

China-Europe Relations: Opportunities and Risks

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China's increasing involvement in Europe, against the background of its growing economic and political strength in the international domain, creates both risks and opportunities. From an economic viewpoint, the trade between China and Europe continues to grow, and is matched by greater Chinese investment in Europe, particularly in Central and Eastern Europe. At the same time, there are substantive political disputes between the sides, particularly with respect to violations of human rights and the status of China in the World Trade Organization. The West European countries fear that China's growing involvement will allow it to leverage its economic power in order to achieve political objectives. In addition, the increasing military cooperation between China and Russia arouses major concern among European countries, particularly in view of the change in American policy toward Europe under the Trump administration.

Relations between the EU and China were established officially in 1975, and in 2003 a framework plan was created for an overall strategic partnership between them. This plan deepened the cooperation between China and Europe in a number of areas and reinforced mutual economic dependence.¹ At this time, China experienced rapid economic growth and became a major player in international affairs. For Europe, China's growing economic and political strength and its involvement in international affairs creates opportunities and risks alike. On the one hand, a stronger China creates an economic

opportunity for Europe, by way of enhanced trade relations, particularly as part of the Belt and Road Initiative, and by way of direct foreign investment (FDI) from China with the hope of creating jobs and maintaining positive economic growth; on the other hand, China's growing involvement in Europe represents a risk, since its investment in East and Central European countries sometimes incurs a political price, even if it is not visible at first.

Furthermore, China's growing involvement in Europe has generated an ideological split and public disputes between East European countries that are hungry for Chinese investment, and West European countries that refuse to ignore China's ongoing violations of human rights, alongside their demand for reciprocity with respect to the entry of foreign companies into the Chinese market. In addition, the military alliance between China and Russia on the one hand and the signs of US withdrawal from its regional commitments on the other hand constitute a not insignificant threat to Europe's security.

This essay maps China-Europe relations in the political, economic, and security domains and examines how China's economic and political expansion in Europe affects relations between the sides.

Political Relations: Normative Dissonance

European policy towards China is based on a number of principles: the promotion of democracy and the rule of law, the protection of human rights, and the commitment to the clauses of the UN Charter.² The EU member states are aware of the difference between them and China from political, economic, and cultural perspectives, and accordingly the EU has declared that its relations with China will involve a "structured management of the disputes between the sides," with the understanding that China is undergoing a complex process of economic reforms that is liable to influence the nature of relations between the sides in the intermediate to long terms. The main disputes between China and Europe focus on China's violation of human and civil rights; the non-enforcement of international law pertaining to copyrights and intellectual property; ignored decisions of international courts, particularly in the South China Sea dispute and norms related to the proliferation of nuclear weapons; and issues related to international trade and the principle of reciprocity in foreign investments.

The main dispute between China and Europe centers on the question of China's status in the World Trade Organization (WTO). When China became a member in 2001, it was agreed that its status would be that of a non-market



Signing ceremony of several agreements between the European Union and China, during a EU-China Summit at the European Council in Brussels, June 2, 2017. Photo: Olivier Hoslet / Pool / AFP

economy. This allows any country to use anti-dumping measures against it, which according to the organization's rules include raising tariffs and restricting imports. However, it was also agreed that within some 15 years, subject to the economic reforms to be carried out in China, it would receive the status of a market economy. Since Europe and the US constitute the main markets for China's products, their decision on the subject is important to Beijing, which is applying immense pressure in order to have its status changed. In this context, the government of China submitted a complaint in 2009 to the WTO's dispute settlement mechanism concerning the anti-dumping measures taken by the EU against Chinese steel products. Although it rejected most of China's claims, a panel of WTO judges decided that indeed in some of the cases the EU did not act according to the WTO charter.³

In December 2016, when the time came to declare China a market economy, Europe and the US were opposed, as China's economic policy still discriminated against foreign commercial companies. In addition, Europe accused China of flooding the global markets with cheap steel produced under government subsidy and the non-enforcement of international laws within its borders against the violation of copyright laws. In response, China

claimed that Europe's opposition is the result of its inability to overcome the continuing economic crisis and the refugee crisis, which forces it to adopt protectionist policies.⁴ Nonetheless, the European Council initiated legislation that in the end is meant to cancel the clause defining China as a non-market economy within the WTO, an indication of at least a moderate change in the European stance on the issue.

Economic Relations: Trade, Chinese Investments, and the Reciprocity Principle

Economic relations between China and the EU have undergone significant change in recent decades. If in the past Europe provided China with financial and technical assistance for its economic development, the rapid growth in China in recent years has changed the nature of these relations. From the early 2000s, when China joined the WTO, trade between China and the European countries grew gradually. The countries with capital-intensive economies and a developed service sector, such as Germany and Britain, were the main beneficiaries of the trade, while the countries of Eastern Europe, whose economies are labor-intensive, were hurt by China's entry into the European market, which adversely affected their economic growth.⁵ Currently, the economic relations between China and the EU are based primarily on trade and investment. China is Europe's largest trade partner in terms of imports, and second in size only to the US in terms of exports. In 2005, total trade between the sides stood at about \$112.7 billion; by 2015 this had grown to about \$514.7 billion, of which \$344.6 billion was imports and \$170.1 billion was exports, such that Europe has a trade deficit of about \$174.5 billion with China.

The economic crisis in 2008 led to the economic collapse of certain European countries and a significant slowdown in growth of the others; however, the results of the crisis led banks owned by the Chinese government to see the potential for investment in a recovering Europe, while serving as intermediaries between Chinese government-owned companies and potential investors throughout Europe. And indeed, Europe saw a major increase in Chinese investment on the Continent, from \$6 billion in 2010 to \$55 billion in 2016.⁶ In contrast, European commercial companies still find it hard to penetrate the attractive Chinese market, and they encounter regulatory and legal barriers when attempting to invest in China or initiate projects there. According to a survey carried out by the European Chamber of Commerce

in China, at least half of the European countries feel unwanted in China and report that they are treated unfairly relative to local Chinese companies.⁷ As a result, the principle of reciprocity, particularly in investment, constitutes a major issue in European policy toward China.

With the progress toward signing a comprehensive investment agreement, the EU is worried by the asymmetry between the liberal foreign investment policy that exists in Europe and the legal and regulatory barriers to foreign investment that exist in China. According to an investigation by the Mercator Institute and the Rhodium Group, European investment in China has been in a steady decline over the last four years. The European Chamber of Commerce has claimed for a number of years that the regulatory atmosphere in China has not improved, despite declarations by senior members of the Communist Party that conditions for foreign companies to enter the Chinese market will be lightened. In contrast, China's growing investment in the European countries, and particularly in Central and Eastern Europe, has sparked disputes, sometime serious ones, among the EU countries. Only recently, a proposal by the leaders of France and Germany to restrict Chinese investment in what are considered to be strategic assets and to place pressure on China to open its markets to European investment ran into opposition from countries that are in need of foreign investment, such as Poland, Hungary, Greece, and Portugal.⁸

Europe's economic importance to China is reflected in the Belt and Road Initiative, which constitutes a major component in China's international economic policy. The goal of the initiative is to create a land and sea route between the European and Chinese markets, primarily by way of Central Asia. However, in Europe there is disagreement regarding their full participation in the initiative. In the forum organized by China in April 2017, the Vice President of the European Commission claimed that the plan to connect China to Europe must meet international standards and the conditions of the free market, so that it will complement existing infrastructures.⁹ Despite declarations of this kind, China is increasing its investment in infrastructures throughout Europe.

An example of Chinese investment as part of the Belt and Road Initiative is the acquisition of control over the Greek port of Piraeus by COSCO, a company owned by the Chinese government. China's motive in purchasing the port is to create a gateway into the European market by way of the Mediterranean. There are those who claim that China also has political

interests in this purchase, since it enables Beijing to translate its economic power into political leverage. Evidence of this is the fact that despite China's declaration that it will not intervene in the domestic politics of foreign countries, Chinese Prime Minister Li Keqiang, in his speech at the China-EU summit in June 2016, expressed his hope that Greece would remain in the euro bloc. A year later, Greece vetoed the EU decision to condemn China's human rights policy.¹⁰ A similar case occurred when Chinese President Xi Jinping, on a visit to Britain that same year, claimed that Britain's remaining in the EU would contribute significantly to the development of relations between Europe and China.¹¹ Such statements imply that China views the unity of Europe as an essential interest that leverages its economic power, with the goal of influencing the countries of Europe on this issue.

On the other hand, China is using a divide and conquer strategy in its relations with the countries of Central Europe, and even more so, those of Eastern Europe. In 2012, China created the "16+1" mechanism between it and 16 Central and East European countries, some of which are not members of the EU. Until recently most of these countries were under the influence of the Soviet Union and today are part of Russia's sphere of influence in this region.¹² As part of this mechanism, China has opened a credit line of \$10 billion, whereby the 16 countries can borrow from banks owned by the Chinese government for the purpose of infrastructure and technology development in their respective countries. In addition, China is investing in the development of trade corridors, based on rapid trains that use Chinese technology, among the East European countries and between them and China.¹³ Since the 16 European countries are hungry for foreign investment and do not view the promotion of liberal norms as a primary goal of foreign policy, as do the countries of Western Europe, China can use this economic mechanism as a way of weakening the unity of the EU on international political issues.

Security Relations: Indirect Influence and the Enhanced Russian Threat

Although the security interests of China and Europe do not directly converge on the geopolitical map and China's ability to project power is not one of the main concerns of the EU, Europe is in fact influenced by China's power in the international arena and by its ability to exploit its economic influence in order to promote its geopolitical interests. In tandem, the growing military

strength of China broadens the range of its activity, both geographically and conceptually. From a geographical perspective, China is building an extensive network of alliances and military ties with various countries in East and Southeast Asia, Central Asia, the Middle East, and Africa, as well as with Russia. In this context, China is creating new military alliances and expanding existing ones; it is increasing its arms exports, expanding its activity as part of the UN peacekeeping forces, building ports in foreign countries (such as the Port of Djibouti and the Port of Gwadar in Pakistan), and is increasing its diplomatic involvement in regional conflicts (such as the civil war in Syria and the Israeli-Palestinian conflict). From a conceptual viewpoint, China is changing its traditional military approach, which focuses on massive land-based forces, and is carrying out military reforms so that its forces will be better suited to modern conflicts, which are far from its borders and are based on naval and aerial forces as well as cyber warfare.

The most significant threat to Europe today, apart from terror, is Russia. In recent years, China and Russia have drawn closer strategically. Together with the Central Asian countries, they have created the Shanghai Cooperation Organization (SCO), considered to be a response by China and Russia to NATO. The organization is involved in various security matters, such as the war on terror, the cyber threat, the demilitarization of borders, and military cooperation.¹⁴ In addition, China and Russia are holding joint military exercises and naval maneuvers in the South China Sea, the Mediterranean, and the Baltic, and even held a joint missile defense exercise near Moscow. The two countries are also cooperating on cyber security.¹⁵ The close strategic relations between China and Russia are reinforcing the Russian threat felt by the European countries, especially in view of the US policy toward Europe under the Trump administration.

The Unknown Variable: United States under the Trump Administration

The increase in uncertainty when Donald Trump took office led to an unprecedented level of tension between the US and Europe. Inter alia, Trump threatened Germany on trade matters, withdrew from the Paris Agreement on climate change, and demanded that the European countries increase their contribution to the financing of NATO.¹⁶ This development, alongside the exit of Britain from the EU, encouraged Europe to turn to China in the hope that it would fill the economic and leadership vacuum that is forming as a result

of Trump's policy towards Europe. Accordingly, China is wisely exploiting the tension between the sides and consolidating its influence in the region. China's declarations that it is interested in promoting norms of free trade and taking responsibility for continued global growth are taken seriously by Europe, and therefore at the June 2017 G20 meeting, the European countries, and foremost among them Germany and France, made a joint declaration with China regarding continued cooperation as part of the Paris Agreement on climate change, from which Trump has withdrawn, and with respect to commercial partnerships in other areas.

Nevertheless, the US is still the largest investor in Europe and has extensive trade relations with most of the EU countries, alongside its historic involvement in preserving the security of Europe. Therefore, despite the cooling of relations, the US will presumably remain an important partner of Europe. However, the withdrawal from multilateral agreements, such as the Paris Agreement, makes it possible for China to adopt a more central role on the international stage and promote international agreements and institutions of its own, such as the Asian Infrastructure Investment Bank (AIIB), which has been joined by a number of European countries, to the dismay of the US. China is unable, and apparently also unwilling, to fill the geopolitical vacuum that will be created as a result of a possible US abandonment of its commitments to Europe and apparently will prefer to focus on increasing its economic involvement in the region.

Conclusion

The fact that China is becoming a major player in the international arena, and particularly in Europe, creates economic opportunities along with geopolitical and security risks. In view of the US withdrawal from its commitments to Europe, it will be possible for China to fill the vacuum, at least in part, by means of strengthening trade relations, promoting new international financial institutions, and increasing investment in the EU countries. At the same time, Europe is still reluctant to depend on China to fill the geopolitical vacuum left by the US, particularly in view of the increasing military cooperation between China and Russia and the American declarations of its continued commitment to NATO. Therefore, the future relations between Europe and China will be based primarily on the expansion and deepening of trade relations; at the same time, Europe will presumably continue to view China

suspiciously in view of its relations with Russia and its growing economic and political involvement in the East European countries.

Notes

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- 4 “Deepened China-Europe Relations Benefit the World,” *China Daily*, May 31, 2017, http://www.Chinadaily.com.cn/world/2017livisitgb/2017-05/31/content_29555149.htm.
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- 6 Philippe Le Corre and Alain Sepulchre, *China’s Offensive in Europe* (Washington: The Brookings Institution, 2016), pp. 1-3.
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- 11 Le Corre and Sepulchre, *China’s Offensive in Europe*, p. 6.
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- 14 See Shanghai Cooperation Organisation, “About SCO,” http://eng.sectSCO.org/about_sco/.
- 15 Mikko Huotari, Jan Gaspers, Thomas Eder, Helena Legarda, and Sabine Mokry, “China’s Emergence as a Global Security Actor: Strategies for Europe,” *Merics*, No. 4. July 2017, pp. 16-17.
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