



China and the West: The gap is set to grow

by Charles Grant, 5 June 2024

China's relations with the US and the EU are likely to worsen, because of both its aid for Russia and its economic strategy.

At first glance, relations between China and the West seem to be in a relatively benign phase. Over the past six months, a series of summits between China's President Xi Jinping and various US and EU leaders have avoided rancour. But having recently been in Beijing – for the first time in many years – I sense that China-West relations are heading for turbulence. The two main causes are China's indirect support for Russia in the Ukraine war, and its new economic strategy.

China is helping Russia in various ways, such as by stepping up purchases of oil, and by providing key components and dual-use goods for Moscow's war effort. During the two years 2022 and 2023, Russia-China trade rose by 64 per cent, to reach \$240 billion in 2023. China's exports to Russia grew by 47 per cent in 2023 alone. Beijing has also given Moscow diplomatic comfort by blaming the US and the expansion of NATO for provoking the invasion.

At their recent meetings with Xi, Germany's Chancellor Olaf Scholz and France's President Emmanuel Macron made it clear that better relations with Europe depended on China curbing its aid for Russia's war effort. And when US Treasury Secretary Janet Yellen and Secretary of State Tony Blinken had separate meetings with the Chinese leader, they said that unless China cut back on the supply of dual-use goods to Russia, its banks could face sanctions.

But nobody in Beijing thinks there is any chance of Xi abandoning his policy of 'pro-Russian neutrality' (the Chinese hate it when Westerners use that phrase) on the Ukraine war. What China's leaders care most about is the US. They see it as a threat, dedicated to preventing China's rise to global super-power status. Joe Biden's administration has been quite open about its desire to stop China getting hold of new technologies that could boost its military capabilities. Chinese paranoia about the US has some basis in reality. Matt Pottinger, the White House official who ran China policy during Donald Trump's presidency, co-authored [a recent piece in *Foreign Affairs*](#) that more-or-less calls for regime change in China.

China's insecurity vis-à-vis the US makes it yearn for reliable friends. And Russia is a country it trusts, with considerable diplomatic clout in parts of Africa and the Middle East, a seat and a veto on the UN

Security Council, and many hydrocarbons and other commodities to fuel Chinese industry. Furthermore, President Vladimir Putin shares Xi Jinping's world view: that large countries should establish spheres of influence, suppress movements that favour liberal political systems, combat US hegemony and push for a multipolar world. They both believe that the tide of history is flowing away from Western democracies. The pair appear to have formed a real friendship – and they have directed their militaries to engage in joint exercises. If Russia lost the war in Ukraine, it would be geopolitically damaging for China, since Xi has given so much public support to Putin, and the West would be strengthened.

Yet when I was in Beijing, I picked up real anxiety about the prospect of US financial sanctions on China's banks. The Chinese are developing their own financial systems to reduce their vulnerability to US sanctions – some in conjunction with the other BRICS countries – but nevertheless fear measures that would penalise their banks.

One eminent professor told me that these worries could push the Chinese leadership to give the US some of what it wanted: "We could say to Putin, in private, that for a while we will curb exports of dual-use goods or chips. He is in a weak position so would have to accept this." But other academics argued that if the US hit China with bank sanctions, it would push the Chinese even closer to the Russians. They claimed that Western controls on the export of high-tech items to China, and the threat of sanctions, were driving China to accelerate its efforts to achieve technological and financial autonomy.

But there may be something in what that professor said. China's exports to Russia have fallen in recent months – by 13 per cent in yuan terms, year-on-year, in March, and by 11 per cent in April. The US has not yet sanctioned China's banks, but on May 1st it imposed penalties on 20 firms from China and Hong Kong for aiding Russia's war effort.

The Chinese are less afraid of European sanctions, but certainly want to try and avoid them. Last autumn, the EU let Beijing know that it was planning to penalise a few Chinese companies for supplying dual-use goods to Russia. China acted to sort out the problem, so the firms were not in the end sanctioned. But in February the EU decided that informal channels were not effective enough and it explicitly sanctioned three Chinese companies and four based in Hong Kong.

The West has a problem, not just with China's de facto support for Russia, but also with its apparent alignment with Iran and North Korea. Those two countries have grown much closer to Russia since the war began, supplying it directly with arms. The Chinese claim that they have not got closer to either country – though they are buying increasing amounts of Iranian oil. But as far as the West is concerned, those four countries now seem bracketed together, alongside their sidekicks like Belarus and Venezuela.

Chinese officials and scholars say they want China to be seen as a leader of the global south, rather than of an axis of autocracies. To judge from social media, public opinion appears divided on whether China should support Russia in the fighting in Ukraine. Virtually all the academics and think-tankers that I met thought China should not be so supportive. Some even say this in public, such as Feng Yujun, a respected professor and authority on Russia at Peking University. He has written for [The Economist](#) and plenty of Chinese-language publications, warning that Russia will lose the war – because of Ukraine's determination, Western aid for Kyiv, Russia not being good at modern warfare, and Putin lacking access to accurate information.

Apparently, the Chinese military are surprised that Russia's forces have performed so poorly in Ukraine. More generally, most educated Chinese people talk about Russia with some disdain. The Chinese stress

their differences from the Russians: China has embraced globalisation while Russia – like Iran and North Korea – has not; those three countries want to disrupt the global order, while China does not (at least not those parts that serve its interests); and while China is confident about its future and the strength of its economy, Russia is not. Because it primarily exports commodities, Russia, unlike China, does not fear sanctions a great deal.

However, whatever the Chinese intelligentsia think, President Xi remains firmly committed to the friendship with Russia.

The threat of China's green goods

The other major source of tension with the West is the way the Chinese economy is developing. For many years the property market and construction drove China's economic growth, but no longer. Now the government wants to replace the role of property development not with increased consumption but with 'new quality productive forces', meaning high-tech industries. It wants to dominate world markets for products like EVs, electric car batteries, wind turbines and solar panels.

The US and the EU worry that this is leading to a big overcapacity problem, and that excess goods made in China will be dumped on world markets – destroying their own nascent green-tech industries. Part of the problem is that Chinese consumption is so low: last year private consumption accounted for a mere 39 per cent of GDP, compared with 68 per cent in the US. Washington and Brussels urge the Chinese to boost domestic demand – and have views on how structural reform could help to bring that about. But Chinese leaders don't see a problem of insufficient demand, or overcapacity, or lack of structural reform. Rather like some German economists, they take pride in the export success that stems from their competitive advantage. Xi is quite an austere figure and apparently doesn't like the Anglo-Saxon economic model of strong personal consumption. He may see that as a root cause of Western decadence.

Chinese officials admit that the new approach to the economy – which also involves a diminished role for entrepreneurs, and a guiding role for the state – will lead to a bit less growth. But they maintain that the growth will now be more balanced and less unequal. Lower overall growth is, as one official put it, a price to be paid for better social outcomes.

This 'overcapacity' problem is driving the new tough approach of the European Commission. This started last October with an investigation into the subsidies received by Chinese exporters of EVs. The last few months have seen a flurry of other cases based on the EU's Foreign Subsidies Regulation: on solar panels, wind turbines, scanning equipment and electric trains. Another investigation, concerning medical equipment, is about the lack of reciprocal access for EU firms to Chinese public procurement contracts.

The EU has tried to send a clear and unambiguous message to the Chinese. At every meeting between European and Chinese officials and politicians, the former complain about the trade deficit – almost €400 billion in 2022, and almost €300 billion in 2023. As far as the Europeans are concerned, that lower figure in 2023 does not indicate progress. EU-China trade decreased in value in 2023, but Chinese exports increased in volume (due to a decrease in prices because of overcapacity, and much lower shipping costs post-pandemic). EU exports decreased in both volume and value.

The EU has urged the Chinese to do more to open their market to trade and investment, and to cut subsidies to exporting firms. The Chinese listen politely and then – according to the Europeans – do virtually nothing. One EU official said that in 2018 the EU had identified 967 barriers to entering China's

markets – but that by 2023 the number had risen to 1958. So the Commission's patience has snapped. It believes that only by launching all these investigations – and more are expected – will the Chinese get the message.

The Chinese say this is very unfair because they are taking steps to open up. One official mentioned new rules to allow increased FDI in more sectors of the economy. "The Commission seems to believe globalisation is over, and under Ursula von der Leyen it is less willing to engage in dialogue," lamented the official. "We try to maintain free trade but the EU is ever more protectionist, putting security ahead of economics." Many Western officials would take that last sentence and apply it to the Chinese. The Chinese have a particular gripe with von der Leyen, who leans towards American thinking on China.

The Americans are less dependent on trade with China than the Europeans, but still worry about the overcapacity problem. In April, Joe Biden said he was increasing Trump-era tariffs on imports of Chinese steel and aluminium, as well as taking measures against Chinese shipping companies and ship-builders. Then on May 14th he announced tariffs on Chinese goods of 100 per cent on EVs, 50 per cent on semi-conductors and photo-voltaic cells, and 25 per cent on EV batteries and personal protective equipment. The economic effects of these electioneering measures will be minimal, since the US imports very few of the goods affected, in part due to tariffs already in place. But they annoy Beijing, which was already upset by the Biden administration's measures last October to block exports to China of high-end chips and the machines for making them – and by its cajoling of the Europeans to follow suit.

Janet Yellen has urged the EU to join the US in clamping down on China's green-tech exports. But there is a limit to how far the Europeans will go in seeking to tackle the problem of Chinese overcapacity. As someone in the Spanish government explained to me recently: "Just as we depend on the US for our security, we depend on China for our net-zero transition." Spain and many other European countries are delighted that China can supply many high-quality, low-cost green goods.

In Washington, Beijing's aid for Russia's war effort and its dumping of green goods on world markets are far from being the only gripes about China. Its conduct in the waters around Japan, Taiwan and the Philippines continues to cause concern. Both the Americans and the Chinese themselves seem particularly worried about the South China Sea, where Chinese vessels are trying to prevent the Philippines from resupplying a rusting boat it has sunk onto the Second Thomas Shoal.

The US has made clear that its security guarantees to the Philippines apply to that shoal. According to one senior Chinese think-tanker: "The South China Sea concerns our territorial integrity. The EU says we are being hard-line in that sea, but when your territorial integrity is at stake you cannot be soft." A senior American diplomat said that he was currently more concerned about the risk of conflict on the Second Thomas Shoal than over Taiwan.

Can the Chinese peel the Europeans away from the Americans?

In the US there is now more-or-less a cross-party consensus that China is a strategic threat to American power and that the US should do what it can slow its economic, technological and military development. All the Chinese officials and academics that I spoke to thought Donald Trump would be even worse for them than Biden: they think Trump hates China; he has promised higher tariffs than Biden and on a wider set of goods; and he is more unpredictable and irrational.

The Chinese know the Europeans are not so uniformly hostile, and still have hopes of peeling them away from the US. So they have tried a kind of charm offensive over the past year. In 2023, China received eight commissioners in Beijing on separate trips, revived five high-level dialogues with the Commission and hosted the leaders of the European institutions at a summit in Beijing in December; this year Xi hosted Scholz in Beijing and visited Macron in Paris; and large numbers of European academics and think-tankers are being invited to China.

But the charm offensive has not produced much in the way of results, as the Commission's recent measures against China testify. European opinions on China vary, but the middle ground has become progressively tougher. The cause of that, say the Chinese, is American bullying. There is a little truth in that thesis. The Dutch have banned ASML from exporting its chip-making equipment to China because the US urged them to. Several countries – the UK included – have excluded Huawei equipment from their 5G systems, because of US pressure. And it was Washington that pushed the Commission to propose an 'economic security strategy' that would involve controls on both the export of sensitive technologies and on outbound investments that could lead to technology transfers (although many Europeans would support such steps, even without US pressure).

European leaders tell the Chinese that the main cause of their hardening position is China's conduct – whether on human rights, the South China Sea, forcing foreign firms based in China to transfer technology or, above all, its indirect support of Russia's war effort. This is true, but Chinese officials do not acknowledge the point.

As the EU line slowly hardens, Germany – the European state with the greatest economic ties to China – is in some respects fighting a rearguard action. The new China strategy that Germany adopted last summer was an uneasy compromise between the pro-business Scholz, on the one side, and his coalition partners (the Greens and the Free Democrats) on the other, who take a more hawkish line on China. That strategy called for German firms to 'de-risk' in China. But according to one consultant I met in Beijing who works with German companies, the large ones only pay lip service to de-risking. The big chemical and car companies have doubled down on their investments in China – though some of the smaller firms of the *Mittelstand* have reduced their exposure.

There is inevitably tension between the German Chancellery and the Commission over China. For example, the EV investigation is not good for German car companies, some of which still ship large volumes of luxury cars to China and whose significant operations in the country may get hit by retaliatory measures. Understanding that the French were behind the investigation, China has started an anti-dumping case against imports of Cognac; it has also begun a series of anti-dumping actions against US and EU chemical imports. The German government also worries about how the Chinese may react to the Commission's economic security strategy. Berlin has so far resisted US pressure to impose export controls on its suppliers of chipmaking machinery (a topic covered in a recent [CER insight](#) on tech decoupling).

There is a wide range of European views on China, but the centre ground of EU policy is some way away from US policy. Europeans care most about Chinese behaviour, while Americans care more about Chinese power per se (as I wrote in the CER's [2023 annual report](#)). The Chinese could in theory exploit this difference – if they behaved in ways that appealed to the Europeans. In particular they would need to curb their aid for Russia's military efforts, and take steps to achieve a more balanced trading relationship with Europe.

But China's leaders appear unwilling to shift their policies significantly. They are supremely self-confident and do not see the need to make many compromises, just to keep Western leaders happy. So in the coming years, relations between Europe and China, like those between the US and China, are likely to become more tense.

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