophisticated, multi-dimensional comparison of national power, has persistently ranked Japan's comprehensive national power higher than that of Russia, but with a power profile skewed towards economic and soft power resources.

Perched precariously on the edge of Eurasian landmass opposite a China that is both a geopolitical threat and an indispensable geo-economic partner, the challenge that Japan faces with the rise of the People's Republic and its increasing assertiveness is similar to but much more acute than that of the European Union. By supporting China's economic reforms and opening with official development assistance and by encouraging foreign direct investments by Japanese corporations, Tokyo originally hoped to enmesh the PRC in a web of economic interdependence and thus tame its future might. When this strategy began to fall apart during the 1990s, as the CCP used Japan as the prime target in its campaign to stoke Chinese nationalism as a way to bolster the party's legitimacy, Japan responded by enhancing its economic, diplomatic and security relationships with China's neighbours in South-East Asia, as well as with India, Australia, and even Russia. It also pursued a sophisticated strategy of multilateral co-operation with China and against China: when US President Donald Trump took America out of the Trans-Pacific Partnership project, a geo-economic initiative to constrain China,

Tokyo picked up the pieces and turned them into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) so successfully that the PRC decided to apply for membership. At the same time, Japan also joined RCEP, an ASEAN-inspired, shallow regional free trade agreement that is often seen as China's answer to TPP. Tokyo thus managed deftly to balance its closer security ties with the United States through deepening its economic interdependence with the region, including China. The Lowy Institute's authors of the Asia Power Index in 2021 concluded that Japan "... continues to be the quintessential smart power, using the country's limited resources to wield broad-based influence in the region".

Yet quite apart from the huge – and growing – disparity in military, demographic and economic power that Japan confronts in its relationship with its close neighbour China, the country also faces specific constraints in its foreign and security policies. The first is a peculiar strategic culture Japan suffered from in its imperial past – or, more exactly, two different strategic cultures at the elite and at the popular level. At the elite level, conservative forces look back to the 19<sup>th</sup> century; they hope to turn Japan into a "normal" country that rejects its pacifist Constitution. Others in the elite and the foreign policy establishment, however, share the popular aversion to military force that reflects the wartime experience of the Japanese, and uphold both Japan's Constitution and its traditional military self-restraint. The pacifist streak in Japan's strategic culture seems likely to persist, constraining Japan's security policy options. Whether that will continue to be the case after the Ukraine war remains to be seen. What is certain, however, is that the war strengthened Japan's alignment with the other G7 democracies as it joined the international sanctions imposed on Russia.

Both the realist and the pacifist streak in Japan's strategic culture also contribute to a second constraining element in Japan's foreign and security policy, a strong – if defensive – nationalism. The difficulties this poses are most apparent in Japan's tense relationship with its neighbour South Korea: despite many shared security concerns and similar geopolitical circumstances that cry out for closer co-operation between the two democracies, distrust and animosities between them persist.

The third constraint is Japan's very close relationship with the United States and its dependence on American security guarantees. This dependence also restricts its foreign and security policy options and

may reduce both its ability and its willingness to cooperate with others wherever this would seem to run counter to US interests.

All three constraints may limit the capacity and the willingness of Japan to engage in effective multilateralism with others, including the European Union, that Tokyo espouses. Yet, apart from Taiwan, there is no other country that has been exposed so heavily to China's economic, political and even military pressure (witness persistent Chinese incursions in the air space and waters around the Senkaku/Diaoyu islands) yet simultaneously remains so deeply intertwined with (and indeed dependent on) China economically. In coping with its precarious geopolitical circumstances, Japan continues to rely on security guarantees from an America whose dependability has become increasingly uncertain in the eyes of many. Yet it has also complemented its alliance with the United States with astute bilateral and multilateral diplomacy with other partners. Overall, therefore, Europe has much to learn from Japan, and both could benefit from closer co-operation on how to cope with the China challenge.

## India

India is another obvious partner for Europe in its efforts to cope with the China challenge. In the Lowy Institute's Power Index, India is ranked closely behind Japan, with the gap closing slowly over the period from 2018 to 2021. Its comprehensive power base is somewhat less skewed by its economic power than that of Japan, but relies importantly on its resilience as a society and its future potential. This makes it a partner of choice for Europe, whose economic and technological strengths nicely complement India's great potential, even irrespective of India's attractiveness as a geopolitical partner vis-à-vis China. Yet the EU and India have been unable so far to conclude a bilateral trade agreement in negotiations first initiated in 2007; that indicates the relationship's potential needs to be translated into reality through political decisions that may remain elusive. Co-operating more closely could strengthen both sides economically and technologically and enhance their respective economic security vis-à-vis China, which plays a critical role in important supply chains for both.

As a partner in enhancing a liberal democratic international order, India may be less attractive than it might appear at first glance. While shared democratic values are routinely invoked in diplomatic interactions between India and the West, democracy

and human rights have hardly played a role in India's foreign policy; its lodestars, rather, have been anti-colonialism and non-alignment. Moreover, the present Indian government of Narendra Modi can hardly be considered a paragon of democratic virtues; on the contrary, it has shown worrying tendencies to disregard fundamental democratic principles. Nor has India impressed with its support for multilateralism: whether in international trade or climate change negotiations, India's record indicates little interest in effective multilateralism.

In geopolitical terms and with regard to security and stability in the Indo-Pacific, India's importance lies in the fact that it represents at least a partial counter-weight to a rising China, obliging Beijing to devote resources — and some forces, too — to facing it. Although India's co-operation with Europe is likely to be hampered by India's fervent nationalism, there are opportunities to strengthen India's ability to counterbalance China's power, most obviously through arms exports and defence co-operation. Europe and India may also be able to strengthen other countries in the Indo-Pacific, such as ASEAN member states, through joint endeavours. Yet India in its defence posture and its security policies will prioritise its own perceived national interests, as illustrated when India abstained in the UNGA vote condemning Russia's invasion of Ukraine — Russia is a major supplier of arms to India. India is unlikely to join any formal alliance arrangements or assume collective defence obligations, and may continue to be reluctant to assume broader international responsibilities in the context of a liberal democratic international order. In short, India's insistence on non-alignment and on retaining a free hand to pursue its own perceived national interests will limit the scope of co-operation in meeting the China challenge. This is not an argument against exploring the potential, but it does warn against exaggerated expectations.

### III.4 Middle and smaller powers and the future of multilateralism

Middle and small powers are in many ways Europe's natural allies: they share Europe's preference for a rules-based international order and are usually proponents of multilateralism. Together, the middle and smaller powers represent significant material capabilities. At the same time, they are a very heterogeneous group and therefore difficult to mobilise in large num-

bers. In the context of China's challenge to Europe the small and middle powers in China's region — in particular South Korea, Taiwan, the ASEAN founding members Thailand, Malaysia, Singapore, the Philippines and Indonesia, as well as Vietnam and Australia and New Zealand — are particularly important partners. So is ASEAN as a multilateral regional institution. Many of the countries in the region, though far from all, share Europe's liberal democratic values and thus European notions of how the international order should evolve and function. All are worried about the risks of an East Asian regional order dominated by China, and therefore inclined (some more, some less) to join forces with each other, as well as with the United States, Japan and India, to prevent it.

At the same time, given the huge asymmetries in power and influence, their foreign policies can easily be swayed through imbalances in their bilateral relationships with China and China's efforts to exert influence. Europe will therefore have to monitor developments in partner countries and try to exert a countervailing influence where China tries to cultivate dependency.

Under Xi, China has tried to position itself as a proponent, promoter and protector of multilateralism. As a result, the meaning and essence of multilateralism has become increasingly uncertain and contested: there is multilateralism 'with Chinese characteristics', which differs significantly from a liberal democratic understanding with regard to its underlying principles and norms. For China, the key principles are sovereignty, non-interference and great power dominance, while for Europe, they are the rule of law, human rights and democracy, and the inadmissibility of the use of force except in self-defence. In any context of multilateral co-operation, European countries therefore need to take into account the principles and norms on which it is based and the processes and institutions it deploys, and their broader implications for the international order. In its support for multilateralism and its efforts to promote multilateralism through co-operation with middle and small powers, Europe will need to ensure that it promotes the right kind of multilateralism.

To be effective, multilateralism will require substantial resources and significant compromises by its participants, which will at times be costly and painful in domestic political terms. In co-operating with partners to promote liberal democratic multilateralism, Europe will need to lead by example, and shoulder its own burden of adjustment to the demands of the common good, as well as helping weaker countries to do so.

# Conclusions: A European Strategy for Relations with China

Since 1978, China has become the main beneficiary of the multilateral order backed by the United States and endorsed by Europe. Today, China is challenging this international order, seeking dominant influence in some international institutions and setting up rivals to others. Such a fragmented international order creates a risk of greater international instability. At the same time, China's growing military power and its reluctance to take part in arms control or confidence-building measures increases the risk of conflict with other powers. A major war involving several nuclear powers — not completely beyond the bounds of possibility, especially in the light of Russia's attack on Ukraine and the consequent risk of spillover onto NATO territory — would end the era of ever-increasing prosperity that began after the Second World War. Such a world would be profoundly dangerous for European societies; it would put at risk not only their prosperity, but also threaten Europe's liberal democratic forms of governance. The very existence of the European Union is predicated on the continued effectiveness of the multilateral system.

## A. Strategic objectives

Europe (that is, the European Union institutions, its member states and other European countries) needs to do everything in its power to prevent such a development. This will require a major effort in its external relations, using all the means available in the pursuit of three fundamental, strategic objectives, namely:

- To protect Europe's identity as a continent focused on protecting and promoting democracy, the rule of law, multilateralism and sustainable development, and to enhance Europe's resilience;

- To strengthen the partnership with democracies and like-minded countries elsewhere, above all with Europe's transatlantic allies, and with those in the Indo-Pacific region;
- To uphold an international order based on the United Nations and its agencies that provides for global security, continues to enable globalisation while strengthening its international rules, and supports good governance and the rule of law in the international system.

## B. Five major components for a European strategy

Our analysis identifies five critical components of a European Strategy for relations with the PRC. Each includes a number of practical measures that we believe can be implemented in the near future.

### **First, Europe needs to reduce and manage its vulnerabilities vis-à-vis China.**

Europe requires effective defences against critical vulnerabilities resulting from bilateral trade and investment flows and from the PRC's encroachment on European values and interests. It also needs the capacity to deter Chinese policies and actions that transgress European red lines. Thus:

- Europe's ability and determination to ensure its security in its own region is critical for holding its own against authoritarian regimes, including China. It therefore needs to ensure this security comprehensively, ranging from cyber protection through coping with fragile states and migratory pressures to military deterrence and defence. Only a secure and confident Europe can contribute to

peace and stability elsewhere, including in the Indo-Pacific;

- Europe needs to pay closer attention to China's particular efforts in its Eastern and Southern neighbourhood and its potential goal of dividing Europe. It should be vigilant about China making use of investments or loans to create political leverage;
- The European Union needs to move quickly to finalise the EU anti-coercion instrument and adopt 'early bird' measures to respond to cases such as the current China-Lithuania controversy;
- Europe should identify areas of critical vulnerability in its supply chains, and help co-ordinate efforts by European companies to diversify investment and supply chains, stockpile or in other ways enhance market flexibility;
- Europe should inform European companies about alternative supply chains to those relying on regions such as Xinjiang where ethnic and religious discrimination, mass imprisonment and forced labor occur; it should introduce rules on mandatory due diligence regarding human rights;
- Europe should strengthen the protection of its scientific and technological knowledge base and its capacity for technological innovation against legal and illegal efforts by China to appropriate European know-how. To do so will require measures to strengthen the EU's regulatory authority and national authorities, and to implement such measures effectively through public-private co-operation;
- Europe needs to create a science and technology human exchange screening process in education and research to prevent concerted efforts of third parties at technology acquisition in Europe;
- Europe should do more to protect the integrity of its democratic institutions and processes against China's legal and illegal forms of influence operations. This could include more effective monitoring of Chinese disruptive activities on the internet and in social media, better information and more transparency about the activities of Chinese 'civil society', government and party organs in Europe, as well as restrictions on former high-level European politicians or civil servants becoming lobbyists for China;
- In the context of Russia's aggression against Ukraine, Europe must be sure its currencies and financial markets are not used by China to help Russia overcome the sanctions imposed on Russia.

Technology and component exports to China must include end-use controls to prevent their transfer to Russia or their use in joint projects.

- Europe needs to create a science and technology human exchange screening process in education and research to prevent concerted efforts of third parties at technology acquisition in Europe.

**Additionally, we recommend for examination:**

- Adequate security policies require the ability to defend against and/or to deter hybrid aggression from abroad. Europe needs to develop the capabilities to do so;
- Europe should effectively enforce public procurement rules for third-country companies, including article 86 of Directive 2014/25/EU authorising the EU Commission and Council to suspend service contracts with companies from third countries that refuse to grant reciprocal market access or refuse to implement international social, labour and environmental conventions;
- Europe needs to reinforce its customs clearance processes through measures such as mandatory QR code, RFID or smart electronic labelling of packages in e-commerce with declaration of content and value, control of intra-firm invoicing of imports;
- Europe needs to improve the capacity of European customs systems to track merchandise and check values (the EU is the only region in the world whose import statistics show no discrepancy with China's export data);
- Europe needs to treat individual Chinese SOEs as part of the same overall state entity in investment screening and subsidy investigations;
- Europe needs to require proof of identity of individuals owning or managing off-shore entities (including Hong Kong) investing in the EU (a requirement which has existed in China since 2015);
- Europe needs to require Chinese state neutrality in SOEs (as the PRC promised in CAI negotiated outcome of December 2020) with an enforcement mechanism for non-compliance (not yet provided by CAI);
- Europe needs to insist on reciprocal access for Chinese media correspondents and channels in Europe and their European counterparts in China, and reciprocity in the work and extent of engagement of cultural institutes.

**Second, Europe needs to enhance its leverage vis-à-vis China.**

In its relationship with China, Europe needs to talk the “language of power”, to quote EU Commission President Ursula von der Leyen. To do so, Europe needs a sophisticated understanding of China’s contradictions and the sources of its own power. The EU on its own is not a military superpower. The principal sources of its power are its ability to regulate its huge common market, one of the largest in the world and on a par with China and the United States; its attractive socio-economic and legal protection for the individual and for economic operators; and its normative influence. Europe enjoys a positive image in the world. Still: European countries would be well advised not to ignore the relevance of military power.

To leverage their power resources:

- The European Union first needs to organise itself better as a unified actor in international relations, by strengthening the capacity of its institutions, notably the European Commission, the PSC and the EEAS, to integrate different European policies of relevance to the relationship with China, as well as the China policies of individual member states. It should also co-ordinate with like-minded European states including the UK, Norway and Switzerland;
- To this end, the CFSP should introduce qualified majority voting as proposed by the Commission;
- Following the example of the EU’s new anti-dumping methodology, allow the Commission, in all trade and investment defence instruments (anti-subsidy, anti-coercion etc.), to start proceedings without requiring the public declaration of an applicant, and place the burden of proof on the opposite party or parties;
- Europe’s influence also requires showing the success of its own models of democratic governance and the free market economy. One important tool is European public service broadcasting. Europe should strengthen the capacity of networks such as the BBC, RFI or DW to reach audiences in China. Europeans might also consider establishing a European equivalent to the US government-supported Radio Free Asia;
- Chinese state media violating human rights (for example by displaying confessions by prisoners) should be banned from European airwaves;
- The EU needs to develop its Global Gateway Programme into an attractive alternative to China’s

Belt and Road Initiative as a means to finance sustainable, high quality infrastructure investments worldwide. The EU should co-ordinate the Global Gateway initiative and its Indo-Pacific strategies with the US and OECD Blue Dot criteria and with the G7 Build Back Better World (B3W) initiative. It should not rule out co-operation with Chinese BRI projects, provided that they can be clearly shown to meet similar standards of transparency, good governance and environmental sustainability to EU-funded projects.

**Additionally, we recommend for examination:**

- Europe needs to follow up on the adoption of its new export control rules with an effort to map emerging technologies — such as space, biotechnology, AI and quantum computing — likely to create security challenges, and co-ordinate this effort with other advanced country partners, including Japan and the United States;
- Europe needs to adopt a carbon border adjustment tax (CBAM) in line with its internal promotion of carbon pricing. The prospect of a CBAM is already influencing China’s decarbonisation policies;
- Europe needs to strengthen its internal capacity for technological innovation and seek closer co-operation with the United States and other like-minded partners. Those efforts should include European defence industry;
- Europe needs to increase support for Important Projects of Common European Interest (IPCEI), and to broaden their base, based on exploration of emerging and disruptive technologies; it should also look for means to promote and accelerate innovation and industrial development, combining support and market competition, requiring cross-border co-operation and a diversity of stakeholders;
- Europe should support Taiwan’s efforts to maintain the status quo and increase its capacity to resist Chinese pressure designed to undermine the territory’s vibrant democracy; European regulators should make it easier for Chinese speaking residents of Europe to access Taiwan satellite TV channels as a way of breaking the CGTN information monopoly;
- Europe needs to check that it has the legal framework and the administrative capacity to enable it to impose sanctions on members of the Chinese leadership and their assets in the West if necessary.

**Third, Europe needs to engage more forcefully with the UN, other international organisations and multilateral institutions to strengthen their integrity against Chinese efforts to redefine and re-purpose them.**

China has been trying for some time to enhance its influence in international organisations with a view to reshaping the LDIO for its own (and other authoritarian regimes') ends. Europe needs to redouble its efforts to counter those attempts, joining forces and forging alliances with like-minded countries – such as the Alliance for Multilateralism launched by France and Germany in 2019. At the same time, Europe also needs to enhance the effectiveness of the LDIO in meeting global challenges. To those ends:

- Europe needs to work with allies and like-minded partners to counter China's efforts to expand its influence within international organisations through personnel decisions and efforts to re-define the principles, norms, values and purposes of those institutions to further its own domestic and international political agenda. Europe needs a 'grid' of senior appointments to priority posts, and their expected timing; an agreed single candidate for each; and a co-ordinated lobbying strategy in support of the candidate;
- Line ministries responsible for representing European views in specialised agencies must be aware of Chinese tactics and alert to the danger that China may try to shape international standards to suit its own purposes;
- Europe needs to make efforts to revitalise the WTO and push for a WTO agreement on e-commerce. Alternatively or in addition, the EU might also consider joining (as the UK already has applied to do) the CPTPP or promote a broad FTA, possibly based on the members of the OECD.

**Additionally, we recommend for examination:**

- Europe should renew the effort to reform the UNSC to make it more representative of the world of 2022 rather than 1945, while also making it more effective;
- Europe should engage with China in bilateral and multilateral efforts to facilitate rapid realisation of carbon neutrality in China, in Europe and in third countries, as long as China agrees to increase its contributions to this effort;
- Europe should promote the inclusion of Taiwan in technical international organisations, including ITU and WHO, and indicate that attempts by the PRC to change the status quo by force or to isolate the island will result in more European support to the government on Taiwan;
- On climate change, Europe needs to extend satellite monitoring of international emissions (CO<sub>2</sub>, NO<sub>x</sub>, sulphur), including those of China, as a back-stop to official statistical figures and a means to enhance China's transparency and accountability;
- Europe needs to increase co-operation with third parties to advance sustainable development goals (SDGs) in its neighbourhood, and in particular Africa, the Near and Middle East. This involves competition over quality with China's Belt and Road Initiative and other Chinese development assistance programmes, which in the recent past have neglected these goals. Europe should also engage with China in joint projects that sufficiently meet the criteria for contributing to these goals;
- Europe needs to build on its strengths in providing natural disaster relief, international peace-keeping and peace-building. Again, those areas may offer opportunities to engage China in constructive joint endeavours;
- Europe should adopt or renew agreements with African and Asian regional partners on maritime resources and assist them in the enforcement of their EEZ rights vis-à-vis Chinese fishing fleets.

**Fourth, Europe can and should continue to engage with China for mutual benefit and the promotion of global public goods. It should do so, however, only on the basis of reciprocity and respect for agreed principles, norms, rules and procedures, not only *de jure* but *de facto*.**

Both Europe and China have benefited enormously from globalisation, and both want to retain an open world economy and international order, although they differ about how this order should work. China's

qualified support for globalisation takes the form of ‘dual circulation’, while some in the European Union call for “dual integration” (i.e., making the different policies pursued by the European Union towards China more coherent and consistent) as the appropriate European response to a new international environment. Against this background,

- Europe should continue to engage with China through trade, investment and other forms of co-operation wherever the requirements of reciprocity and mutual respect are met;
- Europe should work with China on retaining an open international economic order, subject to the above qualifications, wherever possible;
- Europe should recognise that competition over partnership with the global South will constitute a key element in future world politics, and therefore redirect its own policies towards the global South towards better meeting the aspirations of its people in terms of sustainable development. Yet such competition does not, and should not, preclude co-operation with China to advance SDGs;
- Europe should engage China more systematically in multilateral efforts to cope with global challenges, such as climate change, the loss of biodiversity, the proliferation of weapons of mass destruction or arms control, insisting, however, that co-operation take place on the basis of existing principles, norms and rules;
- Europe should be open to involve Chinese companies in Europe in standard-setting procedures as long as European companies have comparable possibilities to participate in China’s standard-setting procedures;
- Europe needs to complete the EU International Procurement Instrument (IPI) and encourage China to ratify the Agreement on Government Procurement.

**Fifth and finally, Europe needs to know much better what China is doing in Europe, and it needs to know much more about China as a whole and specific aspects of China.**

China already has an important presence in Europe, and that presence may well expand further in the future. Some aspects of this presence are problematic, such as Chinese activities on the internet, Confucius Institutes and other forms of academic partnership, and influence operations targeting political and business leaders and the Chinese diaspora in Europe. But there is little systematic knowledge about China’s

presence overall, as well as those disruptive activities. A recent report by the European Commission on China’s subversive activities in the context of the COVID-19 pandemic and another by the European Parliament’s Special Committee on Foreign Interference are first steps in the right direction. In the UK, a 2019 report by the House of Commons Foreign Affairs Committee covered, among other things, Chinese attempts to interfere with activities at UK universities. Much remains to be done, however, to document the full scale of the problems posed by anti-democratic activity by China in Europe, and to develop effective responses. Therefore:

- Europe should finance contemporary China-related research and language education, including academic exchanges with Australia, Japan, Taiwan and the United States, where major capacities already exist. It should initiate the creation of a Europe-wide network of China-related think tanks;
- Europe needs to source research by both academic and governmental experts to gain a comprehensive picture of China’s presence and (influencing) activities in Europe;
- Europe needs to investigate links between Chinese private enterprises and public funders, SOEs and policy directives;
- Europe needs to monitor Chinese government efforts, including those in association with private firms, to influence European universities.



