

## How has the EU Reacted to the Rise of China? An Analysis of the EU's New Strategy on China

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The rise of China has profound implications for the EU in various aspects including trade, intellectual property, investment, external relations, ideology, voting weights in major international institutions, and climate change policy. The EU's new strategy on China, published in June 2016, addresses many of the concerns and expectations the EU has in these areas. Overall, the EU's new strategy adopts a mixed tone towards China's emergence as a large power.

In regard to trade, investment, and protection of intellectual rights, the EU's attitude towards China is twofold. On the one hand, Europeans have been cautious about the artificial undervaluation of the yuan, Chinese government subsidies, and its scant respect for intellectual property rights (Jain, 2012). The EU's new strategy on China points out that "China should...honor its WTO commitment to notify subsidies, starting with those granted to the steel sector" (European Commission, 2016: 7) and "(China's) recent legislative initiatives have introduced new restrictions on foreign operators in China that go against market opening and the principles of equal treatment a level playing field" (European Commission, 2016: 3). All these concerns impel the EU not to recognize China as a World Market Economy (WME).

However, on the other hand the EU strategy also acknowledges how important it is "to work with China to promote...fair competition in each other's markets (in key sectors such as civil aircraft, new material, the digital economy, banking, energy and infrastructure) and to discourage China from underwriting its companies' competitiveness through subsidization or the protection of domestic markets" (European Commission, 2016: 6). It also emphasizes that the "protection and enforcement of intellectual property rights (IPR) are crucial for the promotion of innovation. Relevant dialogue and cooperation should intensify and address growing challenges, such as online counterfeiting and piracy" (European Commission, 2016: 9). Furthermore, the EU requests that China continues to reform its financial sector, enforcing international standards, increasing transparency and avoiding excessive government interference in firms decision-making (Rolland, 2015: 24).

In regard to geopolitics, the EU is aware of China's increasing geopolitical assertiveness displayed in its "One Belt, One Road Initiative (OBOR)." The initiative consists of an economic belt of land extending along the ancient Silk Road through Central Asia, the

Middle East, and Europe. As a second element of OBOR, a maritime road is intended to pass by Southeast Asia, India, the African coast, the Suez Canal up until the Mediterranean. There are prominent geopolitical reasons for China to push forward its OBOR initiative (Cheung and Lee, 2015) such as the ongoing negotiations of the TPP (Trans-Pacific Partnership), TTIP (Transatlantic Trade and Investment Partnership), and the EU-Japan agreement that excludes China and may make Chinese goods less competitive in the global market. To counter looming exclusion, China prepares to negotiate free trade agreements along the Silk Road (Cheung and Lee, 2015). According to the EU's new strategy, China's initiative is largely based on economic and domestic considerations as well as major geostrategic motives (European Commission, 2016: 10), stating that "China will need to fulfil its declared aim of making its "One Belt, One Road" initiative an open platform which adheres to market rules and international norms in order to deliver benefits for all and to encourage responsible economic behavior in third countries" (European Commission, 2016: 10). Against the backdrop of the United States' wariness to OBOR, it is unclear whether the EU will adopt a similarly critical tone in the future.

**R**egarding China's relationship with groups of EU countries, the founding member states of the Union have been wary of how China has shown a keen interest in bolstering bilateral relations with countries of Central and Eastern Europe (CEE) through the 16+1 dialogue (Otero-Iglesias, M. et al., 2015). This Chinese approach arouses the suspicion that China is using 'divide and rule' tactics to undermine the EU's coherence for its self-interest. Despite such mixed notions of China in the EU, some member states still hold some positive notions of China. During the

eurozone's sovereign debt crisis, especially Southern European countries, toned down their skepticism of China and looked to China's use of its foreign exchange reserves to help them (Jain, 2012). China continuously bought risky bonds from debt-stricken countries such as Greece, Portugal, and Ireland (Rolland, 2015).

**A**gainst this backdrop, the EU's new strategy on China appeals for "a strong, clear, and unified (EU) voice in its approach to China" and reminds member states that when they "conduct their bilateral relations with China – whether one-on-one or as groups of countries such as in the 16+1 format – they should cooperate with the Commission, the EEAS (European External Action Service) and other Member States" (European Commission, 2016: 4). This request from the Commission highlights the need to ensure conformity with EU law, rules and policies.

**T**he EU's criticism of China goes beyond the European sphere as it has repeatedly denounced Chinese policies of loose lending practices to authoritarian regimes in Africa, undermining Western sanctions against Sudan and Zimbabwe for instance (Jain, 2012). Especially concerning China's human rights issue, the EU's new strategy asserts that "China's authoritarian response to domestic dissent is undermining efforts to establish the rule of law and to put the rights of the individual on a sounder footing" (European Commission, 2016: 3). For China, criticism of human rights abuses represents an interference with its sovereignty and internal autonomy as China perceives the EU's stance as intrusive (Jain, 2012). The ideological divide between the EU and China on liberal values is not likely to wane in the near-future. Even though human rights are officially "a core concern of the EU's dealings with China, member states still tend to follow independent approaches" (Otero-

Iglesias, M. et al., 2015), and are increasingly isolated and vulnerable to China's commercial pressure.

In terms of the increasing anachronism of major international institutions, China has been urging the Western countries to adjust the voting weights in global economic institutions (e.g. World Bank, International Monetary Fund) so that rising powers are more represented and have less incentive to form or join new institutions. The EU is not necessarily against the idea, as such reforms may ensure that "rising powers will be co-opted and accommodated within the existing system" (Jain, 2012) rather than enticing them to obstruct. The new strategy on China emphasizes that the EU will "encourage China to play a more engaged and active part at the World Trade Organization (WTO)", pay more attention to "the growing importance of the G20 (which is composed of advanced and emerging economies) in the wake of the global economic crisis" and rather than relying on unilateralism for short-term solutions, will be "committed to supporting effective multilateralism" (European Commission, 2016: 13-14). However, the EU does not elaborate precisely if it is willing to give developing countries such as China a higher voting weight.

Concerning how to address the climate change issue, China maintains that a distinction should be made between 'lifestyle emissions' of the West and 'survival emissions' of developing countries, calling for the delivery of low-emission technology to developing countries at an affordable price (Jain, 2012). Taking this into account, the new strategy details that the EU shall "seek to co-operate with China [...] in the energy sector [...] with regard to energy infrastructure projects in third countries, and support domestic energy reforms including energy efficiency, energy

sustainability and resource efficiency (in China)" (European Commission, 2016: 16). Furthermore, the EU will pursue joint research and development of clean energy technologies (European Commission, 2016: 16).

Overall, the EU's new strategy remains quite critical of China in terms of human rights and intellectual property issues, whilst showing a willingness to engage and accommodate Chinese demands, especially in technology and know-how. Despite the discussed differences and divergences, the European strategy bears the potential to deepen its existing geopolitical and economic bonds with Beijing as the two complement each other in multidimensional aspects.

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#### Footnotes:

1. "China is conducting unfair trade policies with dumping and subsidies" (Rolland, 2015: 24).
2. According to Rolland (2015), "out of 10 businesses that the EU has in China, 7 have had complaints about violations to Intellectual Property Rights. It could have cost upwards of 20% of Multinational Corporation Revenue".
3. China has been unwilling to consider adopting some degree of liberal democracy for arguably three main reasons. First, it thinks that especially developing countries that introduce democratic procedures rather early have not necessarily been economically better off (e.g. Philippines and many Latin American countries) than non-democratic regimes. Second, certain non-democratic or "inhumane" measures such as sacrificing the profits of the agricultural sector for raising the infant industries in the manufacturing sector, exploiting domestic labor to maintain the home country export's internationally competitive might be necessary for latecomers in Africa, Latin Africa, Asia, and the Middle East to catch up with the industrialized nations).

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