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RESEARCH DIVISION ASIA | WP NR. 01, NOVEMBER 2020

Promoting a European China policy – France and Germany together¹

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¹ This paper is a contribution to a broader project initiated by Institut Montaigne and the Gemeinnützige Hertie-Stiftung which brings together French and German decision-makers and experts to define common priorities for building a self-confident and forward-looking Europe.

Background

The People's Republic of China today is very different from ten years ago. Its growing self-confidence as a result of fast economic growth and rapid recovery from the global financial crisis has translated into an ambitious national, regional and global agenda under the leadership of Xi Jinping. Domestically, the Communist Party has reasserted its leadership in all spheres of life. Economic liberalization has been largely halted. State-owned enterprises are dominant in key sectors and in China's push abroad, while private firms are increasingly subject to direct oversight by the CCP. Society is under constant surveillance and control thanks to modern technology, and the policy vis-à-vis religions and ethnic minorities has become even harsher. In the case of Uyghurs and other non-Han Muslims, the worst human abuses since Mao's death are now being committed. Regionally, China has stepped up assertive or provocative actions towards its neighbors, using a toolbox that currently includes more sticks than carrots. In global institutions, it has moved into top positions and has expanded its influence, often indirectly enabled by the negative stand of the United States towards multilateralism. China has launched new institutions like the AIIB, and also far-reaching initiatives like the Belt and Road Initiative. It is working to revise universal values such as human rights.

Within the EU and its neighborhood, China has built up a significant economic, diplomatic and media presence over time, which initially took place largely unnoticed by Europe. The toolbox of promises and threats is in full play here as well, not only at the state level, but also for companies. The systemic divergences between the EU and China (open versus state-controlled economies, independent versus controlled information and legal process), unfair competition, including on third markets, and China's use of all means to become the global technology leader ("Made in China 2025") have led to a fundamental shift. The long-held belief/hope/mantra that China would become "more like us" with the policy of "change through trade (Wandel durch Handel)" has been dispelled by China's own moves.

In the last 4-5 years, European governments and the EU have increasingly acted with realism, adapting to China's "new normal" with what is often called "the end of naivety". This has also found its expression in the "EU-China – A Strategic Outlook" issued in March 2019 by the EU Commission and EEAS, now endorsed by the European Council. It labels China as a cooperation and negotiation partner, an economic competitor and a systemic rival. The EU calls first for deeper multilateral engagement by China along common rules, second for more balanced and reciprocal conditions governing the economic relationship. Third, it decides to act by itself on access to EU procurement markets, on distortions of competition by foreign state ownership and financing, on risks for digital and 5G infrastructure, and more broadly on security risks to critical assets, technology and infrastructure.

The Covid-19 pandemic and China's "mask diplomacy" have further contributed to the already negative image of China in European publics. But conceiving and implementing a China policy for Europeans has also become harder because of the misunderstandings and acrimony in some top-level transatlantic relations. While this atmosphere is by far not reflected in many actual analyses about China and in many sectoral actions, it does lessen support from public opinion and create uncertainty among Europeans.

Challenges for the EU

1. Policies at EU level have not all proven their effectiveness yet.

Systemic divergences and rivalry with China, asymmetric rules in many areas (openness for investment, public procurement, forced technology transfer, state subsidies, IPR...) have existed for decades. They have become more pronounced in recent years, as China's status as a developing economy becomes less and less defensible. It has become clear that China is unwilling to make structural concessions on these issues which are of vital importance to the EU. The ongoing negotiations for a Comprehensive Agreement on Investment between the EU and China illustrate this point.

The EU institutions have increasingly been able to coordinate views and policies on a list of defensive economic policies (e.g. investment screening mechanism). Not all of them have proven their effectiveness yet. The investment screening regulation has just entered into force in October 2020. It provides for cooperation and has some binding aspects as to information and cross-border investment involving companies with EU financing. But it is not overall binding. Other existing rules and tools at the EU level often prevent effective counteraction in other areas, especially on foreign policy and security related issues. They even constrain our collective declarative power. A vivid example for the latter was the delayed and very weak EU statement on the International Arbitration Court ruling in The Hague over China's South China Sea claims in 2016.

Challenge: How to strengthen European resilience beyond purely defensive measures; how to overcome the issue of lowest common denominator in EU statements; identifying where we have leverage on China to make concessions, or where we can take counter-measures that effectively limit China's opportunities in the absence of these concessions.

2. At EU member states level (and below), countries threatened by Chinese pressure have often been left to fend for themselves.

Individual EU member states (Sweden, France, Germany)² have become targets of China's aggressive diplomacy and/or threats of (mostly economic) retaliation. Most recently the Czech Republic, whose senate president visited Taiwan with a delegation, was threatened with "grave consequences" for this "short-sighted behavior". Below the government level, airlines and hotel chains are facing Chinese pressure on using "correct" maps (not showing Taiwan as a separate entity). In addition, publishing companies are required to take down publications considered sensitive by China from their websites (Cambridge University Press, Springer), for example on Tibet or Taiwan. Chinese pressure also takes place at the local level (cities, communities, cultural events).

In almost all cases, the targeted countries (and other entities) have been largely left to fend for themselves or, alternatively, cave under Chinese pressure. Statements of solidarity coming from other EU member states or the EU have been rare. Smaller countries are

² Swedish bookseller Gui Minhai was abducted from his home in Thailand in 2015 and has been in Chinese detention since. The Chinese ambassador to Germany threatened German industry with consequences should the government exclude Chinese telecom company Huawei from 5G. France has been insulted by China's envoy but not directly threatened in the recent past.

even more vulnerable to pressure – or, equally, to enticements – by China. Opportunistic behavior, as was the case when China “punished” governments having meetings with the Dalai Lama, should not endure.

Challenge: Mutual support and solidarity require the willingness to pay the price in some cases. More demonstration of support and solidarity should be extended to partners beyond the EU (e.g. Canada on Michael Kovrig & Michael Spavor). Effectively supporting EU member states (and countries outside the EU).

3. *EU-China (inter)dependence due to growing economic interactions poses a potential threat to Europe’s security and well-being.*

China’s growing economic presence in the EU and its immediate neighborhood (through investments, key supply or management of infrastructure such as ports, electricity grids, water supplies) has triggered a debate in Europe on the risks from a growing economic integration with China. Digital platforms, payment systems will also present challenges. The case of Huawei’s involvement in building 5G networks, but also the Covid-19 pandemic, have painfully demonstrated Europe’s dependencies on China and triggered fears about the vulnerability of European supply chains. This has intensified the debate in the EU about China as a potential threat to Europe’s security and well-being. Adding to this is the ongoing US policy of partial decoupling from China in some key technology sectors, without any clarity about the intended end game.

The topic spans all economic transactions with China (FDI, trade, procurement and R&D) in sectors like infrastructure, dual use, emerging technologies and data protection. Even partial decoupling, diversification of supply chains to reduce dependencies and/or achieving European sovereignty in certain sectors (telecom, AI, critical infrastructure, bio-medical industry) will come with a hefty price tag attached. As is the case with plans for a green economy, these costs must also be assessed.

Challenge: How to narrow the gaps in understanding and develop a common and comprehensive framework of guidelines shared and implemented by member states (starting with France and Germany).

4. *The EU and member states struggle to prioritize their own requests when engaging with China.*

Hardened positions on both sides (apart from a few issues such as the adhesion in principle to COP 21 and the JCPOA agreements) call into question a policy of engagement of the EU with China. The gap on values such as human rights always existed. But its concrete implications have become even more urgent over the situation in Xinjiang and beyond. Respect for international law has become a major issue over Hong Kong. Officially, the EU and member states remain committed to engaging China on all levels and on all topics. Given China’s role in the global economy, in international institutions and on transversal issues, a continuation of dialogue is unavoidable in order to call out China effectively. For this to have any effect, it is important to have a unity of views among Europeans.

Beyond declarative unity, we are faced with a new version of an old problem with China: it used to be the difficulty of prioritizing our own requests. Since China now openly or in effect replies no to most, if not almost all, requests, the issue is now to prioritize counteraction, select what is currently achievable and work to improve our leverage in the near future.

Challenge: How to identify and agree on priorities where counteraction can achieve the result desired or is considered necessary to defend values and norms central for the EU. This might come at a price, either by sacrificing or making concessions on other issues, or

by having to deal with China's retaliation, especially if the EU considers instruments such as targeted sanctions over egregious abuses.

5. *Debates on multilateral institutions and alliance politics with the United States have negatively affected the transatlantic relations.*

Divergences of interests with the United States are not new; there may in fact be currently more consultations concerning some issues regarding China. However, fairly convergent views on China's domestic and international trends have been overshadowed in the last years by debates on multilateral institutions and alliance politics. This, and perceived differences over values, has impacted large sectors of European public opinion – in some cases, almost as large as China's authoritarian and aggressive behavior. US demands to the EU or member states for alignment with the US agenda (including threats of secondary sanctions, end of cooperation and information sharing, etc.) have not been helpful. Creating trust with the new administration in 2021 will require a more balanced dialogue – which also implies that the EU is able to present its own needs and proposals.

Challenge: How to renew transatlantic consultation and coordination with a common agenda and pursue common interests together.

6. *The Franco-German push for an “alliance for multilateralism” has gained support from other partners, but has not received support at the EU level.*

Germany and France are both committed to defending and reforming, where necessary, the existing international rules-based order and international institutions (like WTO, WHO). They have launched as a general goal an “Alliance for multilateralism”. France has moved forward on security cooperation in the Indo-Pacific, and particularly with India, Australia, Japan and Singapore. There has been occasional participation from other EU member states but without any successful coordination at the EU level. Germany's recent “Guidelines on the Indo-Pacific” have a complementary accent on sustainable development and climate mitigation. But they also pledge more activity on security issues, and together with France (and other member states such as the Netherlands) to work for a European position on the Indo-Pacific. The Guidelines envisage increased cooperation with Indo-Pacific partners like Japan, Australia, South Korea, India, but also ASEAN. The Netherlands have now issued comparable guidelines.

Challenge: How to reform the WTO and other international organizations; yet also prepare for the situation where China blocks those reforms by building negative coalitions. How to follow-up on the Indo-Pacific, including the allocation of necessary resources both in France, Germany and eventually at the EU level: EU's Eurasian connectivity has targeted neither maritime regions nor North-South corridors. How to bring to life the “Alliance for multilateralism” with partners in the Asia Pacific/Indo-Pacific. How to link this up with the action of non-European actors, such as the US, India, Australia, Japan on key issues: security cooperation, technology and innovation, digital and cyber issues, climate policies.

Specific challenges for the Franco-German approach to China

Franco-German policy differences within the EU context have actually been on the decline. This is largely due to a German shift of perceptions on trade and economic issues (including investment, technology) since 2016. On trade defense, investment screening, South China Sea, human rights, the two countries speak together. Since June 2020, France is becoming as outspoken as Germany in terms of open statements on contentious geopolitical and value issues with China. It is an important shift if it persists, as should also be the case for the two countries' effective steps to exclude politically risky actors from 5G networks.

1. *Germany remains less involved than France on defense-related issues in the Asia-Pacific/Indo-Pacific.*

Traditionally, France has a whole set approach to China (involving the UN, strategic issues and partly based on France's view of itself). At the same time, Germany focuses on a pragmatic policy oriented towards economic issues, with a separate, but important, component on value issues such as human rights. This is still reflected in each country's actions: France supports freedom of navigation under UNCLOS with a regular naval presence in the South China Sea (approximating but not equaling FONOPS) and it has established defense cooperation on a large scale from India to Australia. It is not absent from economic issues, but it is dwarfed there by Germany's role. Due to constitutional and political constraints as well as (for the time being) the lack of naval capabilities, Germany is much less forthcoming on defense-related issues in the Asia-Pacific/Indo-Pacific. The Indo-Pacific Guidelines passed by the German cabinet in early September 2020 offer new points of convergence with the French position and entry points for closer cooperation. Recently published Dutch guidelines in fact put more accent on the security implications of the Indo-Pacific. However, neither of these guidelines nor France's posture cover contingency planning. An escalation of tension around Taiwan or with India would present a serious problem to Europeans. There is a need to prepare for contingency scenarios.

2. *Decoupling from China comes at a different price for Germany and France, responses from each country vary accordingly.*

There remains a difference in accent and expression on potential economic decoupling from China. In part, the German economy (and particularly its automotive industry) is more vulnerable than France's to an adverse decoupling (Germany is to all trade crises since it is a larger exporter). But France is not immune either (luxury goods, cosmetics). The time lag for decisions in Germany regarding 5G and Huawei has reflected this difference between both countries.

3. *There is a disparity between France and Germany on the advocacy level for industrial policy.*

The return of economic sovereignty and industrial policy is officially advocated in France, while it is still a controversial issue in Germany. But in reality, Germany has shifted more than France towards industrial self-sufficiency (including from European providers) in recent years. The foreign content of Germany's exports declined by 2.9% between 2011 and 2016, from 23.2 % to 20.3 %. The trend is less sharp in France, from 23.4 % to 22.1 %. France's smaller industry share is also more dependent on imports. It remains that in value-added terms, the first destinations of German exports (2015) are the US, China and the UK. For France, China only comes as an export destination after the US, Germany and the UK.

4. *Germany has a stronger sense of identification with the EU and better capacity to "lead" on China-related issues than France, but it remains cautious for historical reasons.*

Germany tends to identify European interests and policies with its own – and also vice-versa! But this is for historical reasons not matched with an open European leadership and debate. "Leading from behind" (a phrase often used for Japan) weakens the potential to convince, but also avoids running the risk of stirring traditional fears and reservations against a too dominant Germany. France doesn't have such reservations when it comes to articulating its national interests. But it also has far less domestic political debate on China than Germany, and less capacity to create and enlist European coalitions on China-related issues, even if it is currently working on this problem in other areas.

Absent the UK, a Franco-German tandem driving policy towards China can create negative reactions inside the EU. Therefore, it is essential to find areas of complementary and convergence; avoid competition that is directly linked to Chinese "divide and rule" initiatives; address the concern of other member states as a prerequisite for propositions.

Action points

All this implies that Europeans accept the notion of leveraging strategies, either in the domestic realm (we must achieve more by ourselves in order to compete with China or to reduce our dependencies and build resilience) or internationally (reaching policy goals with other nations and regions that also serve to balance China).

In practice, we should promote the following actions:

1. *Push for QMV, welcome coalitions.*

Push together for Qualified Majority Vote, at least on foreign/security issues and sanctions (as Ursula von der Leyen has proposed). But as long as this is not achieved, adopt 27 minus 1 or 2 or 3 resolutions whenever possible. If this is not possible, pursue smaller/different coalitions, including in other frameworks like G7 and with partners outside the EU, especially in the Asia-Pacific/Indo-Pacific (South Korea, Japan, Australia, New Zealand, India).

Positive examples: The April 2018 Report of the EU ambassadors to China on BRI, with only Hungary opting out; Note Verbale to the UN on China's claims in the South China Sea by France, the UK and Germany in September 2020.

2. *Enhance solidarity among us and with others.*

Improve the show of support for countries within and outside the EU who are targets of China's bullying practices and "wolf warrior diplomacy".

Positive example: Heiko Maas' outspoken support for the Czech Republic which was threatened by Chinese Foreign Minister Wang Yi.

3. *Create a "red list" and a "green list" for EU-China economic relations.*

Work together on supply chains and critical dependencies, reducing the grey zone between protecting critical technologies, ensuring supply security on the one hand and an undesirable wider economic decoupling, thus reducing public space for ill-advised debates on "protectionist France, mercantilist Germany"; include banking and payment systems. Overall, this can be addressed by drawing up a "red list", i.e. interactions that have to be controlled/monitored or even stopped, and a "green list", i.e. interactions that do not have implications for security or unfair competition.³ A process has to be put in place so that these lists evolve in due course. Strengthen the EU-level resources and competences for investment screening. A major step forward would imply that investment vetting is delegated to the EU level and therefore substitute binding decisions for voluntary cooperation from member states.

Positive example: Inclusion of infrastructures in EU investment screening; EU 5G guidelines.

³ This latter approach is taken by the report prepared for the Bertelsmann Foundation by the Rhodium Group Exploring a "Green List" for EU-China Economic Relations, September 2020, https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/Green_List_DA_09_20.pdf.

4. *Finalize the defensive toolbox.*

Strengthen competition law, promote the international procurement instrument, counter state subsidies to companies. Implement reciprocity as a criterion for public markets. Strictly apply privacy and cyber-security rules to PRC digital platforms, and eventually exclude them for reasons of reciprocity.

Positive example: Anti-dumping action applied to Chinese companies operating from Egypt with subsidies from both governments; the EU June 2020 White Paper on foreign subsidies in the Single Market.

5. *Create common and informal discussion channels on European policy towards China within the EU 27.*

Make China a regular topic in established formats like the Council of Ministers (not only foreign ministers, but also others), PSC (Political and Security Committee), COREPER, etc. Improve/regularize information and coordination mechanisms, briefings/debriefings in and between EU capitals. While the two countries should act in lockstep, they should also encourage, at the EU level and in intergovernmental relations, a process of consultation with other EU member states. This will become even more important as some EU-level guidelines or mechanisms should evolve into binding rules and processes: investment screening, decisions on infrastructure financing will be particularly sensitive. The summit of EU leaders to discuss China policy initially planned for November 16, 2020 should be held as soon as possible and even be made a regular event.

Positive example: Coordination of EU member state ambassadors in Beijing, e.g. joint report on the Belt and Road Initiative.

6. *Achieve common negotiating strategies for Europe in the US-EU-China triangle.*

To succeed vis-à-vis China, work towards resolving disputes with the United States, which requires mutual support from France and Germany to their respective interests and proposals. At the same time, refuse requests for alignment and work towards strategic autonomy, which would in this case rest on the European capacity to state its own preferences and needs in the transatlantic dialogue.

Positive example: Joint filing of a WTO-case against China on compulsory technology transfer and technology theft by US, EU and Japan.

7. *Implement the “complementarity” concept between France and Germany.*

Provide German logistical support on Indo-Pacific strategic theatres (matching France’s support to Germany on trade issues, see point 6 above), work to link up these two national strategies with Europe’s connectivity platform, the US Blue Dot Network initiative and Japan’s, India’s, Korea’s and Taiwan’s overseas aid and connectivity initiatives. Integrate public and private representatives from France and Germany in government visits to and from China.

Positive example: Invitation to Merkel and Juncker to attend the summit with Xi Jinping by French President Macron

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doi: 10.18449/2020WP10