

## **European foreign policy: a new realism on China**

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The last time EU leaders held strategy talks on China was just after the Tiananmen Square massacre in 1989. The 12 heads of state and government imposed sanctions including an arms embargo over what they called the “brutal repression” by the Chinese government.

Almost 30 years later, the European Council will use a summit this week to focus once more on China — and decide whether it is time to get tough again. Mounting concerns over Chinese industrial policy, cyber security and trade wars have all combined to put Beijing firmly back on the European agenda.

To some in Brussels and member state capitals, this week’s discussion is the EU’s belated awakening to the new sway of China — and to an uncomfortable truth that it has failed to register the full implications of its ascendancy.

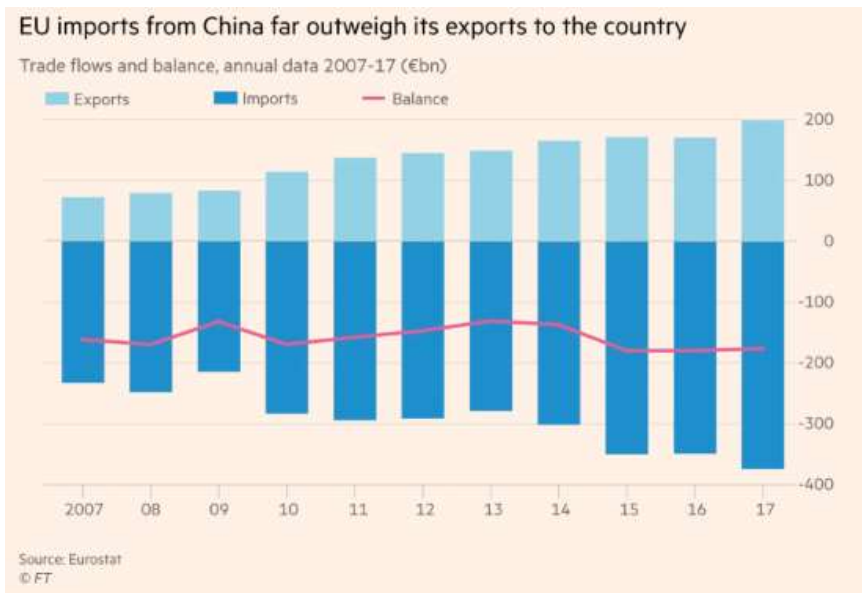
“It has finally sunk in,” says one senior EU official. “While we were absorbed in our own crises for 10 years, the GDP of China soared and Trump was elected. We entered a different game.”

Among the leaders who will sit down to dinner on Thursday in Brussels to discuss China, the sentiment has shifted from what some observers see as years of complacent assumption that China could be milked for economic opportunity while being kept in strategic check.

Now European countries are alarmed at how Beijing — like other great powers in history — is using its expanding influence to dictate terms in both commerce and diplomacy. Some EU governments complain that China discriminates against foreign companies and forces them to give up their technology, while Beijing’s foreign investments are opaque and risk leaving recipient countries in debt.

There is also growing anxiety about the potential security threats of Chinese investment in sensitive parts of the EU economy. The reassurances from Beijing that these fears are groundless are increasingly falling on deaf ears. “It’s pretty shocking they have never found time to discuss this,” Fraser Cameron, director of the Brussels-based EU-Asia Centre think-tank, says of the EU leaders’ talks. “They are saying: ‘Let’s not try to pretend that we can change China. Sometimes it’s tough and brutal — so we will have to be tough and brutal, too.’”

Ahead of the summit, the European Commission and the bloc’s diplomatic service has produced a new strategy document on China that makes unprecedented public criticisms — and threats. The freshly-minted paper brands Beijing a “systemic rival promoting alternative models of governance”, as well as an economic competitor and partner in some spheres. It warns the EU could tighten rules on Chinese investments in Europe if Beijing does not respond to concerns about its behaviour in areas ranging from corporate state subsidies to public procurement.



“We have to send public messages because otherwise the Chinese will not take us seriously”, says one EU member state diplomat supportive of the new strategy. “We have a lot of leverage, like the Americans — or we could have.”

The stakes for European leaders breaking bread in Brussels will be underscored by a burst of Chinese diplomatic activity on the continent. The same night the EU is scheduled to discuss China, President Xi Jinping is due to touch down in Italy for the first leg of a European trip that will take in Monaco and France. Rome plans to use the visit to sign a formal endorsement of Beijing’s contentious Belt and Road global investment drive.

On April 9, Li Keqiang, China’s premier, is scheduled to be in Brussels for a short summit with EU leaders. He will have a longer stay in Croatia, where he will attend the 16+1 grouping of central and eastern European countries, including 11 EU members — a group that European diplomats have long feared Beijing wants to use to split the EU.

“China has discovered it can pick off different EU members and stop the EU having a China policy,” says Robert Cooper, a former adviser to EU foreign policy chiefs Catherine Ashton and Javier Solana. “The larger EU member states have from time to time thought: ‘We ought to take China more seriously.’ But it wasn’t clear they were taking China more seriously themselves.”

The EU’s approach to China since Tiananmen Square had largely been one of attempting to reap benefits of the country’s rapid growth. Although the arms embargo remains in place and Brussels has made criticisms of Beijing on human rights grounds, business has been the priority. The EU is China’s largest trading partner; China is the EU’s second-largest, behind the US. In 2018, China accounted for about a fifth of EU goods imports and more than a tenth of its exports.

China also became an important investment destination and source. Volkswagen has been the top-selling car brand in China for much of the last two decades and the country accounted for 39 per

cent of its sales last year, while companies ranging from BASF to Carrefour to Siemens also have a large presence. But the story has changed as fast-expanding Chinese businesses have shown a growing appetite for European assets. Levels of Chinese direct investment in the EU have soared over the past five years, according to bloc statistics and other research.

Beijing's growing economic clout — and its willingness to use it — has rattled influential EU member states. Similar debates are taking place in countries ranging from France, the UK and the Netherlands to Denmark and Sweden, but it is Germany that is in the vanguard of the EU's sharper view.



Peter Altmaier, Germany's economy minister, has argued that China's growing technological prowess is one of the main reasons why Europe needs a new European industrial strategy that supports the development of regional champions. He has been the most prominent European politician warning of the risks to Germany's future prosperity from Chinese competition.

The BDI, Germany's main business lobby, called in January for the country's economy be made more "resilient" to the dangers posed by competition with China's "state-dominated economy". The group said in a policy paper that Beijing's subsidies had caused overcapacity and other distortions in markets such as steel. It further claimed that Chinese tax incentives and soft loans from state banks were giving companies the firepower to buy technology companies.

High-profile Chinese investments in companies such as Deutsche Bank and Kuka, an industrial robot maker, have raised fears in Berlin about Beijing's reach into sensitive areas of the economy. Those have been accentuated by concerns across Europe over the use of Huawei equipment in 5G mobile communication networks — worries that China says are unfounded and unfair. In December, Berlin tightened rules on investment screening to give authorities more scope to intervene when non-European companies start to build stakes in German companies.

“For a long time the business sector was highlighting the relationship with China as a bonus but they are now highlighting the cost of this kind of engagement,” says Daniela Schwarzer, director of the German Council on Foreign Relations research institute. “The debate now is risk minimisation. What is the risk if a non-democratic country turns against you?”

Despite the shifting EU attitude towards China, the scepticism towards Beijing is not uniformly held. The deepening suspicion in many north European member states contrasts with the mood in other parts of the bloc, where countries such as Hungary and Greece have been vocal advocates for Beijing.

António Costa, Portugal’s prime minister, warned fellow European countries earlier this month against misusing security procedures for screening foreign investments from China and elsewhere. He said it could lead to the continent becoming more protectionist. Mr Costa described Lisbon’s experience of Chinese investment as “very positive”, showing “complete respect for our legal framework and the rules of the market”.

Portugal is one of 13 EU countries — almost half the bloc — to have signed secretive formal endorsements of China’s Belt and Road international investment programme, diplomats say. Most northern member states have distanced themselves from the initiative, under which Beijing seeks to finance and build infrastructure in more than 80 countries around the world. Europe’s Belt and Road sceptics charge that it is opaque, strategically aggressive and can impose crippling debts on recipient states — all allegations that China denies.

A decision by Rome to follow through on its pledge to sign up to Belt and Road would be a diplomatic coup for Beijing. Italy is a bloc founder member and a member of the G7 group of big industrialised countries. The five-page draft accord says the two countries are planning to “explore all opportunities for co-operation”, with the possibility that Italy will borrow from the China-led Asian Infrastructure Investment Bank.

Giovanni Tria, Italy’s economy minister, has taken to justifying Rome’s position by citing an old Italian phrase: “If you are not at the table, you are on the menu.” He has argued that Italy can be a bridge between the US and China and help stop “a confrontational approach” between the two superpowers.

China denies it is trying to divide the EU. It says a strong Europe helps international stability and benefits Beijing. Chinese officials have appealed to the EU to help preserve international trade structures like the World Trade Organization, which has been heavily criticised by US president Donald Trump, as well as playing on European resentment of perceived US high-handedness.

“Europe will surely keep its fundamental long-term interests in mind and pursue a China policy that is consistent, independent and forward-leaning,” Chinese foreign minister Wang Yi, who visited Brussels this week, said earlier in March. “Overall China and Europe relations are in good shape. There are far more areas where we agree than disagree.”

Some Chinese observers believe the growing concern about Beijing partly reflects the EU's own internal divisions, including over migration and the rise of self-styled anti-establishment parties. "The real concern from large EU countries is that China is getting more and more influence in Europe, especially during a period when Europe is experiencing a not very stable stage itself," says Cui Hongjian, head of European Studies at the China Institute of International Studies, a Beijing based think-tank. He adds that "they are trying to fit into the US's point of view" by using national security concerns as an excuse for a more hostile policy.

As it tries to fashion a more coherent China policy, the other difficulty the EU confronts comes from the US. Superficially, Europe is moving closer to the more hawkish US position on Beijing. It could also benefit from the fruits of American pressure, such as a new foreign investment law passed by China last week that will ease restrictions on foreign companies — a longstanding goal for the Europeans.

But diplomats and analysts say the US approach creates more fundamental problems for Europe. The EU needs and wants to co-operate with China in an effort to save big multilateral agreements repudiated by the US, notably the Iran nuclear deal and the Paris climate accord. On trade, Washington has threatened tariffs against the EU as well as China, making the idea of a common transatlantic trade front against Beijing almost unimaginable.

The Trump administration's focus on trade tariffs rather than standards creates a further difficulty for the EU. The bloc is now isolated in its fight to stop Chinese rules becoming the global standard "by sheer weight of their technological and industrial capacity", says Fabrice Pothier, a senior associate at the Rasmussen Global consulting business.

"So many clients we are working with used to look at Europe as a market — but now they are increasingly realising that Europe is in a geopolitical contest," says Mr Pothier, who represents several Asian governments in their engagement with Brussels and says Europe could find itself squeezed. "They realise that if Europe doesn't get its act together, it's going to be a case of choosing the US or China — but not much in between."

EU diplomats worry that the summit's China agenda could be overwhelmed by another internal crisis — this time, over Brexit. Even if the leaders do hammer out the harder new approach to Beijing that some seek, the deepest fear is they have already missed their moment.

"There is a lot more realism and a lot more self-realisation of what our interests are, and how we must more robustly defend them," says one senior EU diplomat. "Hopefully, it's not too late."