PROJECT ON EUROPE AND THE TRANSATLANTIC RELATIONSHIP

The Triangle in the Long Game

Rethinking Relations Between China, Europe, and the United States in the New Era of Strategic Competition

Fidel Sendagorta

HARVARD Kennedy School
BELFER CENTER
for Science and International Affairs

REPORT
JUNE 2019

Project on Europe and the Transatlantic Relationship
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Harvard Kennedy School
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Cambridge, MA 02138

www.belfercenter.org/Transatlantic

Design and Layout by Andrew Facini

Cover photo: Workers dismantle the Belt and Road Forum logo next to the "Golden Bridge of Silk Road" structure outside the media center as leaders are attending the round table summit of the Belt and Road Forum chaired by Chinese President Xi Jinping in Beijing, Saturday, April 27, 2019. (AP Photo/ Andy Wong)

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About the Author

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Acknowledgements

The author thanks the whole team of the Project on Europe and the Transatlantic Relationship Program for their constant support during my year-long fellowship at the Belfer Center for Science and International Affairs: Nick Burns, Faculty Chair; Cathryn Clüver Ashbrook, Executive Director; Karl Kaiser, Senior Associate; Alison Hillegeist, Assistant Director; Erika Manouselis, Project Coordinator; and Elsa Kudzi, Junior Program Associate.

Attending the regular Belfer Center Director and Board events was always enlightening and valuable and I thank its Director Ash Carter and its Co-Director Eric Rosenbach for their invitation to participate in them.

I am grateful to Victor Pérez García who, as the Research Assistant of this paper, provided useful and timely documentation throughout its preparations.

The paper also benefited greatly from the insights and comments of many Harvard Kennedy School Professors and Fellows and particularly the following: Graham Allison, Philippe Le Corre, Rolf Mowatt-Larssen, Joseph Nye, John Park, Tony Saich, Ezra Vogel, Arne Westad and Stephen Walt. The author is grateful to all of them but accepts full responsibility for the contents of the paper.

Last but not least, the author wishes to thank the Fundación Rafael del Pino alongside the Ministry of Foreign Affairs of Spain, for creating and funding the Fellowship that has permitted the research work of this paper to be done. Special thanks to the Fundación President, María del Pino, to its Director, Vicente Montes and to its Director of the Global Leadership Program, Manuel Muñiz.

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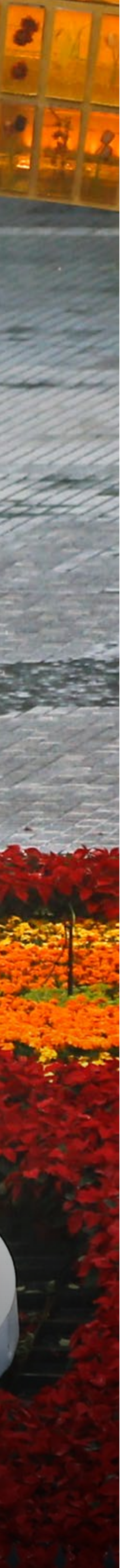
AP Photo/Andy Wong



1. Executive Summary

1.1 From Convergence to Competition

The purpose of this paper is to analyze how China's new power is reaching Europe, the challenges that it poses, and the European responses to this new reality. This process has to be examined in the context of the current strategic competition between China and the U.S. and its reflection on the transatlantic relationship.

In 2018, relations between the United States and China took a swift turn from strategic engagement to strategic competition. This new stance was validated by the Trump Administration's National Security Strategy, the National Defense Strategy and by Vice President Pence's speech at the Hudson Center in October 2018. At the same time, the Administration approved successive packages of tariffs on Chinese products and demanded the extradition of Huawei's chief financial officer from Canada.

What has been remarkable is how rapidly a consensus on China has built in Washington including across both political parties within Congress, among business and labor unions, think-tanks and the media. There is also a sense of urgency, implying that if the U.S. does not act now China will move irretrievably ahead in a number of fundamental areas, especially in the technology field.

As for Europe, it has found herself dealing simultaneously with three serious challenges:

- A weakening of European integration underlined by Brexit and the emergence of anti-EU political forces in all member states.
- A deteriorating relationship with the U.S., both in the trade and the security areas and a shift away from 70 years of bipartisan policy consensus in Washington concerning the unflinching support for NATO and the EU.

- A return to great power rivalry with both China and Russia wielding their power to increase their influence in Europe and drive a wedge between the partners in the transatlantic relationship.

The convergence of these three challenges creates dilemmas for European governments and institutions but also produces incentives to overcome divisions and find common answers. More recently, after the effects of Chinese power in Europe were beginning to be felt in ways that could affect European interests and values, Europe has started to react in a more united fashion after the effects of Chinese power in Europe. In March 2019, a European Commission report went so far as to describe China as a "systemic rival" for the first time. It is true that member states have different perceptions about risks and opportunities in their relations with China, but the overall trend points to a firmer policy towards China.

1.2 Evolving Relations in the China-Europe-United States Triangle

Europe's defensive moves

Under President Xi Jinping, China has embraced a double pillar strategy: the Made in China 2025 plan to make China a world leader in technology and the Belt and Road Initiative (BRI). Both have consequences for Europe. The increase of Chinese investment in Europe in the last few years, as part of the Made in China 2025 plan, has become a source of concern in Brussels and other European capitals in a number of ways. Germany and other member states have seen the Chinese takeovers of high tech companies in priority sectors defined by this plan with mounting distrust.

With respect to the BRI, Chinese companies have been buying stakes in key infrastructure sectors such as ports, energy and utilities in countries of Southern and Eastern Europe. Many analysts have come to realize that China's goal is to acquire a predominant position both in Eurasia and in the Indo-Pacific. The risk is that Europe might become the weak tip of a Eurasia with Beijing as its geopolitical center, and two authoritarian powers—Russia and China—weighing heavily on the continent. Add to that the perception that the U.S. is weakening its ties with European allies and long-term prospects become dimmer.

As a result of these developments, European-level legislation has been introduced to screen these investments, setting up lists of strategic sectors in which these projects could be discouraged or ruled out.

The increasing economic presence of China in Europe has raised fears that China is using its new leverage to garner political support from certain countries in matters such as the South China Sea, human rights or the treatment of minorities, therefore preventing the EU from uniting around common positions. In the longer run, the prospect of a powerful authoritarian country with a global reach and strong influence over Europe and other areas, is a source of increasing concern. As China is promoting its own authoritarian approach all around the world, its model has become a relevant dimension of the BRI at the crossroads between digital technologies and increased social control through surveillance. Inevitably, all of these trends point to increased ideological tensions between China and European countries.

The U.S. fully invested in competition

The U.S. policy shift on China toward strategic competition is having deep impact on Europe. As the rivalry with China hardens, both powers are extending their competition on a global scale in order to promote their influence or prevent the other from widening it. In the future, when American officials meet with their European colleagues, China will be a frequent agenda item. The planned deployment of 5G networks across Europe and the eventual participation of Chinese firms in it is one such example.

Technology and its links with national security has become the central focus in the competition with China. 5G in Europe has become the first battlefield. European countries would like to balance their economic relations with China and their security ties with the U.S., attempting to find an uneasy compromise between complete access of Chinese technology to 5G networks and an outright ban. The U.S. is ready to decouple from Chinese

5G technology, to create a trusted network for themselves and their allies. European countries consider this approach a bridge too far. But a recent decision by the Trump administration to restrict the export of American technology to Huawei could seriously undermine the company's value as a partner for European firms in 5G deployment.

It is highly likely that competition with China will drive an increase in activities across a number of sectors by the United States in Europe. We can expect more engagement with governments, especially in Eastern and Southern Europe, where the rise of Chinese political influence has been more evident in the last few years.

One area in which the current U.S. Administration is not seeking EU cooperation is trade. On the contrary: the U.S. has applied tariffs on EU exports of steel and aluminum, rejecting its European demands to eliminate these outright and to work together to negotiate trade issues with China. Instead, the U.S. opted for a bilateral approach with the goal of maximizing outcomes to benefit American manufacturers, not to be shared with third countries.

China plays offense

China has always considered European integration as a positive process in the context of its wider policy of promoting a multipolar international system. But, Chinese perceptions of the EU have changed for the worse in the last few years, first with the Euro crisis, followed by Brexit and more recently the rise of nationalist parties across the continent. As a result, China's more recent focus on Europe has become more sub-regional, as with the creation of the 16+1 platform. Still, the EU has not lost strategic relevance for China neither economically nor politically.

The EU is the largest global economy and China's largest trading partner. It is a prime target to advance Chinese economic interests. But over the last years the balance of economic relations has shifted significantly. While the past decades were marked by a focus on attracting European firms to the Chinese market to at once lower their production costs and transfer technology and know-how to China, now "China going West" policy emphasizes investment in Europe, where Chinese firms acquire IT firms with state-of-the art technology and the ambition to gain control over key infrastructure in the continent, especially in maritime transportation, energy and other sectors.

China wants to extend its political influence in Europe and is using the leverage provided by its increasing economic presence, especially in countries more in need of investment. Apart from its inroads in EU member states, China is working to gain a stronghold in the Balkans, taking advantage of a political vacuum for countries in a holding pattern toward EU membership.

China's objective is to weaken the transatlantic link and to emphasize Eurasia as the new center of global gravity in this new scenario of U.S.-Chinese rivalry. The BRI is instrumental to promoting this geopolitical concept around the centrality of Beijing.

1.3 Translating Competition Into Strategy

Europe and the U.S. can now agree on the characterization of China as a strategic competitor. From now on, Europeans will have to decide what they should do on their own and what can only be done in close coordination with the United States and other like-minded countries. For that dialogue to be fruitful, trust between the countries on both sides of the Atlantic must be restored. The signs are not encouraging in the short term but dealing with China's rise is a long game.

What Europe can do on its own

Finding a new balance between cooperation and competition with China will require an overhaul of European policies in many areas. Most of them are included in the European Commission's report "EU-China. A strategic outlook." The rationale underlying this document is the fact that the EU should not continue to negotiate with China without building leverage first. The proposed lines of action include investment screening; reciprocity in state subsidies and public procurement; a new debate on an industrial policy which would allow the creation of European champions in sectors like artificial intelligence and electric batteries; new regulations to prevent the export of dual-use technologies to China; and the development of a common EU approach to the security of 5G networks.

What Europe can do with the U.S. and other like-minded countries in the Indo-Pacific

New strategic challenges cannot be addressed exclusively through a transatlantic viewpoint, as in the past. The EU must consider partnering with the U.S. or countries in the Indo-Pacific to face the challenges posed by a rising China. In the Cold War, security was divided in two theatres, Europe and the Far East, with the U.S. active in both. But now that China is projecting its power and influence both in Asia and Europe, this grouping no longer makes sense. Europe must look East out of recognition that some of its more pressing security challenges demand it:

- First, because cybersecurity is non-territorial by nature and must be addressed in a coordinated manner by those democracies in the Atlantic and the Indo-Pacific that can be targeted by Russia or China.
- Second, because the Belt and Road Initiative is a geopolitical challenge, and to compete with it will require an alternative strategy and strong cooperation across the board between like-minded countries both from the Atlantic and the Indo-Pacific.

The crux of the competition between China and the U.S., Europe, Japan, Australia and others lies at the crossroads between technology, security and values. And this contest takes place in the digital realm. As a result, Europe could propose the creation of a "Coalition for a free and trusted internet" with two pillars to the U.S. and other like-minded partners in the Indo-Pacific.

1. An Alliance for Cyber Security: It would cover both the military and the civil aspects of this issue. Members of NATO and the EU

would join the organization as well as those countries in the Indo-Pacific willing to participate.

2. A Trusted Digital Fund: It would provide an alternative to the Chinese Digital Silk Road for those countries in Asia, Africa, Latin America and the Pacific that want to upgrade their digital networks and are tempted by Chinese offers of low-cost technology under attractive financial conditions. These offers are not value free and Chinese packages for Belt and Road countries increasingly include surveillance kits for social monitoring and political control. Europe, the U.S., Japan, India, Australia and others would pool their assets in this area to offer competitive options in terms of digital technology and funding.

Other lines of action for the U.S., Europe and the Indo-Pacific like-minded countries would make strategic sense but present more difficulties. Still, they should be part of the ongoing transatlantic debate:

1. To resurrect the Trans-Pacific Partnership (TPP): Many analysts agree that without the TPP, the Free and Open Indo-Pacific will lack economic traction and is unlikely to be able to properly compete with the Belt and Road Initiative. Looking at the future, a resurrected TPP merged with a limited version of Transatlantic Trade and Investment Partnership (TTIP) in a single instrument could be a powerful option if Democrats and Republicans in Congress could find a way to garner domestic support.
2. To prevent Russia from siding with China in a permanent way: An alliance between China and Russia, or even an *entente*, would be a serious handicap for a U.S. foreign policy increasingly focused on strategic competition with China. In these circumstances, can the U.S., Europe and like-minded countries in the Indo-Pacific try to drive a wedge between Russia and China to prevent their relationship from strengthening?

Competition with China is already on the transatlantic agenda. It was a significant point of discussion at the April 2019 NATO Ministerial meeting of the Alliance 70th Anniversary Summit. The EU, for its part, has a number of tools to deal with this multifaceted challenge and in the last few months has shown the will to balance cooperation and competition in its relations with China. For the time being, most of the measures under discussion are of a defensive nature. But Europe must also look at competition with China on a global scale. In this endeavor, Europeans and Americans are bound to work together no matter how serious the current differences between partners on both sides of the Atlantic.

2. Introduction

2.1 From Convergence to Competition

"The size of China's displacement of the world balance is such that the world must find a new balance. It is not possible to pretend that this is just another big player. This is the biggest player in the history of the world."
Lee Kuan Yew.[1]

In 2018, relations between the United States and China took a sharp turn from strategic engagement to strategic competition. This new stance was validated by both the Trump Administration's National Security Strategy and National Defense Strategy. In a speech at the Hudson Center in October 2018, Vice President Mike Pence elaborated on what competition looked like in a wide range of areas, from the military to trade, technology, the media and academic matters. Words were followed by deeds with successive tariffs on Chinese products and the extradition demand made to Canadian authorities to release Huawei's chief financial officer to the United States. In Europe, a new approach was also in the making in 2018. By March 2019, a report by the European Commission to the European Council Summit described China as "systemic rival" for the first time.

President Trump has made slashing the trade deficit with China and bringing back jobs to the U.S. one of the main points of his re-election campaign. Remodeling relations with China has become one of the priorities of his Administration. A remarkably rapid consensus on China has built in Washington including both political parties, Congress, business and labor unions, think-tanks and the media. There is also a sense of urgency, as if the U.S. does not act now it will be too late because China will be ahead in a number of fundamental areas.

1 Graham Allison, Robert Blackwill, and Ali Wyne. *Lee Kuan Yew: The Grand Master's Insights on China, the United States and the World*. (Cambridge, MA: MIT Press, 2013).

Figure 1. Shares of Global GDP (2005 PPPs) in 2011 and Estimates for 2030 and 2060

Source: Figures made based on data from Johansson, Å., et al. (2013), "Long-Term Growth Scenarios", OECD Economics Department Working Papers, No. 1000, OECD Publishing, Paris, https://doi.org/10.1787/5k4ddxpr2fmr-en.

The reasons for the catalyzation of an anti-Chinese mood are many. They have been building up for a number of years before surfacing with great intensity more recently. In a nutshell the main motives are:

1. **The fact that 18 years after China joined the WTO, its economy has still not opened up to foreign competition.** This reality comes coupled with the perception that China's impressive growth has been achieved at America's expense.

2. **The evidence that economic growth has not brought political convergence in terms of progress towards a more open and democratic system.**[2] On the contrary, President Xi Jinping has expanded the role of the Communist Party in every aspect of Chinese society and has scrapped presidential term limits.

3. **The realization that the competition in new technologies has deep implications for economic competitiveness but also in the security and the military fields**. In that sense the Made in China 2025 plan was seen as hard evidence that China was using all of the state's assets to achieve a technological advantage for its firms, including state subsidies but also intellectual property theft. American business leaders complained that they were not competing against other companies but against an entire country.

4. **The more assertive behavior of China in the international arena,** especially in relation to the control of the South China Sea.

2 Kurt Campbell and Ely Ratner. "The China Reckoning: How Beijing defied American expectations," *Foreign Affairs* 97, 2 (2018): 60-70.

These actions and omissions by successive generations of Chinese leadership have driven some authors to make China responsible for the current atmosphere of mistrust in Washington. Joseph Nye has written that "Trump's rhetoric and tariffs were merely gasoline poured on a smoldering fire."[3] And former U.S. Treasury Secretary, Hank Paulson, formerly a strong proponent of engagement with China, has also argued along these lines.

Other authors have pointed out that whatever the specific reasons for this more confrontational stance in the U.S., there is a structural phenomenon: China has accumulated enormous economic power, which coupled with the largest population in the world, can transform the international system and alter the global balance of power in ways that undermine American dominance. Therefore, the rivalry between both powers can easily turn into conflict. This is the view of former Australian Prime Minister, Kevin Rudd.[4] In *The Tragedy of Great Power Politics*, renowned political scientist John Mearsheimer had anticipated the same analysis.[5] Despite their general agreement, they come to different conclusions as to the consequences of this new situation. While Mearsheimer thinks that armed conflict between China and the U.S. is inevitable sooner or later, Rudd cannot accept this pessimistic determinism.

Destined for war. Can America and China escape Thucydides' trap?,[6] Graham Allison's 2017 book defines the now prevailing narrative on China's resurgence.[7] Allison provides the historical context to the current rivalry between the U.S. and China and concludes that now —like in the past—there is a severe risk of conflict when a rising power threatens the dominant position of an established one. The risk is serious, but history proves that conflict is not pre-determined, and that human agency always retains the last word.

3 Joseph S. Nye. "The Cooperative Rivalry of US-China Relations," Project Syndicate, November 06, 2018, https://www.project-syndicate.org/commentary/china-america-relationship-cooperative-rivalry-by-joseph-s—nye-2018-11.

4 Kevin Rudd. "The United States and China-A Relationship Adrift." Asia Society. September 19, 2018. https://asiasociety.org/policy-institute/united-states-and-china-relationship-adrift.

5 John J. Mearsheimer. *The Tragedy of Great Power Politics*. (New York: W.W. Norton & Company, 2014).

6 Graham Allison, *Destined for War: Can America and China Escape Thucydides´s Trap?* (Boston and New York: Houghton Mifflin Harcourt, 2017).

7 Ibid

The Chinese tend to endorse this narrative. President Xi Jinping himself has mentioned the need to avoid the Thucydides trap as one of the most pressing challenges for China to foreign interlocutors. The identification of Chinese leaders with such a proposition corresponds to China's historical experience, particularly to the rise and fall of dynasties during the Warring States era. The Chinese have a circular view of the past, and periods of grandeur and prosperity have alternated cycles of decline and destruction throughout their long history. For the U.S., with a shorter and more linear view of the past, this narrative is harder to accept. Since their founding they have only known a steady and uninterrupted path to the leading position among nations.[8]

The Chinese leadership feels that the country's moment has come to recover its position at the height of the world's hierarchy. This sense of destiny is indeed one of the most powerful elements in a resurgence of the country's self-confidence and determination. The President feels vested with this historical mandate and has designed a strategy to implement his vision of China becoming, "a global leader in terms of composite national strength and international influence" by the middle of this century.[9] The visible part of this strategy has two pillars: The Made in China 2025 plan, meant to make China into a world leader in technology, and the Belt and Road Initiative designed to connect China to the rest of the world. As for the invisible part of the strategy, Thomas Wright has put it this way: "It used to be said that China's strategic intentions were a mystery, not a secret. A mystery is something that is unknown, even to Chinese leaders. A secret you can steal but a mystery will only unfold over time, if at all."[10]

Not everybody would agree with this characterization of Chinese strategy. Michael Pillsbury, a former official in the U.S. Defense Department and now an external adviser to the White House, proposes that China has a secret strategy to replace the U.S. as the global superpower.[11] He recalls

8 Gideon Rachman. *Easternisation* (London: Bodley House, 2016).

9 Xi Jinping. "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era". Xinhua. October 18, 2017. http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf

10 Thomas Wright. *All Measures Short of War: The Contest for the 21st Century and the Future of American Power.* (New Haven and London: Yale University Press, 2017).

11 Michael Pillsbury. *The Hundred Year Marathon: China's Secret Strategy to Replace America as the Global Superpower*. (New York: Henry Holt and Company, 2015).

that President Xi Jinping, in his first speech as General Secretary of the Communist Party of China, mentioned "a strong nation dream." The inspiration for this new concept in Chinese political language had come from a book called *The China Dream* by a military officer, colonel Liu Mingfu, which has since become a best seller in China. His main point is that the competition between China and the U.S. will not be like a "shooting duel" but rather like a marathon. In 100 years, beginning with the founding of the People's Republic of China in 1949, China would manage to surpass the U.S. and become the world leader.

But in this hundred-year marathon strategy, inspired by the lessons of Chinese ancient history, deception about one's intentions plays an important role in order to obtain from one's adversary what one needs, without provoking it before the fight is fully prepared. Why then did China abandon the cautious approach of hide and bide and provoke a strong reaction from the U.S.?[12] According to Kevin Rudd,[13] the reasons are the following:

1. **The Chinese leaders' perceptions about the decline of American power** according to a number of parameters that measure national power.
2. **The emergence of a global multipolar system** and the loss of appetite for unilateral military interventions among the American leadership.
3. **The Chinese leaders' calculations that China's economy will be less dependent** on the rest of the world as its domestic market grows in importance.
4. **The increasing relevance of nationalism** both in the leaders' outlook and in the public views. Nationalism in China works both top-down (as a legitimizing force for the CCP) and bottom-up.

This sense of opportunity is very much present in the concept of *shi*, a key element in Chinese strategic thinking. Henry Kissinger defines it as "the art of understanding matters in flux." The strategist must grasp the propensity

12 Note: the original quote from Deng Xiaoping was: "Coolly observe, calmly deal with things, hold your position, hide your capacities, bide your time, accomplish things where possible".

13 Kevin Rudd. "China's changing worldview under President Xi Jinping." Asia Society. April 13, 2018. https://asiasociety.org/policy-institute/chinas-changing-worldview-under-president-xi-jinping.

of things and the direction of this evolution and use it to achieve its goals.[14] We are used to saying that the Chinese always think long-term. It is indeed a true proposition but the notion of *shi* must qualify it. In this context, we will better understand the resounding statement of President Xi Jinping at the 19th National Congress of the Communist Party of China: "The wheels of history roll on; the tides of the times are vast and mighty. History looks kindly on those with resolve, with drive and ambition, and with plenty of guts; it won't wait for the hesitant, the apathetic, or those shy of a challenge."

The Chinese may have been taken by surprise by President Trump's style but they always expected an American reaction to their bold moves. A new phase has opened and competition now covers the entire spectrum of relations, from military to trade, to investments and even the cultural realm. But it is in technology where competition has become more acute.

Unlike Meiji Japan in the 19th century, Imperial China shunned Western science and technology as a means to modernize the country. That would not happen again. In 1978, as relations with the U.S. were moving towards normalization, Deng Xiaoping had one priority in mind: science and technology. His proposal to send seven hundred students to study science in the U.S. was immediately accepted by U.S. President Jimmy Carter.[15] Today, 350,000 Chinese students are enrolled in graduate courses in the U.S. That is why the Chinese accomplishment in strengthening their technological capacity is also the success of the American policy of engagement. But the trend has now reversed, and engagement is giving way to disengagement in a number of areas. A growing anxiety in the U.S. about Chinese rapid technological progress is quickly translating into security concerns. The 2017 National Security Strategy reflects these fears when it states: "Losing our innovation and technological edge would have far-reaching negative implications for American prosperity and power."

When security becomes a compelling consideration, interdependence ceases to be considered as purely positive. In this sense, the U.S. is likely to limit its current interdependence with China in sectors where they perceive

14 Henry Kissinger. *On China.* (London: Allen Lane, 2011).

15 Ezra F. Vogel. *Deng Xiaoping and the transformation of China*. (Cambridge and London: The Belknap Press of Harvard University Press, 2011).

strategic vulnerabilities. China, for its part is doing exactly the same by increasing its self-reliance in areas defined in the Made in China 2025 plan. In that way, they will try to prevent the U.S. from harming their economy in the event of sanctions.[16]

Thomas Wright sees the relationship between the U.S. and China as one of interdependent competition. The advantages of interdependence will continue to be seen in a positive manner by both societies. But a number of areas will be disconnected from each other in order to reduce the risks of excessive vulnerability. Hank Paulson subscribes to the need of de-integrating some areas to protect national security. Still he fears that the U.S. Administration is not just focusing on a reduced number of sensitive areas but "seems instead to be flirting with a comprehensive de-integration."[17]

A good example of the decoupling of a whole sector of the economy for security reasons is the 5G case. What Washington wants to prevent is not only industrial and political espionage through the backdoor of 5G networks but also an increased ability for Beijing to "switch off" entire sectors of critical infrastructure in the event of a serious conflict.

In Europe, China's economic power expanded across the continent for years without meeting any resistance until recently. The wake-up call came through concerted action from Germany and France, working together with the European Commission. As we have seen, China has a double-edged strategy, with the Made in China 2025 plan on the one hand and the Belt and Road Initiative (BRI) on the other. It could be argued that Germany was more worried about the effects of the first over the future viability of its industrial model while France, with a greater geopolitical sensitivity, was more aware of the risks of the BRI. Both were increasingly concerned, and the European institutions too, about the Chinese capacity to take advantage of existing divisions in Europe. Without renouncing existing cooperative policy with China, which has a large agenda running from climate change to non-proliferation, European institutions and national governments have begun to discuss a new strategy for competition.

16 Thomas Wright. "Sifting through Interdependence," *The Washington Quarterly* 26, 4 (2013): 7-23.

17 Henry M. Paulson, Jr. "The United States and China at the Crossroads". Asia Society. November 13, 2018. https://asiasociety.org/policy-institute/united-states-and-china-crossroads

The purpose of this paper is to analyze how the impact of Chinese power is resonating in Europe, the challenges that it poses, and the European responses to this new reality. This process has to be examined in the context of the current strategic competition between China and the U.S. and its reflection on the transatlantic relationship. Therefore let us look first to the different backgrounds that each of these actors bring into the power play.

3. Worldviews and Core Interests

Europe's defensive moves

For the last two years European countries and institutions have had to deal with the simultaneous challenges of a rising China with increasing influence in Europe and a deteriorating transatlantic relationship under the Trump Administration.

Let us look first at relations with China. In 2016, the High Representative of the European Union for Foreign Affairs and Security Policy presented a paper on the "Elements for a new EU strategy on China" to the 28 member states. The report reflected a fair-weather policy with the usual mix of demands for reciprocity on trade and investments, a level playing field for European companies in the Chinese market, the traditional concerns on human rights abuses in China and a long list of global issues on which both sides had a common interest to cooperate. New elements included a first reaction to the Belt and Road Initiative—hoping that it would adhere to market rules and international norms, and a call to all member states to project a "strong, clear and unified voice in its approach to China," highlighting the risks of division within the EU. By 2019, the tone had changed considerably and in March, the European Commission presented a report to the European Council defining China as a "cooperation partner, an economic competitor and a systemic rival" and proposing a number of actions to rebalance the relationship.[18]

This report was the result of a new awareness that emerged gradually—first in Paris and Berlin and then in Brussels—that certain trends of China's rise in the political and economic realms as well as on its global projection needed a more serious consideration and a more proactive set of policies to deal with them. Some of these concerns were the following:

First, as the Chinese leadership developed the Belt and Road Initiative and launched a diplomatic offensive to garner international support for

18 *EU-China—A Strategic Outlook*. Strasbourg: European Commission and HR/V, 2019. https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf

it, the geopolitical dimensions of this concept started to become more evident including in Brussels where an EU official was famously quoted saying "We don´t do geopolitics." Although the Europeans had framed the initiative exclusively in terms of connectivity, it soon transpired that building infrastructure is not an end in itself but rather the means towards an end. China's objective is the acquisition of a predominant position both in Eurasia and in the Indo-Pacific.[19] Europe risks becoming the weak tip of a Eurasia with its geopolitical center in Beijing, and two authoritarian powers—Russia and China—throwing their respective political weight around the continent. Add to that the perception that the U.S. is weakening its ties with European allies and the long-term prospects become dimmer.

Second, the sweeping increase of Chinese investment in Europe in the last few years has become a source of concern in Brussels and other European capitals in a number of ways. Germany and other Northern member states have seen the Chinese takeovers of high-tech companies in priority sectors defined by its Made in China 2025 plan with mounting distrust. The open nature of European economies stands in stark contrast with China's insistence of closing whole sectors to foreign investment and the opaque financing of Chinese companies from public sources. These factors and the growing success of Chinese business competing with American and European firms in high tech products, all combined to create the demand for a tighter control of these investment moves. At the same time, Chinese companies, frequently State-Owned-Enterprises (SOEs), were buying stakes in key infrastructure sectors such as energy, utilities, ports, airports in countries across Southern and Eastern Europe, without sufficient public debate based on a careful assessment of advantages and disadvantages. The result of the confluence of both developments has been the introduction of EU-level legislation to screen these investments and to set up lists of strategic sectors in which these projects are discouraged or ruled out. This more cautious position towards Chinese investment must not obscure the fact that many of these financial flows continue to be welcomed both by European governments and businesses as a valuable factor both in terms of financing and job creation.

19 Robert D. Kaplan. *The Return of Marco Polo's World: War, Strategy, and American Interests in the Twenty-first Century*. (New York: Random House, 2018).

Third, the increasing economic presence of China in Europe has raised fears that China is using its new leverage to garner political support from certain countries in matters such as the South China Sea, human rights or the treatment of minorities, therefore preventing the EU from uniting around common positions on these and other issues. Over the longer run, the prospect of a powerful authoritarian country with a global reach and strong influence over Europe is raising many questions in public opinion and across governments of many member states. In the past, ideological differences with China were basically focused on its treatment of its own citizens. Now these differences have extended, as China begins to promote its own authoritarian approach all around the world. This model has become a relevant dimension of the BRI at the crossroads between information technologies and increased social control through surveillance. The use of private data by the state or corporations has become an important factor in European governance and the differences to the Chinese approach are getting wider. Inevitably, these trends point to an increase of ideological tensions between China and European countries—at least by countries dominated by the liberal side of the political spectrum, while populist and nationalist forces seem less worried by the Chinese authoritarian challenge.

Fourth, the increasing power of China and the weakening of the integration drive in the EU creates a new balance that is less favorable to Europe. The EU and its member states are global actors in a number of areas but have also become the object of Chinese ambitions, making European policy towards China more defensive than in the past.

The United States fully invested in competition

The fact that in 2018 the relationship between the U.S. and China has gone through a consequential change from strategic engagement to strategic competition will have, and is already having, deep effects on European countries' own relations with China. As rivalry with China hardens, both powers will extend their competition on a global scale in order to promote their influence or prevent the other from widening it. The Chinese win-win mantra has lost all traction in Washington and between the two, the entire world becomes the new arena of a zero-sum game. From now on, when American officials meet with their European colleagues, China will be on the agenda frequently. This is the case of the deployment of 5G networks in Europe and the eventual participation of Chinese firms in the build-out. The link between technology and national security has become the central focus in the competition with China, and Washington is pushing Europeans to be more aware of the security risks implicit on the use of Chinese technology in areas like 5G. European countries would like to balance their economic relations with China and the security links with the U.S., finding a middle way between total access of Chinese technology to 5G networks and a total ban. The U.S. is ready to implement a decoupling from China in 5G, creating a trusted network for themselves and their allies. European countries consider this approach a bridge too far. But a recent decision of the U.S. Administration to restrict the export of American technology to Huawei could seriously undermine the company's value as a partner for European firms in 5G deployment. Much as is true for a differentiation of internet systems usage across the globe, decoupling could become a real possibility here.[20]

Already, there are signs that the U.S. will become more active in Europe in other areas considered especially relevant in its competition with China. The ideological dimension is just one of them. We can expect both an increase of communication campaigns and pressure on governments, especially in Eastern Europe where the rise of Chinese political influence has become more evident in the last few years. Further, the U.S. will seek more European cooperation on confronting Chinese challenges in the South China Sea, with freedom of navigation operations organized by the American and some European navies. But European countries are not true military actors in the region and these activities will remain largely symbolic. More broadly, as the U.S. and its allies and partners in the region develop Indo-Pacific initiatives as a competing narrative to the BRI, it is foreseeable that Washington will ask European allies to increase their level of coordination through the EU-Asia Connectivity strategy.

Trade is the main area in which the U.S. Administration is not seeking the cooperation of the EU. On the contrary, the U.S. has applied tariffs on EU steel and aluminum, rejecting demands to eliminate them and to work

20 Stu Woo. "Huawei Offensive Is Acceleration of Yearslong Endeavor," *Wall Street Journal* December 8, 2018. https://www.wsj.com/articles/huawei-offensive-is-acceleration-of-yearslong-endeavor-1544274003?mod=searchresults&page=2&pos=5

together to negotiate trade issues with China. The U.S. has opted for a bilateral approach in its trade policy with the goal of maximizing results that are not to be shared with third countries.

More generally, President Trump himself has—on more than one occasion— expressed his scorn for the EU and his support for nationalist leaders in Europe that question the Union's *raison d'être*, in a sharp reversal of 70 years of U.S. foreign policy doctrine. Further, his reluctance to support NATO in a wholesome fashion has bred mistrust in Europe and exacerbated latent fears about the future of the transatlantic relationship. Increasingly, European countries and institutions share concerns with the U.S. on how China's rise could affect interests and values on both sides of the Atlantic. But, from the European point of view, the American policy towards China in relation to Europe is riddled with contradictions:

1. The U.S. wants to use all of its leverage to build more balanced trade relations with China but at the same time, it refuses to work with its allies on this issue.

2. Washington wants to prevent China from gaining political influence in Europe, especially in the East but at the same time it undermines the unity of the EU.

3. Its preference of using the Five Eyes intelligence cooperation in matters related to Chinese technology and its links with security strengthens the role of the UK at a time of weakened British influence in the EU due to the looming Brexit.

4. The lack of a clarion call to rally around the ideas that underpin the liberal international order weakens the Administrations' stance in the battle of ideas with China.[21]

Nevertheless, a new, more robust policy towards China is today the single, unifying foreign policy area that enjoys bipartisan support. Europeans will have to accept that their relations with the U.S. will be increasingly influenced by this factor no matter which party holds the White House.[22]

21 Gideon Rachman. "Why Donald Trump is great news for Xi Jinping," Financial Times. April 15, 2019. https://www.ft.com/content/caaf71d8-5f5a-11e9-b285-3acd5d43599e

22 Ivan Krastev. "A European Goes to Trump's Washington," New York Times. November 30, 2018. https://www.nytimes.com/2018/11/30/opinion/europe-america-foreign-policy-trump.html

Chinese objectives in Europe are better understood in the wider context of the country's national worldview underpinned by these main tenets:[23]

1. **The preservation of its national unity and its political and economic system** under the leadership of the Communist Party.
2. **The crafting of a regional and international order more consistent with Chinese national aspirations**, its political ideology and its national interests. American hegemony is no longer accepted either at the regional or the global level. China will strive to be the dominant power both in Eurasia and the Indo-Pacific.
3. **The conviction that the liberal international order created by the U.S. is in a state of decline** thus providing opportunities to promote a new and enhanced role for China in a transformed order. But competition must be managed prudently and confrontation carefully avoided.
4. **China must continue the transformation of its economy into more innovative and value-added sectors** by becoming a world leader in key technologies.

This worldview, when applied to Europe, suggests a number of priorities for EU's China policies:

First, European countries and institutions must uphold the one-China principle as a must and a *sine qua non* condition to developing normal ties. This red line is not new and has now been reiterated in China's December 2018 policy paper on the EU. The report also asks the EU to "refrain from interfering in China's internal affairs in the name of human rights," but its language is much more imperative when it refers to Taiwan, Tibet, East Turkestan, Hong Kong and Macau. In any case, the perception of a new bilateral balance of power more favorable to China will translate to a more forbidding position of its government on these matters.

23 Kevin Rudd. "China's Changing Worldview under President Xi Jinping." Asia Society. April 13, 2018. https://asiasociety.org/policy-institute/chinas-changing-worldview-under-president-xi-jinping.

Second, China has always considered European integration as a positive process in the context of its wider policy of promoting a multipolar international system. But, as reflected in recent academic work, Chinese perceptions of the EU have changed dramatically toward the worse in the last few years, first with the Euro crisis, then with Brexit and the rise of nationalist parties.[24] It is not by chance that lately the Chinese focus on Europe has become more sub-regional, as we have seen with the creation of the 16+1 platform. This being said, the EU has increased its strategic relevance for China both economically and politically.

Third, the EU is the largest global economy, China's largest trading partner and therefore a prime target to advance Chinese economic interests. But over the last years there is a significant shift in the balance of economic relations. While the Chinese market attracting European firms to produce in-country at lower cost was the focus of the past decade, in part for the technology and know-how transfer that accompanied it to China, the "China going West" strategy emphasizes a more expeditionary approach, with Chinese firms investing in or acquiring IT firms with state-of-the-art technologies or controlling key infrastructure across the continent, in maritime transportation, energy and other possibly strategically relevant sectors.

Fourth, China wants to extend its political influence across Europe. It is using the leverage provided by its increasing economic presence, especially in those countries in need of foreign direct investment. In manipulating these needs, China is able to expand its pool of friends to promote its political views and positions. Apart from its inroads among EU member states, China is working to gain a stronghold in the Balkans, taking advantage of the existing political vacuum in which these countries remain in without a clear timeline to join the EU.

Fifth, in the new scenario of enhanced rivalry between the U.S. and China, an important Chinese objective is to weaken the transatlantic link and to emphasize Eurasia as the new center of global gravity. The BRI is instrumental to promoting this geopolitical concept that underscores

24 Vincent K. L. Chang and Frank N. Pieke. "Europe's Engagement with China: Shifting Chinese Views of the EU and the EU-China Relationship". *Asia Europe Journal* 16, 4 (2018): 317-331

the centrality of Beijing and its leading role across the entire Eurasian continent.

Finally, lifting the arms embargo put in place after the 1989 Tiananmen Square uprising is a permanent objective of Chinese EU policy, largely for its symbolic meaning. But there are also geopolitical reasons: it creates an asymmetry between European relations with China and with its regional rivals such as Japan, India, Australia and Vietnam.

4. Economic and Technological Challenges

Trade in goods has been the engine that provided traction to the economic relationship between China and the EU in the last decades. But the flow has been uneven, with only three member states scoring a trade surplus (Germany, Finland and Ireland). In 2017, the total trade deficit amounted to more than EUR 176 billion.

Lately, other flows have increased greatly and in particular, tourism from China has tripled in the last ten years. But the most significant trend has been the expansion of Chinese investment to Europe.

4.1 An Investment Surge

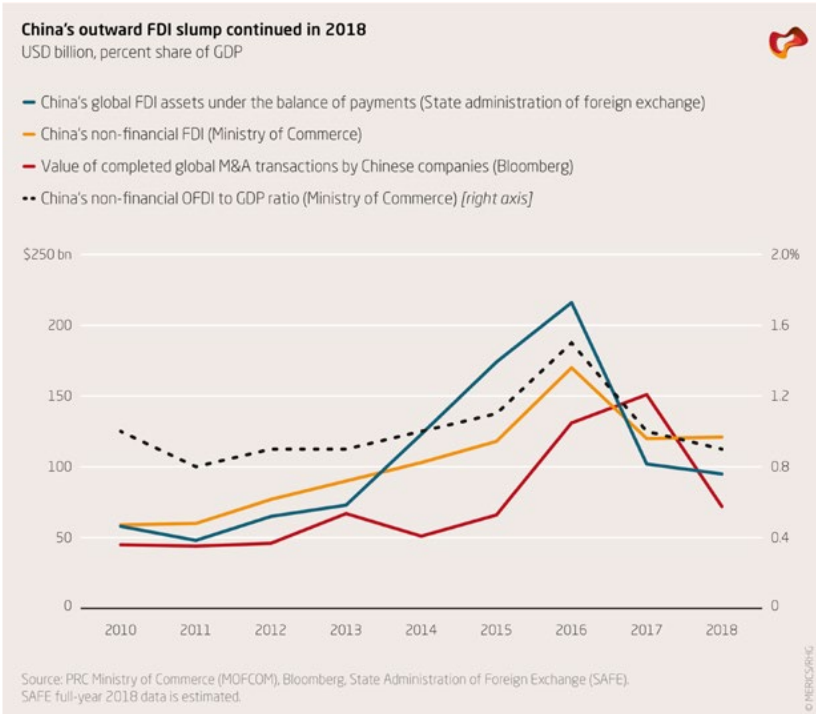
Chinese direct investment (OFDI) in EU countries has notably increased over the last few years, jumping from EUR 700 million in 2008 to EUR 20 billion in 2015 and EUR 35 billion in 2016. This upward trend has been tempered by a downturn in 2017 and in 2018 (with EUR 30 billion and EUR 17.3 billion respectively), as part of a drop in Chinese OFDI worldwide. This recent drop was the result of a Chinese government decision to rein in outbound flows for fear of a sharp decrease in foreign exchange reserves. Still, this volume would be much higher if transactions below the 10% threshold were included. A case in point is the acquisition of a 9.7% stake in Daimler by Geely for EUR 7.3 billion.[25]

Nevertheless, total Chinese OFDI represents only 10% of its GDP, still a small figure compared with Germany (39%), the U.S. (34%) and Japan (28%). Given these comparative figures, it is fair to expect an upward trend of Chinese investment flow to the EU to resume in the near future. Much

25 Thilo Hanemann, Mikko Huotari, and Agatha Kratz. *Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies*. Berlin: Rhodium Group and Mercator Institute for China Studies, 2019.

will depend on the impact of new investment screening regulation both at the national and the EU level.[26]

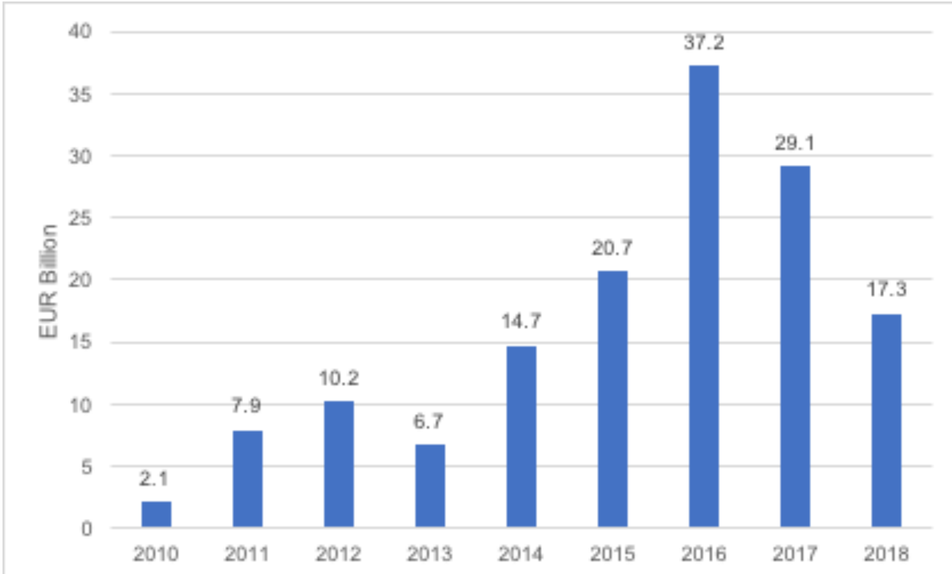
Figure 2. Estimates of China's Outward Foreign Direct Investment (2010-2018)



Source: Hanemann, T., Huotari, M., & Kratz, A. (2019). Chinese FDI in Europe: 2018 trends and impact of new screening policies. MERICS Papers on China, MERICS and Rhodium Group, Berlin.

26 John Searman, Mikko Houtari, and Miguel Otero-Iglesias, eds. *Chinese Investment in Europe: A country-level approach*. Paris: French Institute of International Relations, Elcano Royal Institute, and Mercator Institute for China Studies, 2017.

Figure 3. Chinese FDI in the European Union (2010-2018)



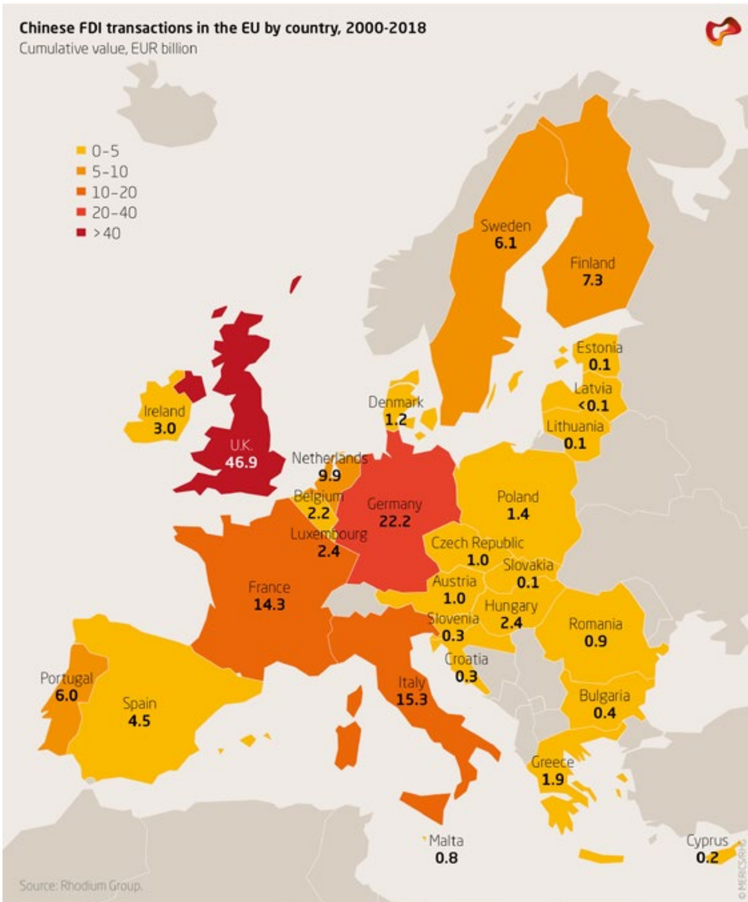
Source: Hanemann, T., Huotari, M., & Kratz, A. (2019). Chinese FDI in Europe: 2018 trends and impact of new screening policies. MERICS Papers on China, MERICS and Rhodium Group, Berlin.

Key features of these investment flows are as follows:

1. In parallel with China's increased investment in Europe, there has been a decrease of European investment in China, from EUR 10 billion on average between 2010 and 2015, to EUR 8 billion in 2016 and 2017.
2. Although countries in Southern and Eastern Europe have attracted an increasing proportion of Chinese investments, the UK, Germany and France still represented 45% of total flows in 2018.
3. Acquisitions account for a 94% of OFDI flows, with greenfield projects representing only a small minority.
4. Transport, utilities and infrastructure, high tech, automobile, real state and hospitality represented the main investment sectors in 2017.

The notable increase of Chinese investments over the last few years has provoked both positive and negative reactions from a political point of view, depending on the different countries or sectors. Before looking at these differences more in detail, it is useful to try to understand Chinese motivations.

Figure 4. Chinese FDI in the European Union (2010-2018)



Source: Hanemann, T., Huotari, M., & Kratz, A. (2019). Chinese FDI in Europe: 2018 trends and impact of new screening policies. MERICS Papers on China, MERICS and Rhodium Group, Berlin.

Chinese strategic objectives

In a briefing about China and the EU, The Economist argues that "it would be a mistake to attribute too much grand strategy to its actions (in Europe)." China wants to become a modern superpower and it is opportunistic in the ways to advance its goal.[27] But China does have a strategic vision which has been laid out in two complementary initiatives launched by President Xi Jinping himself. Both provide clear guidelines for Chinese investment policy in Europe.

27 " Chinese investment, and influence, in Europe is growing," *The Economist*, October 4, 2018. https://www.economist.com/briefing/2018/10/04/chinese-investment-and-influence-in-europe-is-growing

1. **The Made in China 2025 plan** calls for a transformation of the Chinese economic model in order to become "the leader among the world's manufacturing powers" in three stages by 2049. As President Xi put it in a speech in 2013: "Advanced technology is the sharp weapon of the modern state." Our technology still generally lags (behind) that of developed countries, and we must adopt an asymmetrical strategy of catching up and overtaking."[28] To achieve this ambitious goal, China must make its industry more competitive by focusing on ten tech fields: information technology, automation and robotics, aerospace and aeronautics, oceanographic engineering and high-tech shipping, high-speed rail, electric vehicles, electric power equipment, agricultural machinery, new materials, pharmaceuticals and medical equipment. In developing these technologies, the plan aims for gradual Chinese self-sufficiency, enabling the country to end its current dependence on the U.S. This strategy lays out a number of instruments toward achieving its goals, including a sharp increase in R&D, state funding and foreign acquisitions. It therefore provides the justification for a sizable number of investments in high-tech firms, especially in Germany.

2. **The Belt and Road Initiative (BRI)** Launched by President Xi in 2013, it aims to integrate the Eurasian region through new land and maritime links. Already, more than 65 countries across the globe have signed on to it, including 16 EU member states. This strategy provides the rationale for Chinese investments in the transportation and infrastructure sectors across Europe, especially in Eastern and Southern Europe.

Some motivations are common to both the Made in China 2025 plan and the BRI, such as the intention to strengthen the competitiveness of Chinese firms in order to create national champions on a global scale.

Building political influence has also been mentioned as a driving force behind Chinese investments operations in Europe. It is no secret that

28 "Chinese expansion has Germany on the defensive," Der Spiegel. May 24, 2018. https://www.spiegel.de/international/business/chinese-economic-expansion-has-germany-worried-a-1209325.html

China aims to create a "community of friends" around the world, including within the EU. With that end in mind, it applies a sub-regional focus strategy with a differentiated approach. Southern, East and Central European countries, which are more in need of foreign capital are also especially targeted for the political influence economic investment might make possible.[29]

The most structured platform for sub-regional cooperation is the 16+1 (17+1 after Greece's joining in 2019) diplomatic framework, shorthand for the 2012 "Cooperation between China and Central and Eastern European Countries." Representatives of the 17 countries, plus China hold an annual summit in which infrastructure and other regional projects included in the Belt and Road Initiative are discussed and agreed upon. But these high-level multilateral meetings are generally short and more than anything, they serve as an occasion for bilateral meetings with the Chinese Prime Minister.[30]

The European institutions and some member states have criticized this platform as proof that China uses its political influence to divide and rule, thus weakening the EU. But participants argue that the initiative responds to an aspiration to foster relations with China and with Asia more generally—an economic objective that other European countries have developed over the years with close bilateral ties and regular top-level meetings with Chinese leaders. A more frequent criticism is that China likens cooperation across this region to similar formats it maintains with developing countries in Africa and Latin America. This critique implies that there is greater emphasis on concessional financing through the Export-Import Bank than in greenfield FDI. An additional argument for the chokehold critique: Loans are conditional on the participation of Chinese firms in the implementation of projects.

Some Central European countries such as Hungary do not hide that relations with China are a convenient bargaining chip to be used in dealings

29 Philippe Le Corre. "China's Rise as a Geoeconomic Influencer: Four European Case Studies," Carnegie Endowment for International Peace. October 15, 2018. https://carnegieendowment.org/2018/10/15/china-s-rise-as-geoeconomic-influencer-four-european-case-studies-pub-77462

30 François Godement and Abigael Vasselier. *China at the gates: A new power audit of EU-China relations* London: European Council on Foreign Relations, 2017. https://www.ecfr.eu/publications/summary/china_eu_power_audit7242

with European institutions to extract maximal value, especially in the face of their increasing unease with domestic developments in that country. "Playing the China card" has not only been met with criticism in Brussels but also in Washington, despite the fact that President Trump sees eye-to-eye with Prime Minister Viktor Orban on many issues.[31] Orban, for his part, has told American diplomats that he wants Hungary to be "neutral, like Austria," as the U.S. demands a tougher line on Russia and China.

The Balkans are particularly vulnerable to a China's multi-part advances for economic control and political influence. Lacking a clear path to EU accession, a country like Serbia has fewer options than existing EU member states to find financing for much-needed infrastructure projects. It has become an easy pawn in China's wider strategic game. Chinese companies benefit from the lack of EU regulatory reach into Serbia, meaning public tenders can be replaced by direct arrangements with the government. Compared with the frequently cumbersome procedures of EU funding, Chinese projects are much less time-consuming and can be more easily be adapted to the timing of local elections.

In Brussels and in Berlin concerns over the political vacuum in the Balkans are rising. Policy-makers note the situation is helping China to make inroads into Central Europe. But EU enlargement is never a quick process, more so in the face of mounting Eurosceptic views across the continent. Russia has rebuilt close relations with Serbia since the end of the Cold War. Now that China is stepping in with economic enticements, geopolitical competition is growing sharper, with Moscow and Beijing cooperating to counter Western influence in the region.[32]

31 Drew Hinshaw and Anita Komuves. "Hungary Bucks U.S. Push to Curb Russian and Chinese Influence," *Wall Street Journal*. January 27, 2019. https://www.wsj.com/articles/hungary-bucks-u-s-push-to-curb-russian-and-chinese-influence-11548626080

32 Winning the Competition for Influence in Central and Eastern Europe: US Assistant Secretary of State A. Wess Mitchell," Atlantic Council. October 19, 2018. https://www.atlanticcouncil.org/news/transcripts/winning-the-competition-for-influence-in-central-and-eastern-europe-us-assistant-secretary-of-state-a-wess-mitchell

4.2 **Case Studies**

4.2.1 **In the Field of High Tech**

NXP in the Netherlands

China has an evident Achilles heel in semiconductors. The industry depends on supplies by only six equipment firms, three of which are based in the U.S.[33] If the U.S. applied an export ban on computer chips, the damage to Chinese manufacturers would be devastating. China has imported semiconductors for a value of $200 billion every year for the last five years. The 2018 U.S. ban of telecom giant ZTE, which forced U.S. manufacturers to resort to American suppliers, was lifted months later but was a strong warning for China. Aware of this vulnerability, Chinese authorities set the a goal of meeting 80% of domestic demand by 2030 in its Made in China 2025 plan, as compared to 33% in 2016.

At the same time, U.S. acquisitions were not an option anymore as Washington had tightened investment screening through CFIUS over the past years. In 2017 alone, acquisitions by Chinese companies in the U.S. diminished: they were down 90% from the previous year.

Decreasing its dependence on the U.S. in this area has thus become a Chinese priority. The takeover Dutch of vsemiconductor manufacturer NXP by JAC Capital in a triple transaction amounting to a total of $4 billion must be seen in this strategic context. The three transactions were the following:[34]

- JAC Capital created a joint venture with NXP called WeEn, with a majority stake in the hands of the Chinese company and business

33 Emily Feng and Kathrin Hille. "China Vulnerable in War with U.S. over Computer Chips," Financial Times. December 3, 2018. https://www.ft.com/content/4a8553a6-f3b2-11e8-ae55-df4bf40f9d0d

34 Matt Ferchen, Frank N. Pieke, Frans-Paul van der Putten, Tianmu Hong and Jurriaan de Blecourt. "Assessing China's influence in Europe through investments in technology and infrastructure. Four cases," LeidenAsiacCentre. December 2018 http://leidenasiacentre.nl/wp-content/uploads/2018/12/Influence-in-Europe-through-Investments-and-Technology-anf-infra.pdf

headquarters in Shanghai. NXP ownership would decrease to a 20% in three to five years.

- Two former divisions of NXP were split from their mother company to form two new firms, Ampleon and Nexperia, which became fully owned by JAC Capital. Both are producers of chips for the telecom industry and unlike NXP, they do not use American origin parts, and therefore would be unaffected by eventual U.S. sanctions.

A need for increased Chinese self-reliance is the rationale behind this deal. The new owner, JAC Capital, is a subsidiary of JIC, a Chinese state-owned enterprise and with that an instrument of the Chinese government to gain control over strategic assets in the tech field.

Kuka in Germany

In 2017, Germany became the top destination of Chinese OFDI in Europe with more than EUR 50 billion. Most of the operations have been acquisitions, many of them targeting high-tech firms. The most valuable deal to date was the EUR 4.5 billion takeover of the robotics company Kuka by Midea in 2016. Robotics are one of the priority sectors in the Made in China 2025 plan because of China's laggard status behind other industrial countries. In 2016 China had just 49 industrial robots per 10,000 workers, as compared with 301 in Germany, 305 in Japan and 351 in South Korea.[35] It plans to have 150 per 10,000 workers by 2020. Robotics are also a top priority in Germany's Industry 4.0 plan, developed there with the cooperation of business and the public sector to foster manufacturing modernization and the "smart factory" of the future. Midea had committed to keeping its headquarters and production in Germany and to preserving jobs.[36]

And yet, the German government could not look favorably on a deal that seemed to be the first step in the hollowing out of the best of German industry. Sigmar Gabriel, then-deputy chancellor said that it would be "appropriate if there were at least one competing offer from Germany or

35 World Robotics Report 2016, International Federation of Robots

36 "Chinese expansion has Germany on the defensive," Der Spiegel. May 24, 2018. https://www.spiegel.de/international/business/chinese-economic-expansion-has-germany-worried-a-1209325.html

the rest of Europe." The EU's digital commissioner, Günther Oettinger, also asked Europeans companies to make a counter offer.[37] According to some reports, Siemens and Bosch were approached by German officials to test their interest. None of this worked and the German government had no legal instruments to block the deal, as the robotics industry was not considered to be a strategic sector. But, as we will see, this takeover rattled political Berlin at a moment when Germany started to rethink its relations with China.

4.2.2 **In Transport Infrastructure**

The port of Piraeus in Greece and other ports

The takeover of the port of Piraeus by the Chinese shipping company COSCO must be analyzed in the context of the Belt and Road Initiative. It is part and parcel of Chinese aims to become a strong maritime country as part of its global ambitions.[38] The EU has become the number one trading partner of China and 70% of traded goods travel by sea. To facilitate and protect trade routes to its main markets, China has taken to making transport facilities in Europe its main acquisition goals.

As a result of the takeover of the Greek port of Piraeus by COSCO, it has become an important hub for the handling of containers in the Mediterranean and the Black Sea. It has also become a relevant gateway for Chinese and other goods heading for Central Europe and Germany. Since HP decided to move its distribution operations to Piraeus, other industry-related companies have followed including Sony, Samsung, ZTE and Huawei.[39]

COSCO is a Chinese state-owned company, the largest shipping company and also the largest container terminal operator globally, with a stake in

37 Guy Chazan. "German angst over Chinese M&A," *Financial Times*. August 9, 2016. https://www.ft.com/content/e0897e24-598e-11e6-8d05-4eaa66292c32

38 Philippe Le Corre. "China's Rise as a Geoeconomic Influencer: Four European Case Studies," Carnegie Endowment for International Peace. October 15, 2018. https://carnegieendowment.org/2018/10/15/china-s-rise-as-geoeconomic-influencer-four-european-case-studies-pub-77462

39 Frans-Paul van der Putten ed., Francesco Saverio Montesano, Johan van de Ven, and Peter van Ham. *The geopolitical relevance of Piraeus and China's new Silk Road for Southeast Europe and Turkey*. Clingendael, 2016.

more than 40 terminals around the world, including in the European ports of Rotterdam in the Netherlands, Antwerp and Zeebrugge in Belgium, Bilbao and Valencia in Spain, Marseille in France and Vado Ligure in Italy in addition to Piraeus.

The long-standing cooperation between the Greek shipping industry and Chinese shipbuilders and shippers paved the way for the first Chinese investment in 2008, when COSCO acquired a 35-year lease for the container terminal in Piraeus. After the financial crisis, which hit Greece particularly hard, international creditors demanded the privatization of state assets, a policy that created a window of opportunity for Chinese investors. In 2016, COSCO bought a majority stake in Piraeus' Port Authority (PPA) for EUR 280.5 billion. One year later, COSCO bought up to 67% of the shares and received a 40-year concession. Under the new COSCO leadership, PPA decided to invest at least EUR 294 million.[40]

Thus, in just in a few years beginning in 2008, transshipment of containers in Piraeus has increased by more than sevenfold, reaching 4 million TEU in 2016. Piraeus now ranks as the seventh largest European port in number of containers. Chinese authorities want to develop the "China-Europe Land-Sea Express Route" to facilitate the transportation of goods from Piraeus to Central Europe through a railway network that would be revamped in the next few years with Chinese funding. Compared with traditional service routes, which go through the Strait of Gibraltar, this Land-Sea Express route will reduce delivery time between China and Europe by at least eight days.[41]

According to the Leiden Asia Center report, the Piraeus port has become one of the success stories of the Belt and Road Initiative, not only at a European level but worldwide, at least in terms of the benefits that both Greece and China derive from it. As we will see, this success comes with a few side-effects for the EU.

40 Matt Ferchen, Frank N. Pieke, Frans-Paul van der Putten, Tianmu Hong and Jurriaan de Blecourt. "*Assessing China's influence in Europe through investments in technology and infrastructure. Four cases*," Leiden: LeidenAsiacCentre. December 2018 http://leidenasiacentre.nl/wp-content/uploads/2018/12/Influence-in-Europe-through-Investments-and-Technology-anf-infra.pdf

41 Shivali Panya and Simone Tagliapietra. "China's strategic investments in Europe: the case of maritime ports," Bruegel. June 27, 2018. http://bruegel.org/2018/06/chinas-strategic-investments-in-europe-the-case-of-maritime-ports/

The Hungary-Serbia Railway

Part of the "China-Europe Land-Maritime Express Line," the Hungary-Serbia railway is designed to improve the connections between the port of Piraeus and Central Europe in the framework of the Belt and Road scheme. It was approved in a 16+1 summit in 2014 and its direct purpose was to upgrade the 350km railway link between Budapest and Belgrade, reducing travel time from the current eight hours to around three. China's Export-Import Bank plans to provide the financing through soft loans up to $3 billion dollars.

The *Financial Times* reported that a European Commission investigation on compliance with EU regulations on procurement, bidding and transparency explains the delays in the implementation of the project. The fact is that several years after its approval, work has started on the Serbian but not yet on the Hungarian side. As a counterpoint of the Piraeus investment, this project has exposed the weak side of Chinese dealings in infrastructure and has lowered the expectations on the performance of the 16+1 platform.[42]

4.2.3 **In the Energy Sector**

Nuclear power in the UK

In 2016, the UK government approved the project to build a new nuclear power plant at Hinkley Point as part of a wider program to build a total of eight. The cost of the Hinkley Point project had been estimated at £18 billion to be undertaken by Electricité de France (EDF) and China General Nuclear (CGN), both state-owned. Launched by then-Prime Minister, David Cameron, Chinese participation was encouraged under the banner of a "golden era" in relations between both countries. When Theresa May became Prime Minister, she ordered an investigation into the Hinkley Point project on security grounds. Finally, the government gave its go-ahead but shortly after, the U.S. publicly warned the UK about

42 Ferchen et al,.

the security risks involved.[43] In October 2018, the U.S. Assistant Secretary for International Security and Non-proliferation, Christopher Ashley Ford, denounced CGN's involvement noting technology transfer from the nuclear civilian sector to the Chinese military and said that the U.S. had shared evidence with the UK.

CGN's investments in Britain to date amount to £2 billion. It has plans to spend up to £9.5 billion on this nuclear program. Moreover, CGN has shown its interest both in buying NuGen, the Toshiba subsidiary created to build a proposed nuclear plant at Moorside (Cumbria). CGN has also plans to build another nuclear plant in Bradwell (Essex) with its own technology.[44] But in the current atmosphere of strategic competition with China, analysts in the UK do not foresee a Chinese state-owned company making further inroads in such a sensitive industry.

Electric grids in Portugal and other countries

In the framework of the Portuguese bailout by international institutions led by the EU, the country's government implemented a privatization program that amounted to EUR 10 billion in 2015. Chinese companies bought many of these assets and Portugal become one of the largest recipients of Chinese investment in Europe, at least in per capita terms.[45]

The biggest deal involved China Three Gorges (CTG), which purchased a 21.35% share in Energias de Portugal (EDP) for EUR 2.7 billion in 2015, thus becoming the main shareholder. In 2017, CTG raised its participation to 23.3% and offered to buy remaining shares for EUR 9.1 billion. While no final decision had been taken at the time of this writing, Merics reported in January 2019 that negotiations with the Portuguese side had been suspended "partially influenced by a toughening EU regulatory environment."[46]

43 David Sheppard. "U.S. warns Britain against Chinese alliances on nuclear plants," *Financial Times*. October 24, 2019. https://www.ft.com/content/84ab26f6-d7a5-11e8-a854-33d6f82e62f8

44 Jim Pickard, Myles McCormick and Sylvia Pfeifer. "UK close to ditching plan for Cumbria nuclear plant," *Financial Times*. November 8, 2018. https://www.ft.com/content/ce0b16dc-e374-11e8-8e70-5e22a430c1ad

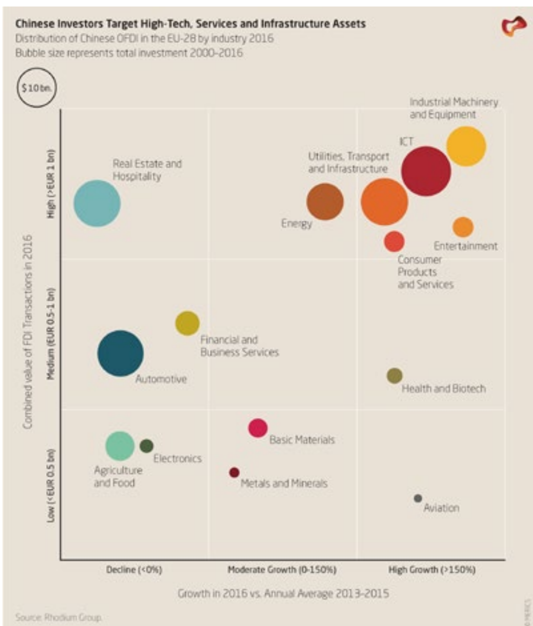
45 Le Corre

46 "China Update 3/2019," Merics. January 25 - February 7, 2019. https://www.merics.org/en/newsletter/china-update-32019

EDP not only was the top grid firm in Portugal but its subsidiaries had assets in renewable energy in Spain, the U.S. and other countries. The partnership with EDP has permitted CTG to become the number two private energy supplier in Brazil and to gain access to the wind sector in Poland, Italy and the UK.[47]

Other Chinese companies have substantial stakes in European grid networks. China State Grid International Development has bought a 35% stake in the Italian CDP Reti for EUR 2.1 billion, a 24% stake in the Independent Power Transmission Operator in Greece and a 25% in Redes Electricas Nacionais from Portugal.

Figure 5. Chinese FDI in the European Union by Sector (2010-2016)



Source: Hanemann, T., & Huotari, M. (2016). Record flows and growing imbalances. Chinese Investment in Europe in 2016, MERICS.

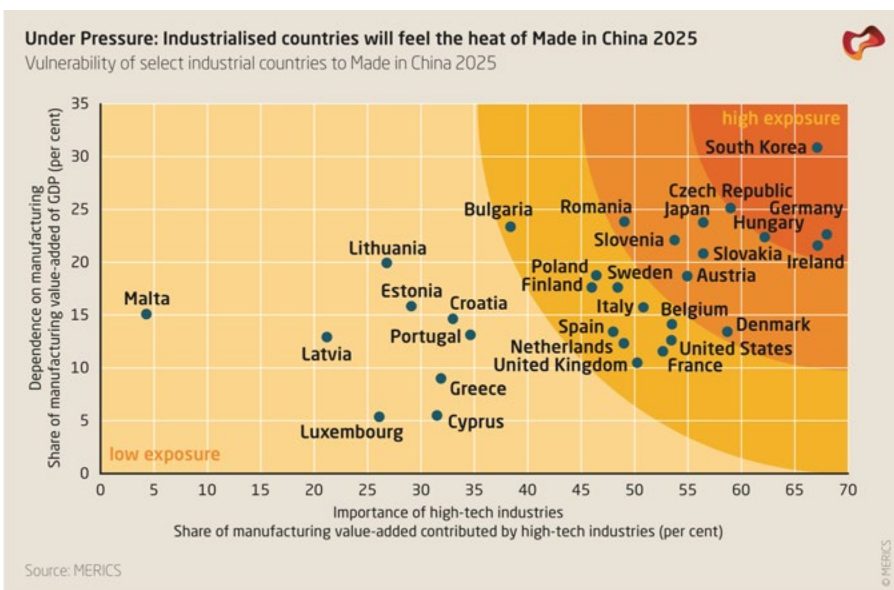
47 Carlos Rodrigues. "Chinese investment in Portugal: gaining access to cutting-edge knowledge and extending global influence." *Chinese Investment in Europe: A country-level approach*. Paris: French Institute of International Relations, Elcano Royal Institute, and Mercator Institute for China Studies, 2017.

4.3 **The Backlash**

Germany starts the European debate

Germany is the largest investor in China and is also its biggest trading partner in the EU, with a total trade volume of more than EUR 186 billion. Chancellor Merkel has visited Beijing once a year during her successive mandates, joined by the more powerful members of her cabinet. In short, for years Germany's partnership with China was the strongest in Europe. But the 2016 Kuka takeover described above came as a shock to the German establishment. Kuka was one of German industry's crown jewels, particularly well-positioned to face the future. This first shock was further amplified with the acquisition of 10% of Daimler shares by Chinese fund Geely. As the parent company of Mercedes Benz, Daimler is a powerful signifier of the role German industry plays on the global stage. Both moves emerge from the same Chinese strategy, Made in China 2025, a plan that German leadership now sees as a direct challenge to its position in high-end manufacturing.[48]

Figure 6. Country Exposure to Made in China 2025 Plan



Source: Wübbeke, J., Meissner, M., Zenglein, M. J., Ives, J., & Conrad, B. (2016). Made in China 2025: The making of a high-tech superpower and consequences for industrial countries. Mercator Institute for China Studies, 17, 2017-09.

48 Guy Chazan. "Backlash grows over Chinese deals for Germany's corporate jewels," *Financial Times*. March 13, 2018. https://www.ft.com/content/391637d2-215a-11e8-a895-1ba1f72c2c11

What are the most challenging issues for Germany and the EU at large? A report by European think-tanks and a policy paper of the Federation of German Industries (BDI) of January 2019 pointed to the following:[49]

1. **The role of the Chinese state and the Chinese Communist Party (CCP) in the economy.** State intervention creates distortions in global markets and prices, which are considerable, given the size of the Chinese economy. On many occasions, investment decisions are taken at a political level and carried out by state-owned companies as well as by private firms following the CCP guidance provided through its corporate cells. As a matter of fact, four out of the five study case studies above were investments by state-owned enterprises.

2. **A lack of reciprocity and a level playing field.** Three out of four major Chinese investment deals in Europe since 2000 could not have taken place in China.[50] Conditions for market access in Europe and China are clearly asymmetrical. In China, there are restrictions in certain sectors such as financial services. In other areas, the obstacles are manifold: forced technology transfer, insufficient or non-existent protection of intellectual property, unequal access to licenses and financing, among others.

3. **National competitiveness.** Through the Made in China 2025 plan, Chinese authorities promote mergers to create national champions, subsidize the introduction of new technologies and encourage takeovers of high-tech companies abroad. China is moving quickly to become a leading technological power, making full use of all its instruments—some legitimate, others criticized as unfair competition.

4. **Concerns about security.** Chinese investment in certain sensitive sectors such as telecoms, dual-use technology, critical infrastructure, media and others are raising concerns in Europe both in terms of access to confidential information and in terms of control

49 John Searman, Mikko Houtari, and Miguel Otero-Iglesias, eds. *Chinese Investment in Europe: A country-level approach*. Paris: French Institute of International Relations, Elcano Royal Institute, and Mercator Institute for China Studies, 2017.

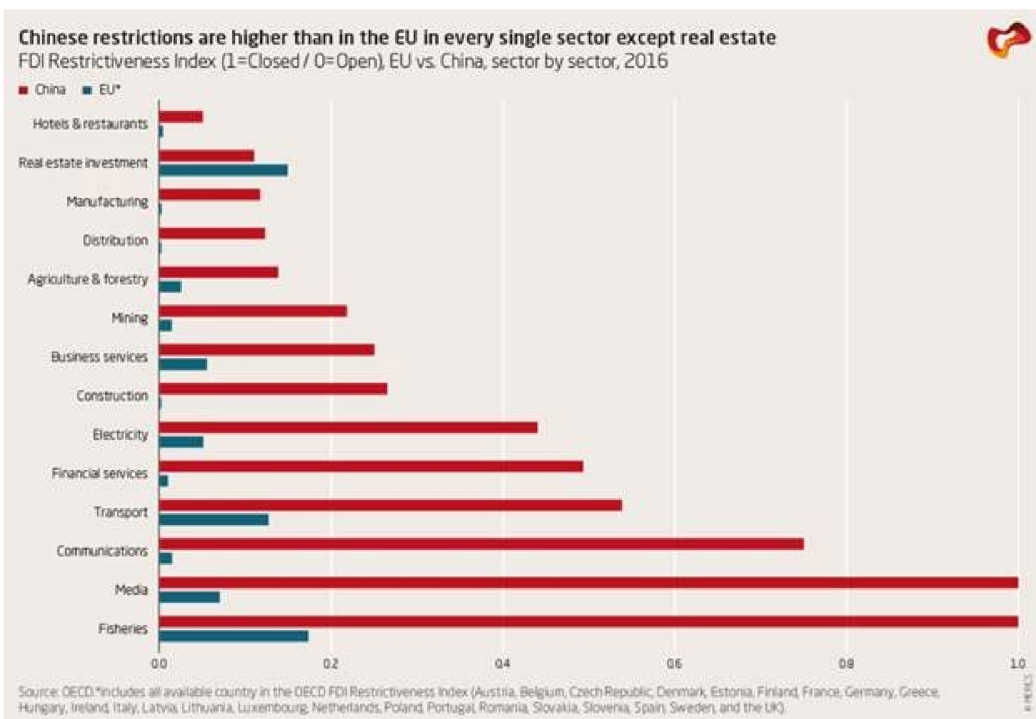
50 Thilo Hanemann and Mikko Huotari. *EU-China FDI: Working towards reciprocity in investment relations*. Berlin: Rhodium Group and Mercator Institute for China Studies, 2018

over key parts of the economy. The reported practice of systematic Chinese cyberattacks on European enterprises has not helped to build trust in this area.

5. **Political influence within individual countries and divisions among them**. China has become a political actor in Europe by making full use of its economic leverage to influence positions at the national and also at the EU level, as seen in the Balkans and elsewhere.

Another point to add is about sovereignty. We see how it is challenged when in the Kuka case when the Made in China 2025 strategy effectively supersedes the impact of Germany's Industry 4.0 strategy, for example, or when the Belt and Road Initiative disregards the EU's Trans-European Transport Networks in Europe plan in the Hungary-Serbia railway case. In both cases, Beijing—not Brussels or the equivalent national capital—is making decisions on Europe's future in certain strategic matters.[51]

Figure 7. FDI Restrictiveness Index



Source: Hanemann, T., Huotari, M., & Kratz, A. (2019). Chinese FDI in Europe: 2018 trends and impact of new screening policies. MERICS Papers on China, MERICS and Rhodium Group, Berlin.

51 Francois Godement and Abigael Vasselier.*China at the gates: A new power audit of EU-China relations* London: European Council on Foreign Relations, 2017, 62.

The response to these concerns at both the national and the European level

At a national level, Berlin modified its law on overseas investment, increasing the government's powers to stop acquisitions of 25% or more of firms operating in the critical infrastructure sector. In December 2018, Germany further tightened the law by lowering the bar for companies involved in defense, technology and media to 10%.[52]

At the European level, the Ministers of Economy of Germany, France and Italy wrote a letter to the European Commission in February 2017, requesting the creation of a screening system. The European Commission prepared legislation on a common European framework for screening foreign direct investment to the EU, and made a formal proposal to the European Council and the European Parliament. The proposal included sensitive sectors such as critical infrastructure, critical technologies including aerospace, nanotechnology and electric batteries, as well as the media and the food supply. The regulation puts the European Commission squarely in the driver's seat, empowering it to screen deals and requiring member states to cooperate by providing information from their own screening process. The Commission will provide its opinion if asked by at least a third of member states, but the final decision on whether to allow investment or not will still rest with each national government.[53]

Although this new regulation is not specifically directed at China, its authorities understood its motivations quite well. The December 2018 Chinese government policy paper on the EU notes: "China hopes that the EU will keep its investment market open, reduce and eliminate investment hurdles and discriminatory barriers, and provide Chinese companies investing in Europe a fair, transparent and predictable policy environment and protect their legitimate rights and interests."

52 Christian Grimm and Patricia Kowsmann. "Germany Tightens Foreign Acquisition Rules amid China's Push for Technology Deals," *Wall Street Journal*. December 16, 2018. https://www.wsj.com/articles/germany-tightens-foreign-acquisition-rules-amid-chinas-push-for-technology-deals-11544969293

53 Philip Blenkinsop. "With eyes on China, EU agrees investment screening rules," *Reuters*. November 20, 2018. https://www.reuters.com/article/us-eu-china-investment/with-eyes-on-china-eu-agrees-investment-screening-rules-idUSKCN1NP1IJ

In January 2019, the official German and European response to this challenge followed in a policy paper stating the position of the Federation of German Industries (BDI). With "the challenge of systemic competition," in mind, BDI authors argue that the theory of convergence is no longer defendable, as China is not developing into a market economy and toward liberalism. At the same time, China as a strong economic power is shaping global markets and the international economic order. "The Chinese model of an economy marked by substantial state control thus enters into systemic competition with liberal market economies."

This statement marks a sea change in the position of German businesses towards China. The paper insists that partnership must be balanced against competition and that "a general containment or decoupling is not an option." But the paper goes on to detail its diagnosis on the different challenges posed by China. As for the proposed remedies, some are defensive—including investment screening and applying state rules to subsidies outside the EU. Others are offensive such as an ambitious industrial policy at the European level, tax incentives and increased research budgets, reappraising merger control to allow the formation of "European champions" and allowing the European Investment Bank to finance projects outside of the EU in the framework of the EU Connectivity Strategy, the European response to the Belt and Road Initiative. The bottom line is clear: "Only a strong and united Europe can defend its interests and values against the emerging world power of China."

Some of these ideas were a source of inspiration for the European Commission in its March 2019 report to the European Council titled "EU-China, a strategic outlook." It includes ten proposals to seek more balanced and reciprocal conditions in the economic relationship with China. Many of these actions are autonomous measures to be adopted by the EU in the following months and years. Some will be the object of negotiations with China.

This firmer approach on the European side is generating results. At the April 2019 EU-China summit in Brussels, the Chinese side showed more willingness to compromise on a number of issues that included concluding a Comprehensive Investment Agreement by 2020.

The EU discussions on the investment screening mechanism have unveiled the divisions between those member states focused on attracting more investment from China without much afterthought and those, led by Germany and France, who want to tighten the rules of the game to prevent China from playing with an unfair advantage. Both sides must strike a balance but, provided that some conditions are met, all member states can see the benefits of investments that generate wealth, create jobs and open new market opportunities.

Relations with China were to a great extent led by national governments on a bilateral basis. The German case is no different. But as the BDI policy paper shows, European governments, starting with Germany, are beginning to realize that only collectively can Europe build the necessary leverage to deal with China without being overruled once and again.

The systemic competition with China is leading the European policy debate in directions that would have looked radical only a few months ago. France and Germany, for example, are floating a proposal to change EU merger rules so that these might allow for the creation of "European champions." This occurred in the wake of the European Commission competition decision to veto the Alstom and Siemens merger intended to create a global leader in the railway sector.[54] Another groundbreaking proposal from Germany's Minister of the Economy, Peter Altmaier, was the creation of a state investment fund that would buy a stake to protect companies with valuable technologies thus preventing a foreign takeover. Altmaier has also proposed the creation of an Airbus-like company in the Artificial Intelligence field in order to replicate the European plane builder's success in this emerging sector.[55] *Politico* captured the irony of these proposals in a headline: "EU taking a leaf out of China's book to build heavyweight champions."[56]

54 Rochelle Toplensky. "Europe split over how to respond to rise of China," *Financial Times*. February 4, 2019. https://www.ft.com/content/836e31d4-2890-11e9-a5ab-ff8ef2b976c7

55 Leonid Bershidsky. "Germany Enters the Global Economic Wars," *Bloomberg*. February 5, 2019. https://www.bloomberg.com/opinion/articles/2019-02-05/germany-s-peter-altmaier-enters-the-global-economic-wars

56 Jakob Hanke." Germany's industrial plan signals Europe's protectionist lurch," *Politico*. February 3, 2019. https://www.politico.eu/article/germany-industrial-plan-signals-europes-protectionist-lurch/

Debates on how to deal in with the challenges posed to Europe by an increasingly powerful China are also attracting more attention in the transatlantic context. The U.S. Administration has been putting pressure on all Europeans countries to exclude Chinese telecom companies from participating in 5G networks. But they have also lobbied the UK to prevent the participation of a Chinese state-owned company in its civil nuclear program. And they are devoting more and more time and energy into warning Eastern European countries of the risks of exposure to Chinese economic and political influence. The Americans have had some success with Poland, less so with Hungary or Italy for the time being, in spite of ideological affinities to the Trump Administration.

One sector which could come up in future conversations between the U.S. and the EU is port cooperation with China. Close U.S. ally Israel is an example. In 2015, China Shanghai International Port Group signed a deal with the Israeli government by which the Chinese company will manage operations in the port of Haifa for 25 years beginning in 2021. But Haifa is also a port that hosts naval calls from the U.S. Sixth Fleet and the Americans have warned that this naval cooperation could come to an end should the Chinese take control of the port.

5. 5G Networks: At the Crossroads Between Technology and National Security

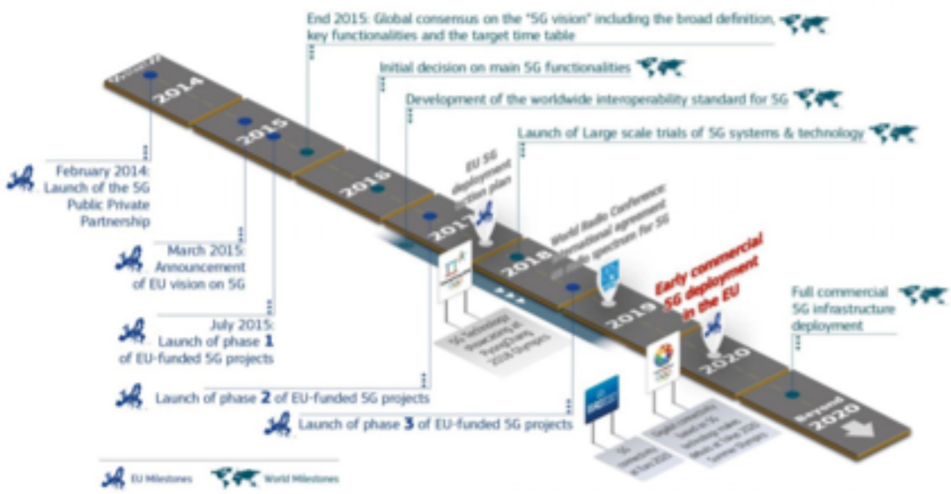
Since the early days of the Trump Administration technological issues have weighted alongside trade quarrels at the center of the harsher competition between the U.S. and China. Both are clearly interrelated, but while the early emphasis was on cutting the substantial trade deficit with China and bringing back jobs to the U.S., competition over technology will be at the heart of U.S.-China relations for years to come because of its economic and security repercussions on the global balance of power, regardless of the final outcome of trade disputes.

5G networks have become the battlefield for the first technological confrontation in this new era of competition.[57] The full development of these networks worldwide will take at least a decade as part of a process of great technical and commercial complexity. And the scope of this technological leap forward will have far-reaching consequences for our societies, comparable to the changes introduced by Graham Bell's invention of the telephone.

To understand the bitter rivalry emerging, it is critical to note that 5G is not simply a faster-data version of 4G. Its high-capacity and ultra-latency features will allow these networks to support the next wave of advanced technologies from driverless cars to the technological empowerment of smart cities, to factory automation and an extensive use of Artificial Intelligence. Because of the enhanced role of AI in the operation of these networks and, more generally, because of AI's looming role in the running of sensitive parts of the new economy, security concerns have become paramount. It is indeed difficult to conceive a more critical infrastructure than 5G.

57 *Eurasia Group White Paper: The geopolitics of 5G*. Washington, D.C.: Eurasia Group, 2018.

Figure 8. 5G Roadmap: European and World Milestones



Source: European Commission, DG Communications Networks, Content & Technology "5G for cities Connectivity: 5G implementation and future services."

China's strategy as first mover

Having learned the lessons of its incapacity to participate in the setting of standards for previous 3G and 4G networks, the Chinese government was determined to reverse the situation in the design and launch of the new 5G. In 2013, relevant agencies in this area, such as the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Science and Technology created the IMT-2050 Promotion Group to form an alliance between business and government. This cooperation was designed to achieve a quick deployment of these networks and therefore, to reap the first-mover benefits, starting with the Chinese market and expanding early to a global scale, including through the Digital Silk Road initiative.

In parallel, Chinese public and private operators would insure the promotion of technological applications in line with the Made in China 2025 plan and others to fully justify the enormous investments the deployment of these networks would demand.

This deployment is scheduled in two phases. The first one is the non-standalone 5G, which still relies on the previous 4G network hardware. The second one is the standalone phase supported by new infrastructure of antennas and base stations. China intends to move to the first phase by the end of 2019.

The American reaction

The previous U.S. Administration had already excluded Chinese companies' participation in public contracts for telecom networks beginning in 2012, when a congressional report had defined it as a national security threat. At the beginning of 2018 a leaked memo, apparently from the National Security Council reflected the increasing worries of the Trump Administration in the form of a dire warning: "We are losing, whoever leads in technology and market share for 5G deployment will have a tremendous advantage towards (…) commanding the heights of the information domain."[58]

Since then, Washington has started to operate in two directions. First, the Trump Administration and Congress has sped up the process to tighten up domestic restrictions on Chinese firms such as Huawei and ZTE.

Second, the government has taken the initiative to warn foreign allies of these risks and persuade them to exclude Chinese operators as purveyors of the new 5G networks. According to Australian sources, intelligence chiefs of the Five Eyes grouping of English-speaking allies met in Canada in July 2018 to discuss how to protect telecom networks from Chinese interference. Although there were differences among Five Eyes' members about the specific concerns about Huawei, the intelligence heads of Australia, Canada and the UK went public in different venues to sound the alarm about China in subsequent months. According to the FT, all three coordinated their messages to sound similar.[59] The bottom line was that "5G telecoms will be so critical to the way people live their lives that networks should be operated only by firms that are trusted. Huawei increasingly falls outside of that definition." Their apprehension had intensified since the 2017 of adoption a National Intelligence Law by China

58 Nic Fildes and Louise Lucas. "Huawei spat comes as China races ahead in 5G," *Financial Times*. December 12, 2018. https://www.ft.com/content/0531458a-fd6c-11e8-ac00-57a2a826423e

59 James Kynge. "Spy thriller echoes in Huawei's power struggle," *Financial Times*. December 7, 2018. https://www.ft.com/content/09f47ca0-f8a7-11e8-af46-2022a0b02a6c

which says that "organizations and citizens shall (…) support, cooperate with and collaborate in national intelligence work."

This announcement was pivotal for another reason: For top spy chiefs to break with their usual discretion, the threat had to be significant, giving the reporter a sense of déjà vu similar to high moments of tension during the Cold War.

A few weeks after that meeting, the Australian government announced its decision to officially restrict the use of Huawei and ZTE in 5G networks. New Zealand followed suit a few months later. While Canada was mulling a similar approach, the arrest of Meng Wanzhou, Huawei's chief financial officer and daughter of the firm's founder, on U.S. charges for re-exporting American technology to Iran, created a fissure in China-Canada relations. As expected, the coinciding Five Eyes pushback against Huawei and the detention of one of its top leaders had triggered a strong, nationalist response in the Chinese media. American moves were interpreted with offensive intent, designed to cripple one of the most successful technological firms in China and worldwide, where Huawei leads the telecom global market with a 28% of 2018 revenue. Hu Xijin, the editor in chief of *Global Times*, likened the arrest as a "declaration of war." And Fang Xingdong, the founder of ChinaLabs, a technology think tank, concluded that "This is a necessary rite of passage for China's global technological rise."[60]

The case of the UK is more complex. Huawei had used the country as a platform to extend its operations in Europe by building strong alliances with local operators, especially British Telecom (BT). In early 2018, the chairwoman of Huawei had met Prime Minister May to announce that it planned to invest £3 billion in Britain over the next three years. BT asked Huawei to address specific security concerns raised by cyber agencies but, at the same time, had been reluctant to renounce a strong 5G supplier that has taken the lead over competitors such as Ericsson and Nokia. After a thinly-veiled debate between different departments, with the Secretaries of Foreign Affairs, Defense and the Home Office arguing in favor of excluding Huawei, the UK government took a final decision on April 24

60 Jane Perlez. "Huawei arrest tests China's leaders as fear and anger grip the elite," *New York Times*. December 7, 2018. https://www.nytimes.com/2018/12/07/world/asia/huawei-arrest-china.html

to allow Huawei into non-core equipment of 5G networks. However, this distinction between the core and the periphery of the system (antennas and other equipment) is not so clear to all experts. According to the head of Australian Signals Directorate, this differentiation "collapses in 5G networks. That means that a potential threat anywhere in the network will be a threat to the entire network."[61] Still, *The Economist* hailed the decision as an "artful compromise" between commercial interests and the protection of British security. [62]

Following the British decision, Dutch company KPN announced that it would exclude Huawei from the core of its network.

U.S. government outreach has not been limited to the close allies of the Five Eyes group. U.S. officials conveyed the same message to other allied counterparts including Germany, France, Italy and Japan. In addition to more general points, one of the concrete concerns of the U.S. representatives has been how the use of Chinese telecom equipment could affect the security of NATO and American military bases in some of those countries. In early April, six former military leaders, including the two most recent commanders of NATO, made a statement stating that allowing Chinese firms into 5G would pose serious risks of espionage and the conduct of future military operations.[63]

Lobbying in Germany has been especially intense as its decision to exclude Huawei from 5G would have a strong influence over other EU member states. Discussions on the issue exposed rifts within the coalition government, with the SPD-led Foreign Ministry more inclined to exclude Huawei while more business-oriented departments controlled by the CDU worried about the effects of a ban on rapid deployment of 5G, the higher costs for

61 Charles Parton. "Britain will regret doing business with Huawei," The Spectator. April 24, 2019. https://blogs.spectator.co.uk/2019/04/britain-will-regret-doing-business-with-huawei/

62 "Britain strikes an artful compromise on Huawei and 5G," *The Economist*. April 27, 2019. https://www.economist.com/leaders/2019/04/27/britain-strikes-an-artful-compromise-on-huawei-and-5g

63 Ellen Nakashima. "Current, former Pentagon leader sound alarm on Chinese technology in 5G networks," *The Washington Post*. April 3, 2019. https://www.washingtonpost.com/world/national-security/current-former-pentagon-leaders-sound-alarm-on-chinese-technology-in-5g-networks/2019/04/02/d74f2bfe-54ab-11e9-9136-f8e636f1f6df_story.html?utm_term=.6fe838cea845

the industry and possible Chinese reprisals.[64] For many telecom operators, including Deutsche Telekom, renouncing their partnership with Huawei would also imply delays in the deployment of 5G. After all, Huawei has cornered the global lead, with a 22% share of telecom equipment, compared to 13% for Nokia, 11% for Ericsson and 10% for ZTE. In the end, a compromise was found and the government issued telecommunications regulations asking industry to use only "trustworthy suppliers."

France has taken a similar position. No company, including Huawei, will be excluded, but the country will be "extremely careful about access to good technology and to preserve our national security and all the safety rules," in the words of President Macron.[65]

At the same time, the European Commission issued a set of recommendations for member states to address security risks in the deployment of 5G. Within three months, every country would have to complete a security assessment. A second step would see the strengthening of security standards at EU-level whenever needed.

Other U.S. allies and partners in Asia have also taken decisions on Chinese telecom companies' participation on 5G networks. At the beginning of December 2018, the Japanese government decided to ban its ministries and Self-Defense Forces from purchasing telecom from China (without referring to it by name) starting April 2019. Although the Japanese government does not restrict those purchases from private companies, the three main mobile phone carriers—SoftBank Group, NTT Docomo and KDDI—have announced that they will not use Chinese equipment in their future 5G networks for security reasons.[66] The decision has been especially burdensome for SoftBank, which relied heavily on Huawei equipment for its 4G network.

64 Noah Barkin. "The Huawei conundrum," Berlin Policy Journal. February 27,2019. https://berlinpolicyjournal.com/the-huawei-conundrum/

65 Caroline Connan, Gregory Viscusi and Angelina Rascouet. "Macron's answer to Trump's threat: Europe won't block Huawei," *Bloomberg*. May 16, 2019. https://www.bloomberg.com/news/articles/2019-05-16/macron-s-answer-to-trump-s-new-threat-europe-won-t-block-huawei

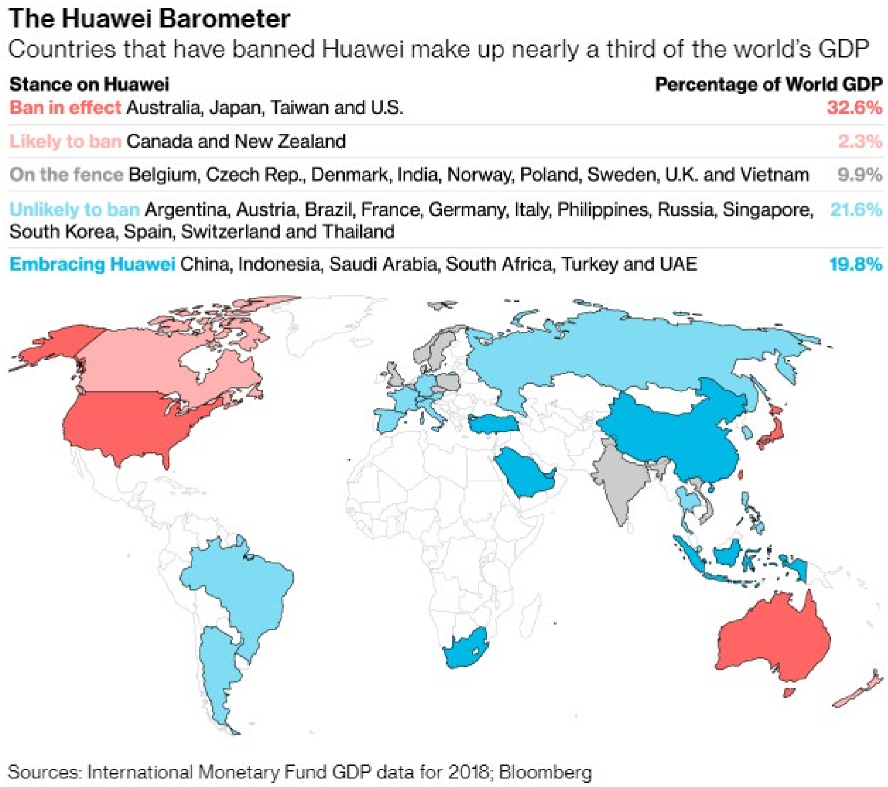
66 Minoru Satake. "Japan's 4 carriers to shun Chinese 5G tech," Nikkei Asia Review. December 10, 2018. https://asia.nikkei.com/Business/Companies/Japan-s-4-carriers-to-shun-Chinese-5G-tech

Vietnam has recently launched its 5G program with local and foreign firms such as Samsung and Nokia but without participation from Huawei. In India, a final decision is pending but the Department of Telecommunications announced in September 2018 that Huawei and ZTE were excluded from first 5G trials.

But the new circumstances are encouraging new alliances between non-Chinese firms to tackle the build-up of 5G networks. Japanese NEC and Samsung announced they would jointly develop 5G base stations. Another Japanese company, Fujitsu has announced that it will work with Ericsson to deliver end-to-end solutions for 5G networks.

For third countries in Asia, Africa and Latin America this division of the 5G system in two parts will force them to choose, taking decisions where technological considerations are mixed with political ones. Backed by the Chinese government ready to provide financing under the banner of the Belt and Road Initiative, Chinese companies can entice others with more competitive costs, putting them at a comparative advantage. Huawei has already signed contracts with companies in Thailand, Singapore, Philippines, Malaysia and Indonesia.

Figure 9. Positions on Huawei's Ban



Source: Nicola, Stefan. "Trump's Campaign to Ban Huawei Runs Into Global Opposition." Bloomberg.com, Bloomberg, 25 Mar. 2019, www.bloomberg.com/news/articles/2019-03-26/u-s-campaign-to-ban-huawei-runs-into-global-opposition-map.

5.1 Lessons Learned from the 5G Battlefield

For the U.S.

Fully in competition mode with China, the U.S. has been blunt in its moves to exclude Huawei from the 5G networks from some of the more technologically advanced countries in the world. Once the deployment of 5G became a strategic matter, the denial of a predominant position for China became an absolute priority to the American government. The objective was to create a "trusted market" with U.S. allies by promoting a decoupling between a Chinese technology sphere and a non-Chinese technology sphere. The Eurasia Group White Paper on 5G has called it the creation of “a bifurcated 5G ecosystem.” This separation would replicate the current split between the internet in China, behind its firewall, and the rest of the world. The increasing division, along political lines, between two economic and technological systems with potential, looming problems of interoperability is a major risk.

To that end, the U.S. has deployed considerable efforts to persuade allies of its security-minded approach, threatening to sever intelligence links with Germany and other countries if Chinese companies were allowed to build 5G networks. On a recent visit to London, U.S. Secretary of State Mike Pompeo insisted on the need for Europeans to take a decision on 5G “with the broader strategic context in mind.” And he invoked Margaret Thatcher to ask: “Would she allow China to control the internet of the future?”[67]

In any case, the “trusted market” concept will continue to exist between the U.S., Japan, Australia and Vietnam, possibly evolving to include India, Canada and some European countries. It is meaningful that those countries which have already excluded Huawei from 5G are those whose military planners anticipate scenarios of armed conflict with China. In any case, Washington is already making plans to protect its security after a number of allies have decided to partner with Huawei, even in a limited way. Acting U.S. Secretary of Defense, Patrick Shanahan, told Congress that the Pentagon is looking at how it can segregate vital communications from untrusted 5G networks.[68]

In May 2019, the U.S. Administration took a step further in effect banning Huawei from selling its technology in the country and including the Chinese company in an “entity list” which requires American firms to obtain a license to sell technology to it. Huawei is in a vulnerable position, as 33 of its 92 core suppliers are American, especially in semiconductors.[69] But this decision will also harm U.S. firms considerably, as Huawei spent

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67 Sebastian Payne. “Pompeo invokes Thatcher to urge UK to take hard line on China,” *Financial Times*. May 8, 2019. https://www.ft.com/content/d09eedda-71ac-11e9-bf5c-6eeb837566c5

68 Joseph Marks. “The Cybersecurity 202: This is Washington’s Plan B as Huawei poised to gain a major stake in 5G networks,” *The Washington Post*. April 2, 2019. https://www.washingtonpost.com/news/powerpost/paloma/the-cybersecurity-202/2019/04/02/the-cybersecurity-202-this-is-washington-s-plan-b-as-huawei-poised-to-gain-major-stake-in-5g-networks/5ca2a78d1b326b0f7f38f2e2/?utm_term=.4e390be91e16

69 Dan Strupf, Yoko Kubota and Wenxin Fan. “Silicon Valley will feel the sting of export restrictions against Huawei,” *Wall Street Journal*. May 16, 2019. https://www.wsj.com/articles/silicon-valley-will-feel-sting-of-export-restrictions-against-huawei-11558021918

$11 billion on U.S. components in 2018. The fact that Washington has taken what analysts call "the nuclear option" even if it damages American firms, clearly shows that the U.S. does not intend to lose its first real technological showdown with China.

For China

For Chinese leaders and the public alike, the battle over 5G has been a painful wake-up call about the tough new U.S. competition policy on technology in parallel with an already burdensome trade war. American behavior confirms China's worst nightmare about U.S. intentions: to hold back China's rise by all means. At the same time, this issue will likely have hardened the Chinese leadership's determination of becoming technologically self-reliant a strategic objective for the next years. This target implies the acceptance, and continued active pursuit of a gradual decoupling from the American economy in certain key areas. As for the next steps in 5G, the loss of the U.S., Australian, Japanese, Vietnamese and eventually Indian markets, is a serious blow. But China will advance with its first-mover policy and will focus its efforts on conquering markets in Asia, Africa and Latin America, apart from Europe with a now somewhat diminished role. However, what happens in those markets is now pending the implementation of the new measures by the U.S. Administration.

Finally, the Huawei case is not just a technical issue. Huawei is a big brand name in China, one that embodies the pride of many Chinese about the success of their country over the last decades. In this context, the arrest of Meng Wanzhou has stirred nationalistic feelings that go beyond anything the government can fully control. This is a dimension that will play an increasingly poignant role in the new competition mode with the U.S. Chinese leadership will have to hold a delicate balance between the need to allow public feelings to vent, while containing this temperament sufficiently so that it does not get in the middle of workable deals with the U.S. on controversial matters.

For Europe

The most relevant effect of the 5G showdown for European countries has been the transformation of a regular business matter into a national security issue in which European countries have to navigate a delicate balance, sometimes between competing national interests. This defining moment will have durable consequences beyond 5G for European companies and governments alike. From now on, technological partnerships with China will be examined under new calculations that were absent until now. At the same time, this episode has not yet forced European countries to pick sides between Chinese and American technology, as two of the global leaders in 5G equipment are European, Nokia and Ericsson.

U.S. security concerns on this issue are real enough but three factors have weighed on European governments, distancing their approach to that of the U.S.:

First, Europeans tend to consider security risks on a day-to-day basis. The U.S. is planning for the worst-case scenario: open conflict with China.

Second, the American perspective on delinking the telecom sector from China is seen as a bridge too far for European decision-makers who fear dire economic consequences if the global economy starts to disentangle the links built by interdependence.

Third, Europeans feared that the U.S. could strike a deal with China on Huawei, as they did with ZTE, as part of a wider agreement on trade, leaving them to suffer Chinese retaliation.

Still, Europeans have underestimated the extent of American resolve in this matter. The U.S. decision to restrict American technology exports to Huawei will have consequences in Europe that will leave European governments and companies with little room to maneuver. If fully implemented, these measures would mean that Huawei cannot be a dependable supplier for 5G projects—at least as long as the Chinese telecom firm manages to build its own semiconductor base without relying on American suppliers.

6. The Ideological Challenge

What kind of challenge?

Though the closest historical reference that we have is the Cold War, the current ideological contest between China and the Western world is quite different. Both the USSR and the West considered the Cold War to be an existential conflict that could only end with victory by one of the parties. It was also the struggle between two universal belief systems competing to persuade the rest of the world of their superiority. To advance that goal, the USSR could count on the obedient support of Communist parties all around the world. Both sides financed and staffed enormous propaganda machines designed to feed the battle of ideas.

In the current rivalry with China the ideological differences are not as acute as with the USSR: China has adopted capitalism, although state-managed, and Chinese citizens enjoy freedoms their Soviet counterparts never had, from being able to start their own business to travelling abroad for tourism or study. And since the start of economic reforms in the 1970s, China has stopped overtly spreading communism to third countries.

During the Cold War, people around the world were attracted to liberal democracy not only for its values but also for its apparent economic success. Political freedom and wealth-creation seemed two parts of the same coin. Now, China can claim impressive economic results under an authoritarian system, while the international reputation of liberal democracy has suffered a severe blow with the effects of the financial crisis.[70]

Another way of framing ideological competition with China has been to contextualize it against the rise of authoritarian governments both in Western countries and in the rest of the world. In that way, the Chinese case could be subsumed in the wider challenge posed by the ascendance of autocracy. A backlash against globalization in European, Northern and Southern American countries has indeed translated into a new political

70 Yascha Mounk and Roberto Stefan Foa. 'The end of the democratic century," Foreign Affairs. May/June 2018. https://www.foreignaffairs.com/articles/2018-04-16/end-democratic-century

landscape with deep divisions between liberals and populists. Some of the latter, like the Hungarian Prime Minister, are proposing an illiberal democracy as an alternative to the classic one. This is indeed a principled challenge for Western democracy, but probably of a different nature to the one posed by non-democratic autocracies such as Russia, Iran, Saudi Arabia or China. Within this group, only China is both an authoritarian system and an economic success, which it uses to justify its claims of being an alternative model to democracy.

Indeed, China has an interest in strengthening the prestige of authoritarian countries, therefore undermining the appeal of democracy for its own domestic audience. Nevertheless, to export its model is a much more difficult proposition, as it has a number of features that are hard to replicate: a meritocratic system of recruitment into its administrative system; a disciplined party; a strong work ethic and an emphasis on education as the means for improving one's standing on the social ladder. On the other hand, the Chinese surveillance model—linking big data, artificial intelligence and facial recognition to increase social and political control—could easily be exported. This new technology-based component of the ideological challenge posed by China cannot be understated.

The ingredients of Chinese ideology: Socialism with Chinese characteristics

In spite of changes affecting the worldview of the Chinese Communist Party in its last century of history, Kevin Rudd notes that "what is remarkable is that the Marxist methodological framework, through which these worldviews been developed, has remained formally intact."[71] After 1978 Deng Xiaoping led the party to leave aside the class struggle and concentrate on developing the productive forces which would create the conditions for a more advanced socialism. These efforts required pragmatism and openness because, in his own words, "when thinking turns rigid and blind faith is the fashion, it is impossible for a party or a nation to make progress."[72] Forty years later, President Xi Jinping is leading the country through a political phase defined by a stronger role of the party

71 Kevin Rudd. "China's changing worldview under President Xi Jinping." Asia Society. April 13, 2018. https://asiasociety.org/policy-institute/chinas-changing-worldview-under-president-xi-jinping

72 "Emancipate the mind, seek truth from facts and unite as one in looking to the future," CPCChina. December 13, 1978. http://cpcchina.chinadaily.com.cn/2010-10/15/content_13918199.htm

and a greater emphasis on Marxism-Leninism. In John Garnaut's view, both things go together: "Xi has now pushed ideology to the forefront because it provides a framework for purifying and regaining control over the vanguard party and thereby the country."[73]

But if Marxism-Leninism provides the method, nationalism is an important part of the substance, granting legitimacy to the Party. In President Xi's words "among the core values of Socialism with Chinese characteristics, the deepest, more basic and most enduring is patriotism."[74] This nationalism feeds both from feelings of victimhood after a century of foreign humiliation and from pride in the Chinese economic successes of the last 40 years.

Traditional Confucionist values are an additional source of ideological legitimacy. First popularized in the media as "Asian values," these traditional Chinese principles were promoted by Singaporean Prime Minister Lee Kuan Yew in the 1990s as the cultural narrative to explain the early economic successes of the Asian dragons. These values were framed as a challenge to an hegemonic Western worldview which did not conform to local mores and practice. The Confucian vision of society is always hierarchical, with a strong government at the top of society, a strong family, obedience to authority, personal virtue, loyalty, thrift and education.[75] Although Singapore dropped this narrative a number of years ago, it has received increased and increasing attention in China. Political commentators point out that President Xi Jinping likes quoting Confucius and some of his ideas are now part of his own thought, consecrated in the last Congress of the Chinese Communist Party. Among these ideas: meritocracy, the fight against corruption and the notion of "a moderately prosperous society."

These three components in China's current ideological framework unashamedly deny any traces of introducing any form of liberal democracy. As President Xi Jinping stated in an article published in *Qiushi*, the Chinese Communist Party main theoretical periodical: "We must never

73 John Garnaut. "Engineers of the soul: Ideology in Xi Jinping's China," Sinocisism, January 16, 2019. https://sinocism.com/p/engineers-of-the-soul-ideology-in

74 quoted by J. Garnaut.

75 Michael D. Barr. "Lee Kuan Yew and the "Asian values" debate," *Asian Studies Review* 24, 3 (2000). 309-334. https://www.tandfonline.com/doi/abs/10.1080/10357820008713278

follow the path of Western constitutionalism, separation of powers or judicial independence."

China's objectives in its new global reach

China renounced Marxism-Leninism as an exportable ideology long ago. Both nationalism and Confucianism are not ideologies which are meant for export. Gideon Rachman argues that China is a particularist country, compared to the universalism of the United Sates.[76] Americans contend their founding values have universal and global appeal. By contrast, the Chinese believe that what is good for them does not necessarily work for the rest of the world.

After the 19th Congress of the CCP, this description of China must be revised. In his October 2017 address to the Congress, President Xi Jinping offered "a new option for other countries and nations who want to speed up their development while preserving their independence." With that a Chinese model for the world began to emerge more distinctly, which some call state capitalism and others authoritarian capitalism. The academic origin of this model lies in what has been called the Beijing consensus, a mix of state-led capitalism and authoritarian rule, an alternative to the Washington consensus, the neoliberal vision that promoted less intervention of the state in the economy.[77]

To understand what is behind this meaningful change intended for a global reach, we have to look at the following Chinese objectives:

First, China wants to make the world safe for authoritarianism. John Lewis Gaddis remarked that "all seem to boil down…to the need to create an environment conducive to the survival and prospering of the nation's domestic institutions."[78] In the same way the U.S. has worked to mold a world safe for democracy, Russia and China are now seeking a world safe

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76 Gideon Rachman. "The ideas that divide China and America," *Financial Times.* September 28, 2015. https://www.ft.com/content/d3a08664-65c2-11e5-a28b-50226830d644

77 Joshua Cooper Ramo. *The Beijing consensus*. (London: Foreign Policy Center, 2004).

78 John Lewis Gaddis. *Strategies of containment: a critical appraisal of American National Security Policy since World War II*. (New York: Oxford University Press, 1982).

for authoritarianism.[79] A number of actionable motives emerge from this objective:

1. To cultivate relations with neighboring countries to undermine U.S. influence and promote their own.
2. To assist authoritarian regimes around the world, especially if they are isolated by the international community. This is true for the case of Myanmar, Venezuela, Zimbabwe, Sudan, Iran and the full list of dictatorships across all continents.
3. The Belt and Road Initiative has wider geopolitical aims, but the objective to nurture old and new friendships is part of it. Russia and China share a common interest that Central Asia remain authoritarian friendly.

Second, China wants to modify the liberal international order. China has benefited greatly from key features of the liberal international order, especially those designed to promote an open stable and free-trading environment. But it has always resented the explicit link between the foundational values of liberalism at the international level and the domestic level. As China has gotten more powerful it has decided to challenge the notion that liberal democracy is the logical extension of the principles of the international order into the domestic realm. Thus, to those who follow Xi Jinping's logic presenting China as an alternative model, it has much legitimacy as the Western one, if not more. The consequence is a Chinese vision of a pluralistic international order in which there is no hierarchy between different political systems and where Western democracy no longer occupies moral high ground.

Translating China's economic presence into political influence

Attaining these objectives require suitable means. Over the last few years, China has developed a sophisticated toolbox of instruments designed to transform its widening, global economic presence into political influence both over governments, parliaments and political parties and with foreign

79 Hal Brands. "Democracy and authoritarianism: How ideology shapes great-power conflict," *Survival*, 60, 5 (2018): 61-114.

public opinion. China has expanded its economic imprint on Europe with an investment surge simultaneously increasing its political influence across the continent.

Unlike Russia, Chinese actions are not intended to destabilize European countries. A stable Europe is in China's interest, as it provides a positive investment climate and advances towards a multipolar world, which in Chinese doctrine interprets as post-American hegemony's form of international order. In the current atmosphere of hardened competition between China and the U.S., Europe has also become a battlefield for political influence activities from both sides. Trade and technology issues, especially those linked to security concerns, have become more prominent agenda items. More generally, China uses its instruments of political influence to promote Chinese interests and positions on core issues like the One-China-policy, its positions on the South China Sea disputes and countering reports about human right violations.

Political influence activities, or "united front work" in the Chinese Communist Party terminology, can be overt or covert, but there is a wide grey area between both. It can be classified in the realm of what Europeans might term public diplomacy and in China is still called propaganda. While the instruments may be legal, and all countries use them, in practice there are relevant missing issues, such as reciprocity and transparency. More importantly, some of the activities can be legal but still serve the strategic objective of making the world safe for authoritarianism.

We can distinguish Chinese political influence in three areas:

1. **Political and business lobbying**

Apart from using their regular diplomatic networks, the Chinese have a preference for making use of former politicians to gain access to decision makers, both in the public or private sector. British Prime Ministers David Cameron and Gordon Brown, France's former Prime Minister Jean-Pierre Raffarin and former German Vice Chancellor Philip Rösler have all been tapped for that purpose.[80] The Chinese government has also invested considerable energy to court the members of the Club de Madrid, a foundation dedicated to promoting democratic values whose members are the former Presidents and Prime Ministers of more than fifty countries around the world.

Building European countries' support for the Belt and Road Initiative, the flagship project of the Chinese diplomacy, has been a primary focus for China over the past years. Beijing has found a reluctant response in the biggest EU member states such as France, Germany and the UK but a much warmer reaction on the part of countries in Southern and Eastern Europe, attracted to the prospect of Chinese investments in infrastructures and other areas. Some of these countries have aligned themselves to Chinese positions, frequently against a common European stance negotiated in Brussels. Hungary and Greece, for instance, watered down the language of a July 2016 EU statement on a ruling on the South China Sea by an international court backing the Philippines against Chinese claims. In March 2017, Hungary challenged an EU consensus denouncing the use of torture against arrested lawyers. And in June of the same year Greece blocked an EU statement at the UN Council on Human Rights concerning China's human rights record.

In this context, the emergence of populist political forces across Europe has become an added concern in the EU. Populist governments are using their relations with China to drive a wedge between national capitals and Brussels, muscling to demonstrate they might have alternatives to EU financing.[81]

China uses trade and investments as well as state visits to create a positive diplomatic climate and promote its interests. Conversely, it also freezes relations, depending on the behavior of a given third country. In 2010, Norway became a target of frozen relations, after it awarded the Nobel Prize to Chinese dissident Liu Xiaobo. Chinese retribution lasted for more

80 Thorsten Benner, Jan Gaspers, Mareike Ohlberg, Lucrezia Poggetti, Kristin Shi-Kupfer. *Authoritarian Advance. Responding to China's growing political influence in Europe*. Berlin: Global Public Policy Institute and Mercator Institute for China Studies, 2018.

81 Tim Nicholas Ruhling et al., eds. *Political values in Europe-China relations*. The Swedish Institute of International Affairs et al, 2018. https://www.merics.org/sites/default/files/201901/190108_ETNC_report_2018_updated_2019.pdf

than six years, costing Norway more than $1 billion in slashed exports to China. Other countries such as Slovakia, Lithuania and the UK among others, suffered similar retaliatory moves after their leaders met with the Dalai Lama.

2. **Media and public opinion**

China has been systematically extending its media messaging, providing so-called China Watch inserts to European media through paid supplements in newspapers. Prepared by the *China Daily*, the official Communist party newspaper in English, the supplement is currently published by seven European newspapers including *Le Soir* and *De Standaard* in Belgium, *Le Figaro* in France, *El Pais* in Spain, *Handesblatt* in Germany and the *Daily Telegraph* in the UK.[82]

Chinese companies are also launching moves into broadcast. In 2009, a Chinese firm bought Propeller TV, a British channel. Energy group CEFC made a bid to buy Central European Media Enterprises for $2 billion, an operation that was ultimately blocked. In Portugal, KNG, a Macau-based fund, recently bought 30% of Global Media Group, which owns influential newspapers such as *Diario de Noticias* and *Jornal de Noticias*, alongside Radio TSF.[83] In February 2018, a Chinese investor, Orient Hontai Capital, bought a majority stake in the Spanish TV and film production firm Mediapro for EUR 850 million.

Another form of cooperation favored by Chinese authorities are media conferences frequently linked to the roll-out of another part of the Belt and Road Initiative. Such events are currently held with Germany, France, the UK, Hungary, Poland and the Netherlands. Chinese representatives use these meetings to present their vision of "constructive journalism," as opposed to the critical journalism practiced in western countries.

Finally, Chinese authorities strong-arm Western media in-country through their visa policy. In 2018, for example, authorities decided to deny the

82 François Godement & Abigael Vasselier. *China at the gates. A new power audit of EU-China relations.* European Council on Foreign Relations. December 2017.

83 Le Corre

renewal of *Financial Times*' Hong Kong bureau chief's visa, an infringement of the Joint Declaration of 1984 and Hong Kong's Basic Law.[84]

3. Academic cooperation

Chinese authorities have shown an increasing interest in influencing debates around relations with China, both at a national and at EU level, by fostering close links with the think-tank community and universities. The Chinese Students and Scholars Associations (CSSA) plays a major role in this task. The main instruments of this strategic plan are:

1. **Funding think-tank research and activities** through bilateral arrangements or as part of newly created collaborative platforms such as the Silk Road Think Tank Network or the 16+1 think tank network, whose secretariat is run by CASS through its foreign branch in Budapest, Hungary.

2. **Signing agreements between Chinese and European universities** to facilitate research funding as well as institutional and personal access in China. China uses dependency relations created through these collaborations to induce self-censorship on sensitive political issues among researchers and institutions fearful of losing financial resources or visa access on which research projects often depend. The widely-reported August 2017 Cambridge University Press case is but one example: CUP agreed to withdraw 300 articles from its Chinese website, engaging in self-censorship. Following a global public outcry, CUP reversed its decision, while another academic publishing firm, Springer Nature, continued its de facto practice of censorship on articles published on its Chinese website.

3. **Teaching Chinese through the Confucius Institutes.** Principally an admirable pursuit, the practice of operating through agreements with universities (160 Confucius Institutes currently offer courses in European countries) again creates vulnerabilities for these European institutions, who feel the pressure to conform to Chinese demands related to sensitive political matters. One of many,

84 Charles Parton. *China-UK Relations. Where to draw the border between influence and interference*. RUSI Occasional Paper, February 20, 2019.

Stockholm University decided to cancel its agreement with the Confucius Institute in 2016.[85]

In addition, active Chinese student associations active across European campuses have openly opposed certain academic activities on "sensitive issues." Dependent on full-tuition paying students, European universities have been sympathetic to complaints from these Chinese student groups. UK universities, with almost 100,000 paying Chinese students, are particularly vulnerable to that kind of pressure from within.

The Chinese imprint on European societies is much smaller than the soft power influence of the United States. And yet, warnings from American academic circles are being taken particularly seriously in Europe. A November 2018 report coordinated by the Hoover Institution and signed by some of the most prestigious American experts on China has received considerable attention. Entitled "Chinese influence and American interests: Promoting constructive vigilance" the report covers how "China's authoritarian system takes advantage of the openness of American society to seek influence (while) it impedes legitimate efforts by American counterpart institutions to engage Chinese society on a reciprocal basis."[86] The report distinguishes between legitimate efforts to influence and improper interference, while detailing a number of activities that fit the latter. They range from intellectual property theft in scientific research, to pressures on universities that engage in events deemed politically offensive, to trying to silence voices critical of the People's Republic or supportive of Taiwan among the Chinese American community.

The report ends by proposing three basic policy principles to implement constructive vigilance:

1. **Transparency** about Chinese influence activities and their funding.
2. **Integrity**, in order to preserve the independence of American institutions.

85 Benner et al. *Authoritarian Advance*, 32

86 Larry Diamond, Orville Shell, eds. *China's influence & American interests: Promoting constructive vigilance*. Stanford: Hoover Institution, 2018

3. **Reciprocity**, to demand of China the same access to research activities as Chinese citizens enjoy in the United States.

For its part, the U.S. Administration has responded by implementing tighter rules for Chinese students applying for visas. In June 2018 it shortened the length of the visas from five years to one for graduate students studying aviation, robotics and advanced manufacturing with the goal of curbing theft of intellectual property. But although the Trump administration is considering further measures in that direction, universities have been lobbying to preserve access for Chinese students. There are currently 360,000 Chinese nationals attending courses in American universities, representing an economic activity of around $14 billion.[87]

European countries have also followed the Australian case very closely. While some of the Australian features are not comparable to the European situation, including the island-nation's geographical proximity with China, strong economic interdependence and 1.2 million residents with Chinese ancestry, China's expanding influence over a country with a majority European origin population and a liberal democratic system is of comparative interest to European policy-makers looking to address China's expanding reach.

China's covert interference in the Australian political system were first reported in 2015, when it was leaked that the Australian Security Intelligence Organization (ASIO) warned the country's major political parties that two of Australia's biggest donors had "strong connections to the Chinese Communist Party" and that their "donations might come with strings attached."[88] In 2017, a Labour Senator, Sam Dastyari was forced to retire after Fairfax Media, an Australian medio company revealed that he had recited Beijing's South China Sea talking points while standing next to a Chinese political donor.[89] As a result of a classified report on foreign interference describing these and other activities, Prime Minister Malcolm

87 Patricia Zengerle and Max Spetalnick." Exclusive: Fearing espionage, U.S. weighs tighter rules on Chinese students," Reuters, November 23, 2018. https://www.reuters.com/article/us-usa-china-students-exclusive/exclusive-fearing-espionage-us-weighs-tighter-rules-on-chinese-students-idUSKCN1NY1HE

88 John Garnaut. "The rest of the world is watching how we counter Beijing's campaign of influence," The Monthly. August 2018. Also Hoover Institution's report, Appendix 2. https://www.themonthly.com.au/issue/2018/august/1533045600/john-garnaut/australia-s-china-reset

89 Ibid.

Turnbull presented a legislation package to parliament that was finally approved in June 2018. It included a bill to force potential politicians to declare any ties to foreign states before engaging in political activities; a second bill introducing tougher criminal provisions to penalize interference activities; a third one creating a new Department of Home Affairs that would integrate intelligence and enforcement and a final law banning foreign political donations.

There was considerable debate over these tough measures, especially on the part of business groups that feared retaliation, but there is a basic bipartisan agreement on the need for resetting terms with China. In the words of a former advisor to Prime Minister Turnbull this reset "is about sustaining the enormous benefits of engagement while managing the risks."[90]

Some of these initiatives are being closely examined in European capitals. As part of his European platform, French President Macron has proposed a ban on foreign donations to political parties.[91]

Large Chinese expatriate communities and their role in amplifying support for Chinese policies are a further area which Australia and the United States have in common. The United Front Work Department of the CCP is charged with controlling these communities in order to suppress dissent while using them for propaganda purposes.[92][93] Although the Chinese diaspora in Europe is considerably smaller, it is important to draw lessons from the American and Australian experience in this area, as the CCP increases its activities in larger European countries.

The techno-authoritarian revolution

China's most consequential ideological challenge comes in the use of advanced technologies to strengthen social control. The development of Artificial Intelligence and facial-recognition technology give Chinese

90 Ibid.

91 Emmanuel Macron. "Dear Europe, Brexit is a lesson for all of us: it's time for renewal," *The Guardian*. March 4, 2019. https://www.theguardian.com/commentisfree/2019/mar/04/europe-brexit-uk

92 Anne-Marie Brady. "On the correct use of terms," The Jamestown Foundation. May 9, 2019. https://jamestown.org/program/on-the-correct-use-of-terms-for-understanding-united-front-work/

93 Ibid.

authorities the capacity to surveil their population, making authoritarian rule more efficient than ever in human history.[94]

China's decision to launch a social credit score by 2020 has created alarm in Western countries, who criticize the dystopian flavor of this project, which has been likened to Orwell's *1984* and to the Netflix series *Black Mirror*. The system is already in a pilot phase in a number of Chinese cities with no perceptible criticism from Chinese citizens who arguably believe the government justification around crime reduction.

Western, democratic countries are shocked that the internet—the realm of openness and freedom—could become instrumentalized for state oppression on a massive scale. Nicholas Thompson and Ian Bremmer have observed that "China has shown that, with a few adjustments, autocracy is quite compatible with the internet age. But those adjustments have caused the internet itself to break apart, like two continents cracking along a shelf. There's the freewheeling, lightly regulated internet dominated by the geeks of Silicon Valley. And then there's China's authoritarian alternative, powered by massive, home-grown tech giants as innovative as their Western counterparts."[95] China's tightly-controlled, firewall-protected system allows the state to control and manipulate a massive amount of data about its 800 million internet users, who willingly feed the state machine through their use of big tech firms such as Baidu, Alibaba, Tencent and Huawei, all of whom nurture a close relationship with state authorities in an environment of low privacy protection culture and weak regulations.

In addition, China has overcome the defensive stage in which it built the Great Firewall to prevent foreign ideas from penetrating its digital space. Now, China has become an offensive actor, with innovation in face-recognition software and AI allowing for the creation and expansion of a technological control system for domestic use, ready to be exported to old and new autocracies. In their "China's Algorithms of Repression" report Human Rights Watch exposes the workings of a mobile app that police

94 Thomas Wright. "The return to Great-Power Rivalry was inevitable," The Atlantic. September 12, 2018. https://www.theatlantic.com/international/archive/2018/09/liberal-international-order-free-world-trump-authoritarianism/569881/

95 Nicholas Thompson and Ian Bremmer. "The AI cold war that threatens U.S. all," Wired. November 10, 2018. https://www.wired.com/story/ai-cold-war-china-could-doom-us-all/

and other officials use to communicate with Integrated Joint Operations Platform (IJOP), a central surveillance system that Chinese authorities use in Xinjiang. China is starting to export variations of this system, frequently under the banner of the Belt and Road Initiative. A few examples:

1. In 2018 Zimbabwe's government launched a partnership with the Chinese company Cloudwalk to deploy an AI and facial-recognition system. In 2019, Kenya signed a $230 million deal with Huawei for the building of a data center and a "public safe city" system of surveillance.[96]

2. In Pakistan, Huawei and other Chinese companies are reportedly working on a plan to wire up cities with surveillance cameras and vehicle-monitoring systems.[97]

3. In Venezuela, a Reuters investigation has shown how a Chinese telecom, ZTE, has helped the Venezuelan government to create a system of citizen surveillance through the introduction of a smart identity card. ZTE has also been hired to build a database which already "stores such details as birthdays, family information, employment and income, property owned, medical history, state benefits received, presence on social media, membership of a political party and whether a person voted."[98]

There are more cases: In its "Freedom In the Net 2018" report, Freedom House identified 18 countries where China is implementing surveillance projects.

Inevitably, in Europe this debate on the use of AI for social control is converging with discussions about the deployment of 5G networks and the participation of Chinese companies. After all, 5G is meant to be the structural support for applications in the field of AI.

96 Nathan Vanderklippe. "China uses smartphone app to target people for investigation: Human Rights Watch," The Globe and Mail. May 1, 2019. https://www.theglobeandmail.com/world/article-china-uses-smartphone-app-to-target-people-for-investigation-human/

97 Nicholas Thompson and Ian Bremmer.

98 Angus Berwick. "Special Report. How ZTE helps Venezuela create China-style social control," *Reuters*. November 14, 2018. https://www.reuters.com/article/us-venezuela-zte-specialreport/special-report-how-zte-helps-venezuela-create-china-style-social-control-idUSKCN1NJ1TT

Increasingly, China has come to exemplify the challenge at the intersection between technology, ideology and security. In his January 2019 remarks at the World Economic Forum George Soros said: "I want to call attention to the mortal danger facing open societies from the instruments of control that machine learning and artificial intelligence can put in the hands of repressive regimes."[99]

99 George Soros. "Remarks delivered at the World Economic Forum," George Soros. January 24, 2019. https://www.georgesoros.com/2019/01/24/remarks-delivered-at-the-world-economic-forum-2/

7. The Belt and Road Initiative: A Geopolitical Challenge

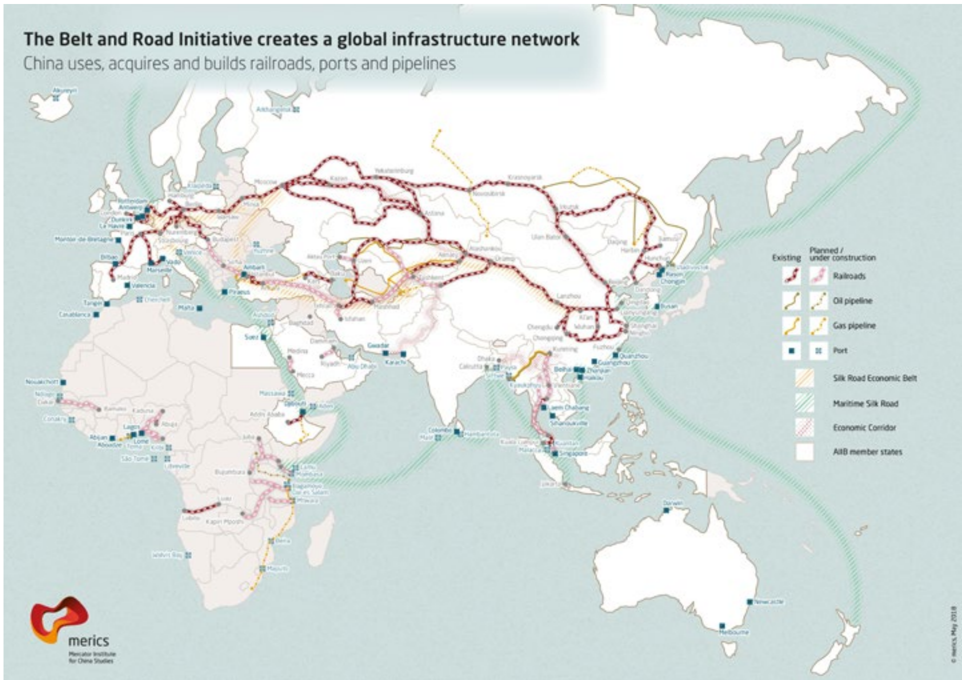
7.1 Origins and Meaning

"China's Belt and Road Initiative (BRI) has become the organizing foreign policy concept of the XI Jinping era," according to Nadège Rolland.[100] It has become such a large proposition that experts debate whether it is a mere rebranding of China's foreign policy and projects, a public diplomacy endeavor or a real strategy worthy of this name.

At the beginning it was not presented as a single plan but as two distinct initiatives. The first was the creation of a Silk Road Economic Belt, announced by President Xi Jinping in September 2013 in a speech in Astana, Kazakhstan. The following month he presented the '21st Century Maritime Silk Road' during an official visit to Jakarta, Indonesia. Both initiatives merged shortly after into "One Belt One Road" and in 2015 it was finally branded as the Belt and Road Initiative.

100 Nadège Rolland. *China's Eurasian Century? Political and Strategic implications of the Belt and Road Initiative*. (Washington: The National Bureau of Asian Research, 2017).

Figure 10. The Belt and Road Initiative



Source: Eder, T. S. (2018). Mapping the Belt and Road Initiative: this is where we stand. MERICS Belt and Road Tracker (June 7). Online: https://www. merics. org/de/britracker/mapping-the-belt-and-road-initiative (accessed: July 2, 2018).

The concept of a new Silk Road invokes memories of ancient greatness to the Chinese, when trade routes linked Europe with the Far East through the Byzantine Empire, the Persian Empire and Central Asia. At that time, the Chinese Empire stood at the center of these world networks as the Middle Kingdom. President Xi Jinping has defined the purpose of its contemporary revival as the integration of the Eurasian continent through infrastructure of transport, energy and telecommunications, trade, finance, policy coordination and people-to-people exchanges. Sixty-six countries, representing 63% of the world's population, have already signed MOUs signaling their participation in the project.

Some experts claim that the BRI is more a repackaging of projects that China was already implementing in the region under an attractive banner. In making their case against the BRI as a fully-fledged strategy, they point to its geographical lack of definition. They also argue that the Initiative's launch has been characterized by a considerable degree of improvisation.

But most of those who have closely followed the creation of the Initiative think otherwise. According to former German Foreign Minister, Sigmar Gabriel, "China is the only country pursuing a long-term political idea."[101] And Jonathan Hillman stated before the U.S. Congress that "The BRI is the most ambitious geo-economic vision in recent history."[102] In that sense, the BRI can be defined as one of the two pillars of China's national strategy under President Xi Jinping, next to Made in China 2025, which serves China as a blueprint to take the lead in ten technological fields that will define the future of global economies.

As a strategy, the BRI covers both the continent (the belt) and the Pacific Ocean (the road). China will push in both directions but in the Pacific the United States is still the dominant military power, even if China has considerably increased its naval capabilities in the last few years. It is also dangerous for China to openly challenge the United States and risk a conflict that could imperil its rise as a world power. On the other hand, China has always been a continental power. The U.S. is militarily absent from the Asian continent, except for Afghanistan from which it will be withdrawing soon. China can therefore tilt the balance of power in the region in its favor by expanding its influence in Eurasia.[103] And Eurasia, as a geopolitical entity, has been around since the British geographer Mackinder presented his 1904 proposition that control of the "Heartland" (Eurasia) would lead to dominance of the "world island," as he called the combined territorial mass of Europe, Asia and Africa, which would entail hegemony at a global scale.

It is most likely that the strategy began as a Chinese response to the perceived risk of encirclement by the United States, which had launched its Pivot to Asia Policy in 2011 with the Trans Pacific Partnership as one of its main pillars. China transformed this perceived challenge into an opportunity, shifting from a defensive position to the offensive. China now aims to prevent the U.S. from obstructing its rise and wants to clear the way toward becoming the prevailing power in the region. With a deeply engrained sense of history, Chinese leaders recall that China has risen to regional supremacy four times, during the Han, Tang, Yuan, and Qing dynasties. Now, after the "century of

101 Sigmar Gabriel. "The West lacks a strategy to compete with China," Handelsblatt. September 17, 2018. https://www.handelsblatt.com/today/opinion/beijings-hegemony-the-west-lacks-a-strategy-to-compete-with-china/23583354.html?ticket=ST-1446579-cP2lu4S4hlhtoCeUqAdi-ap3

102 US Congress, Senate, U.S.-China Economic and Security Review Commission, *Hearing on China's Belt And Road Initiative: Five Years Later*, 115th Congress, 2nd sess. 2018

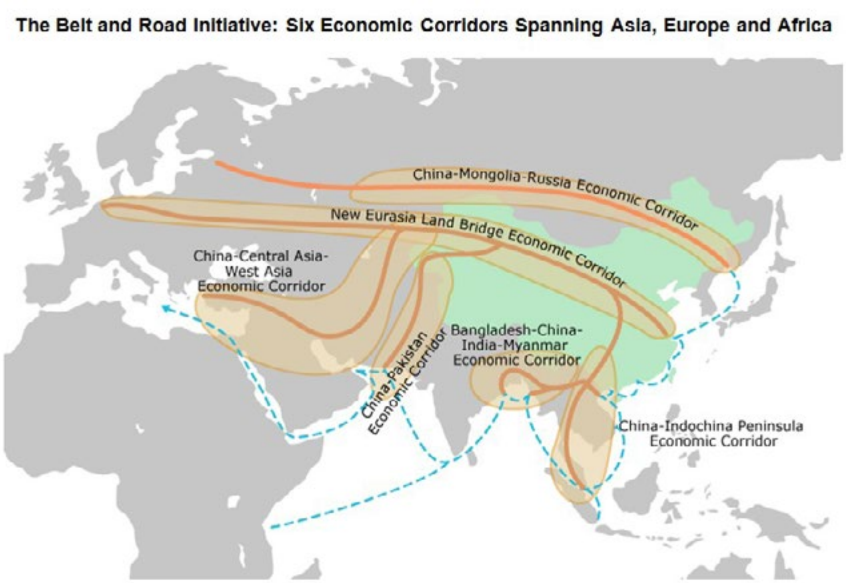
103 Xiang Lanxin, quoted in Gateway to the globe. The Economist. July 28th, 2018.

national humiliation," which Chinese leaders saw as a historical deviation, they are convinced that their time has come to reach similar heights.[104]

To prevent the BRI from provoking fears about Chinese intentions, Chinese leaders have avoided the use nominal use of 'strategy,' choosing instead the more neutral "initiative." Whatever its title, it is a truly ambitious endeavor by a self-confident China that has left behind the hide and bide slogan of Deng Xiaoping. It is also a project difficult to oppose as such, as it is not confrontational but focuses on creating a more integrated Eurasia around Chinese economic dynamism.

If the BRI is indeed a strategy, it is not a detailed master plan. Still, from the start it was intended to match vision with implementation, mapping out a concrete approach. In a report from 2015 called "Vision and Actions," the Chinese government identified six economic corridors: The new Eurasian land-bridge economic corridor (from China to Europe), the Bangladesh-China-India economic corridor, the China-Pakistan economic corridor (the most developed yet with Chinese investments amounting to $60 billion), the China-Mongolia-Russia economic corridor, the China-Indochina Peninsula economic corridor and the China-Central Asia-West Asia economic corridor.

Figure 11. Belt and Road Initiative Economic Corridors



Source: HKTDC (2018) The Belt and Road Initiative, http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X-000000/1X0A36B7.htm.

104 Rolland.

Some of the BRI's instruments are political, such as the 16+1 diplomatic platform in Central and Eastern Europe. The most important are financial, including the brand new Asian Infrastructure Investment Bank, which launched its operations only two years after its inception; the Silk Road Fund and other pre-existing Chinese banks like the Export-Import Bank of China and the China Development Bank, which are focused on BRI projects.

On the people-to-people side, China has announced tens of thousands of scholarships for students from BRI countries to study in China. The Chinese government has also promoted events and networking between think-tanks, universities and media representatives from BRI countries.

7.2 China's Interests and Objectives

1. To strengthen the growth of its economy. A performing economy is a major source of legitimacy for the Chinese Communist Party. China does not want to become overly dependent on markets in Europe and the U.S., and thus wants to develop new markets in the region and around the world. The BRI can also help to solve problems of overcapacity generated by previous stimulus packages, especially in steel, aluminum and cement. Additionally, Beijing wants to strengthen its state-owned enterprises by creating new economic opportunities to promote SOEs as national champions on a global scale. The BRI can also be instrumental to promote the internationalization of the renminbi by widening its use in international transactions.

2. To enhance energy security. China is using the BRI to alleviate the "Malacca dilemma," the dependence of China of the Malacca Straits for most imports of gas and oil coming from the Middle East, Africa and East Asia. China fears that in a conflict situation it would be extremely vulnerable to an American blockade. Therefore, China is trying to diminish this dependence by increasing its access to deep water ports, such as in

Pakistan and Myanmar, and by building pipelines from Central Asia to diversify supply routes.[105]

3. To protect sea-lanes which are key to assuring both the flow of Chinese exports and also vital imports including energy products. China does not want to depend on the U.S. Navy for this task and has been working in three directions: building a blue-water Navy to project its power far from its territory; setting overseas naval bases in strategic locations such as Djibouti; and controlling critical infrastructure among maritime connections, especially major ports.

4. To foster security. The BRI covers large areas, inside and outside of China that are threatened by Islamic radicalization and terrorism. Beijing's doctrine is that economic development through the BRI will help stabilize those regions by creating jobs and diminishing unrest.

5. To expand its sphere of influence by creating a "community of friends" in its neighborhood and beyond. China can offer very persuasive incentives, both positive and negative, to countries wishing to access the Chinese market and to receive Chinese investments. The use of its economic assets to achieve political benefits is China's preferred approach to relations with countries along the BRI.

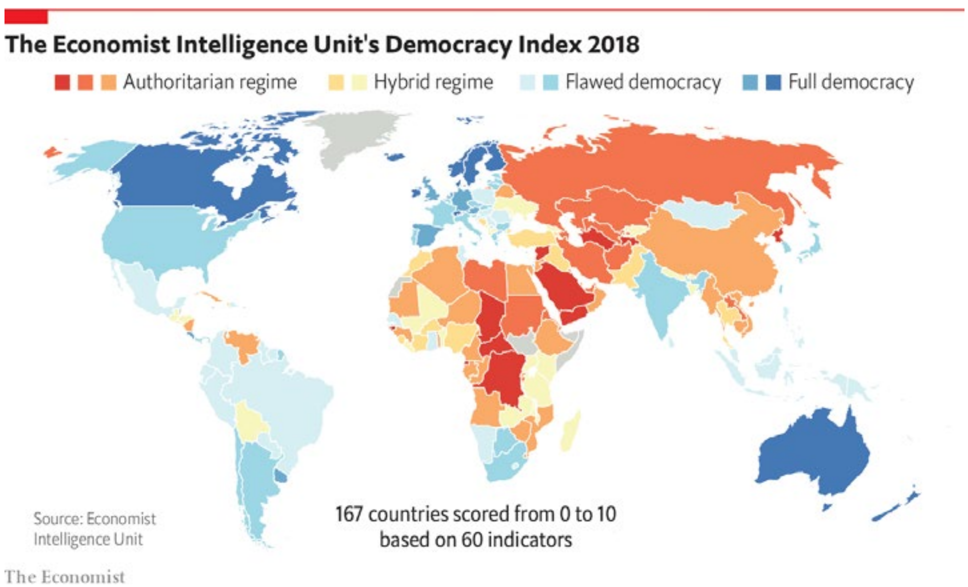
6. To promote a more authoritarian-friendly international order. Of the 66 countries that have signed the BRI MOUs, there are two full democracies, 24 "flawed democracies," 17 hybrid regimes and 23 authoritarian regimes, according to *The Economist*'s Democracy Index 2018.[106] Chinese media leader, Shirley Yu, has argued that if Chinese efforts to contribute to the economic development of its hinterland and beyond would result in an increase in the number of democracies, Beijing would consider it as a serious shortcoming of the BRI's explicit objective of creating "a community of common destiny." She adds that in the Confucian approach underlining Chinese official thinking, harmony is valued more than uniformity as a

105 *Geostrategic and Military Drivers and Implications of the Belt and Road Initiative*, 115th Congress, 2nd sess. (2018) (Statement of Ely Ratner). https://www.uscc.gov/sites/default/files/Ratner_USCC%20Testimony%20CORRECTED.pdf

106 *Democracy Index 2018: Me too?* London: The Economist Intelligence Unit, 2018. http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=Democracy_Index_2018.pdf&mode=wp&campaignid=Democracy2018

basis to building this community of common destiny. Applied to the BRI, this means that China—in order to foster a closer relationship—does not mind if a country is a democracy or not, but also trusts that the BRI will gradually expand the circle of authoritarian countries. By not putting pressure on democracies to change their system but by showing how successful the Chinese model is and how advantageous it is to be linked to China. Beijing believes that the closer those countries are tied to China, the bigger its political influence will be. The bottom line is that in the current contest between liberal democracies and autocracies to shape the international system, the BRI should tip the scale in favor of China's vision.[107]

Figure 12. The Economist Intelligence Unit Democracy Index 2018



Source: The Economist Intelligence Unit, EIU Democracy Index 2018 - World Democracy Report, https://www.eiu.com/topic/democracy-index.

The performance of the BRI so far

How is the BRI performing in the pursuit of these lofty objectives? What are the challenges that China is facing in its implementation?

First, security is a big concern for Chinese authorities. The BRI extends over some of the more conflict-prone regions in the world, including the Middle East/North Africa, South/Central Asia, with Afghanistan as a hot spot, and Southeast Asia with territorial disputes that create permanent

107 Shirley Yu, "The Belt and Road Initiative: A Discussion of China's Vision and Strategy," (seminar, Ash Center for Democratic Governance and Innovation, Cambridge, MA, February 25, 2019).

tension without an open conflict. These areas are also vulnerable to terrorist threats. Signature infrastructure projects could become soft targets for these terrorists. Groups operating in these regions include the Turkistan Islamic Party, ISIS, al-Qaeda and the Taliban.[108]

Second, as China aims to expand its influence it encounters other powers that see those advances in zero-sum game terms. This is true of the American case but also of Japan and India, all three of them distrustful of the balance of power in the region tilting in China's favor. Russia is, for the time being, playing the entente card with China, but its influence in Central Asia could be increasingly at odds with Chinese expanding footprint through the BRI. There is also the risk that China will be forced to take sides, though against its wishes, in showdowns between regional rivals such as Iran and Saudi Arabia.

Third, China has also experienced pushback in certain countries where Chinese projects have gone wrong or have stalled. In Malaysia, a new elected government asked to renegotiate the cost of a railway project and got a one third cut on the original price. In Ethiopia, the railway to Djibouti has accumulated $1 billion in losses. Myanmar and Nepal have retracted on several infrastructure projects for fear of excessive debt. In Sri Lanka, the government, struggling to repay its soaring debt, gave a Chinese company a 99-year lease on the port of Hambantota, triggering criticism of a deal with a similar time-frame as the colonial concession of Hong Kong to Britain in the 19th century. In Venezuela, with debt of more than $60 billion to China, oil exports have been used as a collateral for projects that had nothing to do with it.[109] According to some estimates, eight countries are near default following excessive borrowing from China: Mongolia, Montenegro, Pakistan, Laos, Maldives, Djibouti, Kyrgyzstan and Tajikistan.[110]

108 Joel Wuthnow. *Chinese perspectives on the Belt and Road Initiative: Strategic rationales, risks, and implications.* Center for the Study of Chinese Military Affairs Institute for National Strategic Studies China Strategic Perspectives, No. 12. National Defense University. October 2017.

109 Ricardo Hausmann. "China's Malign Secrecy," Project Syndicate. January 2, 2019. https://www.project-syndicate.org/commentary/china-development-finance-secrecy-by-ricardo-hausmann-2019-01?barrier=accesspaylog

110 Gillian Tett. "China grapples with its BRI lending binge," *Financial Times*. May 2, 2019. https://www.ft.com/content/c976cde2-6cd0-11e9-80c7-60ee53e6681d

To sum up, the most frequent critiques have been a lack of financial or environmental sustainability, absence of transparency and direct award of projects to Chinese firms with no open tenders, thus encouraging graft and overpricing.

Fourth, domestic backlash. When the BRI was launched in 2013, China held $4 trillion in foreign exchange reserves, a figure that since has diminished by more than one trillion. This fact, in turn, has generated some real domestic debate, although rarely public, among academics and business leaders about the economic viability of the BRI especially in the event of an economic slowdown.[111]

In the face of these difficulties, Chinese authorities have announced corrections. At a Belt and Road Summit in April 2019, attended by 37 Heads of State or Government, President Xi Jinping underlined the need to uphold the principles of transparency and debt sustainability. Nevertheless, taking into account the ambition of this initiative and its geographical and economic scope, a mixed balance could be expected from the start. In any case, China is already reaping political benefits from it, in the form of a closer relationship with Pakistan, a more pro-Chinese position on the part of the Philippines, or increased influence in the EU through the 16+1 format. China has also taken control of strategic infrastructure in the Indian Ocean (the port of Hambantota in Sri Lanka and the port of Djibouti), in the Gulf of Oman (the port of Gwadar in Pakistan) and in the Mediterranean (the port of Piraeus in Greece), among others.

One way or another, the BRI has attracted the attention of all world leaders who are attempting to discern how to benefit from it or how to respond to its perceived negative effects. In both cases, China achieved first-mover-advantage, which it is unlikely to lose in the foreseeable future.

The Digital Silk Road

Nadège Rolland imagines what Eurasia could look like in 2035 if Chinese expectations of the BRI are fulfilled. By then, more than 3 billion consumers

111 Minxin Pei. "Will China let Belt and Road die quietly?" Nikkei Asian Review. February 15, 2019. https://asia.nikkei.com/Opinion/Will-China-let-Belt-and-Road-die-quietly

from the emerging middle class will order Chinese products on Silk Road e-commerce platforms like Alibaba and will pay their travel expenses in renminbi through WeChat. The Eurasian continent will be covered by the Beidou positioning system and by 5G networks operated by Huawei and ZTE. People will watch the news on China Global Television Network, available in local languages, and access a regulated and restricted internet covered by a "great firewall" that now covers the entire continent.[112]

Since the publication of Rolland's book in 2017, this Chinese vision has become more complex and more ambitious. In the Digital Silk Road we see the convergence of the two pillars of Chinese strategy: the Made in China 2025 plan, designed to give China the leading position in advanced technologies, and the BRI, to promote the integration of Eurasia under Chinese leadership. The Digital Silk Road addresses infrastructure through the extension of fiber-optic cables along the continent and between Eurasia and other continents, such as Africa, the Pacific islands and eventually, Latin America. But it is also about providing market share for Chinese telecom companies, turning them into global champions. In addition, it is about new business models in e-commerce, smart cities, biometrics and others. Linking facial recognition with artificial intelligence, state-of-the-art surveillance systems are being set up by Chinese companies in cities along the BRI. These projects are creating technological dependencies in relation with China and a wealth of data that will inspire new applications and business opportunities.[113]

The Digital Silk Road will also open business inroads for Chinese cybersecurity companies. Beijing is encouraging them to go out and get involved in digital projects in third countries as part of the package offered by China. In 2018, the Chinese firm Venustech signed an agreement with the China Association for Friendship to enhance network security with BRI partners. In the same year, both entities co-sponsored a forum on cybersecurity as part of a Silk Road Business Summit.[114]

112 Rolland.

113 Robert Atkinson, "China's Digital Silk Road". (seminar Center for Strategic and International Studies, Washington, D.C., February 5, 2019. https://www.csis.org/events/chinas-digital-silk-road

114 Kieran Green. "Securing the Digital Silk Road," Center for Advanced China Research. February 11, 2019. https://www.ccpwatch.org/single-post/2019/02/11/Securing-the-Digital-Silk-Road

All of these moves create challenges for the U.S., Canada, Europe, Japan, South Korea, Australia and others across at least three dimensions: business competition, network security and digital governance. This last dimension will become more critical to liberal democracies, as a model of a free and open internet will increasingly clash with another based on state control.

7.3 European Responses to the BRI

Who is in and who is not?

Seventeen member states of the EU have already signed MOUs to join the BRI, including Italy and Luxemburg, the last two to sign on. Countries that have joined show a certain geographical pattern: some are in Central and Eastern Europe, such as Austria, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. All of these—except for Austria—already belong to the 16+1 diplomatic platform with China. The rest are in Southern Europe: Cyprus, Greece, Malta, Portugal and Italy. An exception is Luxembourg, which does not belong to any of these groupings.

The three largest member states have declined to sign the BRI. Though none of them have expressed an open opposition to the BRI but do not want to subscribe to an instrument designed by China to fit its national ambitions. France's President, Macron delivered the toughest statement on the BRI during a visit to China in 2018: "These roads cannot be those of a new hegemony, which would transform those countries that they cross into vassals."

Germany is worried about the threat of fresh divisions within the EU and more broadly concerned about the shape of an international system to suit Chinese interests to the detriment of others. German companies are concerned that the tenders would systematically exclude non-Chinese bidders. The UK, which under former Prime Minister Cameron had played the Chinese card and wanted to foster a "golden era" in relations between both countries, was expected to follow that line after Brexit in the quest for a "Global Britain." But successor Theresa May's cabinet became more aware of the security risks involved in China's outreach and the Prime Minister declined to sign the MOU during her 2018 visit to Beijing.[115] Other countries in Northern Europe and Spain in the South have also refrained from becoming members, arguing that they want to look at ways in which Europeans can work with the BRI through their own EU-Asia Connectivity Strategy.

Much of the reluctance of this group of member states began with the preparations for the first BRI summit in Beijing in 2017. First, a number of European countries attended at a Prime Minister or Ministerial level, but there was no invitation to the leaders of the EU institutions, although the Vice President of the Commission, Jyrki Katainen, did ultimately attend. Second, the discussions on the final statement showed the deep conceptual differences between the Chinese and the European approach, the latter concerned about principles such as transparency, openness, social standards and sustainability, both in relation to debt and to the environment. In April 2018, a report of 27 of the 28 EU Ambassadors in Beijing (with Hungary the lone exception) was leaked to German daily *Handelsblatt*. It stated that the BRI "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies."[116]

The contrast between the European reactions to the BRI and to the Asian Infrastructure Investment Bank are significant. On the latter case, Europeans had no second thoughts on joining a multilateral institution designed under strict international governance standards. The fact is that most European countries find those standards lacking in the case of the BRI, but more than half of the EU's member states have decided to participate nonetheless.

115 Daniel Kliman and Abigail Grace. "Power play. Addressing China's Belt and Road Strategy," Center for a New American Security. September 2018. https://s3.amazonaws.com/files.cnas.org/documents/CNASReport-Power-Play-Addressing-Chinas-Belt-and-Road-Strategy.pdf?mtime=20180920093003

116 Erik Brattberg and Etienne Soula. "Europe's emerging approach to China's Belt and Road Initiative," Carnegie Endowment for International Peace. October 19, 2018. https://carnegieendowment.org/2018/10/19/europe-s-emerging-approach-to-china-s-belt-and-road-initiative-pub-77536

The EU-Asia Connectivity Strategy

In September 2018, Federica Mogherini, the EU's foreign policy chief, unveiled the EU strategy for connecting Europe and Asia. She insisted that the initiative was not a reaction to the BRI or any other international initiative, "be it in Beijing, Washington, Moscow or Timbuktu." But inevitably all media headlines made reference to the BRI.[117] The plan has three objectives: First, to create transport links, energy and digital networks, as well as people-to-people connections. Second, to offer connectivity partnerships to countries in Asia. Third, to promote sustainable finance through the use of existing EU funds, loans from development banks and public-private partnerships.

Experts have generally pointed out that the plan is large in prescription and short on financial firepower. In an implicit comparison with the BRI, the report describes the "European way" to connectivity in the region by stressing sustainability, labor rights, avoiding financial dependencies and guaranteeing a level playing field for business. But some analysts have pointed out that to praise the European internal market as a model (and therefore the free flow of people, goods, services and capital) would be unrealistic on a Eurasian scale.[118] Others consider that to focus on creating rules is positive, particularly in relation to China's poor legal standards but also point out that the emphasis on a "European way" is paternalistic and will not be necessarily appreciated by Asian business people.[119]

As for funding, the European External Action Service plans to guarantee EUR 60 billion in the next multiannual budget from 2021-2027, a figure that would help to mobilize financing from other multilateral and private sources and to de-risk projects. It is a considerable amount but one that falls short compared to the regional needs in infrastructure spending, which the report estimates would be around EUR 1.3 trillion a year for the next decades.

117 Michael Peel. "Europe unveils its answer to China's Belt and Road plan," *Financial Times*. September 19, 2018. https://www.ft.com/content/bbcda96a-bc1b-11e8-8274-55b72926558f

118 Thomas Kruessmann. "A missed opportunity: Assessing the EU's strategy for Europe-Asia connectivity," London School of Economics. October 1st, 2018. https://blogs.lse.ac.uk/europpblog/2018/10/01/a-missed-opportunity-assessing-the-eus-strategy-for-europe-asia-connectivity/

119 Philippe Bonnet and Antoine Martin." An EU strategy on connecting Europe to Asia…the European way?" Asia-Pacific Business Insights. November 21, 2018. https://asiapacificcircle.org/asia-pacific-insights-trends/an-eu-strategy-on-connecting-europe-to-asia-the-european-way/

The main objective of this initiative was, of course, political: to position Europe in the connectivity landscape, stressing European values. While waiting to transform these plans into projects on the ground, the EU can now advance other objectives: On the one hand, the strategy is compatible with others, including the BRI, so it has not been received in China as a hostile move. As a result, the strategy does not raise the political temperature in wider relations with China. On the other hand, EU member states can now better resist Chinese pressure to join the BRI on the basis that coordination is needed with the EU-Asia Connectivity Strategy.

BRI deployment in regions of special interest for Europe

European capitals are carefully monitoring China's economic expansion under the banner of the BRI, in its traditional regions of interest including in Latin America, Africa and the Arab world.

In Latin America, China has replaced the EU as the number two trading partner (behind the U.S) and the main source for international financing.[120] Europe has had a market share of trade with Latin American countries at 14% for the last 15 years. China had only a 3% of these countries' imports in 2000, but 16 years later this figure has increased to 18.3%. Apart from the volume, another trend could be more worrying for European exporters: Twenty years ago, Chinese products could not compete with European goods. But as Chinese products have improved in technical sophistication and quality, they have rapidly moved up the value-added chain, competing with European products in the the electrical machinery and automotive sectors.[121]

Europe still leads the way in Foreign Direct Investments (FDI) and is still the first investor in Latin America, with EUR 363 billion between 2012 and 2015. In comparison, the Chinese stock of investment in the region amounts to $110 billion. Until 2012, Chinese investment was concentrated

120 Mario Esteban. *Relaciones España—China*. *Informe Elcano*, 24 (2018). http://www.realinstitutoelcano.org/wps/wcm/connect/70d1270b-1f68-44e2-8533-b273036d2d0d/Informe-Elcano-24-Relaciones-Espana-China.pdf?MOD=AJPERES&CACHEID=70d1270b-1f68-44e2-8533-b273036d2d0d

121 Alicia Garcia-Herrero, Thibault Marbach and Jianwei Xu. Bruegel. *European and Chinese trade competition in third markets: the case of Latin America*. Brussels: Bruegel, 2018. http://bruegel.org/wp-content/uploads/2018/06/WP-2018-06_-060618.pdf

in the extractive industries, which took 60% of the total. That figure fell to 37% in the following years while investments in services rose from 21% to 50%. The growth sectors include power production and distribution, transport, and information and communications. The automotive sector is now powerfully surging especially in Mexico, Brazil and Argentina.[122]

Brazil is the first recipient of Chinese investment in the region at $60 billion. This development has created political backlash, with President Bolsonaro claiming that "the Chinese are not buying in Brazil, they are buying Brazil."[123] This debate follows another about the risk that Chinese demand for foodstuffs and commodities will reverse Brazilian exports trends out of an excessive dependence on the primary sector.

Lending is another feature of the increasing Chinese economic imprint in the region, which now amounts to $140 billion. Almost half that figure—$62 billion—go to Venezuela. Most of these loans are concentrated on projects in mining, energy, construction, infrastructure and transport.

China has accompanied these economic investments with greater political engagement at a higher level. President Xi Jinping has made four trips to the region, visiting a total of twelve countries. The Chinese leadership has also spearheaded the China-CELAC Forum, with regular summits alternating between China and Latin America.

In Africa, China's has been increasing its footprint over the last decade in all areas:

1. Trade has expanded by 226% from 2006 to 2018, reaching $120 billion, second only to the EU as a whole with $156 billion.[124]

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122 Rolando Avendano, Angel Melguizo and Sean Miner. *Chinese FDI in Latin America: New trends with global implications*. Washington, D.C.: Atlantic Council, 2017. https://publications.atlanticcouncil.org/china-fdi-latin-america/

123 "Think of China as a giant sub-prime lender in Latin America," *The Economist*. November 3rd, 2018. https://www.economist.com/china/2018/11/03/think-of-china-as-a-giant-sub-prime-lender-in-latin-america

124 "Africa is attracting ever more interest from powers elsewhere," *The Economist*. March 7th, 2019. https://www.economist.com/briefing/2019/03/07/africa-is-attracting-ever-more-interest-from-powers-elsewhere

2. Investment has also increased steadily, although not as the same pace as trade, from $16 billion in 2011 to $40 billion in 2016, less than France with $49 billion.

3. China has become the largest creditor in the region with $86 billion in loans between 2000 and 2014. These loans have financed up to 3,000 infrastructure projects including some mega-projects like the $4.5 billion Ethiopia-Djibouti Railway, the $3.2 billion Mombassa-Nairobi Railroad and the $600 million Doraleh Port in Djibouti.[125]

4. In the military field, China has built its first overseas army support base in Djibouti, has become the number one arms seller to African countries and has more than 2,500 troops deployed in UN peace-keeping missions on the continent. In Djibouti, China has followed a mixed military-civilian model, with investments of up to $5 billion in the port, a free trade zone and a railway link with Ethiopia. In so doing, Beijing gains leverage with the local government and creates economic incentives to protect its military engagement.

5. In people-to-people cooperation, there are currently 50,000 African students in Chinese Universities and President Xi has promised to grant thousands of scholarships over the next few years.

6. The Belt and Road Initiative has already been endorsed by thirty-seven African countries. The Maritime Silk road plays an important role in East Africa with Chinese investment in the ports of Mombassa and Djibouti, transforming both into hubs for Chinese trade to the continent. In North Africa, Mediterranean countries also play a relevant role in the Maritime Silk Road as demonstrated by Chinese investment in the Algerian port of El Hamdania, the Moroccan port of Tangiers and the Suez Economic and Trade Cooperation Zone in Egypt.

7. More importantly, China is investing considerable time and political capital in strengthening its relations with African countries. The Forum on Africa-China Co-operation (FOCAC) has already held three summits with high attendance by top African leaders.

125 Witney Schneidman and Joel Wigert. "Competing in Africa: China, the European Union, and the United States," Brookings. April 16, 2018. https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/

Although there has been some pushback when a number of projects financed by China have sent the debt rates in certain countries soaring, China is a welcome actor in Africa today. Its narrative of economic success and its record of lifting 500 million people out of extreme poverty is generally seen in a positive way.

China's economic presence on the continent is also evolving from the traditional model of "resources for infrastructure" to a more balanced approach, with manufacturing in free trade zones as its centerpiece.[126] As China's industry moves up to higher-value products and wages increase, small and medium firms from China are willing to de-localize to Africa, especially in sectors like textile and shoes.

Also, infrastructure financing is gradually turning from transport to power generation as well as to distribution and telecommunications, both essential to promoting industrialization. China has upgraded the East Coast sea cable and is laying a new one in the West. And Huawei is present in every country on the continent. As described above, China is both genuinely helping to improve digital connectivity across the continent while stepping up the introduction of its intrusive surveillance kit in the telecoms packages offered to African countries.

China's larger role in Africa has increased the competition for influence on the continent, with the U.S., India, Japan, Russia, Turkey becoming more active in recent years. The EU is also feeling the pressure although its presence has always substantial in many areas. Against the backdrop of the migration challenge, the EU has launched the Africa-EU alliance for "Sustainable Investment and Jobs" with the goal of creating up to 10 million jobs over the next five years. Five EU-Africa summits have taken place to this date and in the next seven-year budget, the EU Council anticipates EUR 164 billion in commitments and EUR 148 billion in payments for the recipients' budgets. If Chinese investments in manufacturing create jobs at a large scale, it would indeed be good news for Europe, as these added economic opportunities could reduce migratory pressures. Still, European countries will be at odds with China on other issues, including

126 Yun Sun. "China's changing approach to Africa," Brookings. February 4, 2019. https://www.brookings.edu/blog/africa-in-focus/2019/02/04/chinas-changing-approach-to-africa/

the country's geopolitical intentions for gaining a dominant position, and China's surveillance technology for social and political control.

7.4 A Free and Open Indo-Pacific: A New Strategic Concept

Japanese Prime Minister Shinzo Abe is credited with being the first to couple the Indian and the Pacific Oceans into a single strategic concept in a speech in 2007. The genius of the idea can be seen in the location of Abe's speech: He chose to unveil the strategy in an address to the Indian Parliament under the title of "Confluence of the Two Seas." The aim was to connect India to the Pacific Ocean in an effort to build closer security ties between India and Japan, given the reality of China's ascent in the region. That very year the "Quad," which includes the U.S., India, Japan and Australia, met for the first time immediately after the ASEAN Regional Forum. The Quad, as John Hemmings has defined it, represents "a loose geostrategic alignment of states concerned with China's potential challenge to their interests."[127]

The Indo-Pacific concept also underlines the key role of the Indian Ocean in world geopolitics as described by Robert Kaplan in his book "Monsoon": "The Indian Ocean is where the rivalry between the United States and China in the Pacific interlocks with the regional rivalry between China and India, and also with America's fight against Islamic terrorism in the Middle East, which includes America's attempt to contain Iran."[128] It stretches from the key chokepoints of Hormuz and Bab-el-Mandeb on the West side, and the Malacca straits on the East side, the energy line of communication connecting producers in the Middle East and Asian consumers.

The launch of the BRI in 2013 was met with distrust in Washington, Tokyo and Delhi and contributed to strengthening a sense of common purpose among these three powers. Neither the U.S. nor Japan opposed the initiative outright but both took it as proof of Chinese intentions to

127 John Hemmings. "A reborn Quadrilateral to deter China," The Lowy Interpreter. November 9, 2017. https://www.lowyinstitute.org/the-interpreter/reborn-quadrilateral-deter-china

128 Robert Kaplan. *Monsoon*. (New York: Random House, 2010).

achieve regional preponderance. In the case of India, the opposition was more severe both because it raised the specter of Chinese encirclement and because the China-Pakistan corridor runs through disputed territory in Kashmir. As a result, these countries plus Australia, Vietnam, Singapore, the Philippines and Taiwan stepped up their security dialogues and bilateral initiatives creating a network of increasing density.

The "Free and Open Indo-Pacific"

While the Indo-Pacific has become a new geopolitical paradigm, the "Free and Open Indo-Pacific" is a normative concept inspired by the values shared by the democratic powers that participate in the Quad. Against the background of the BRI, the Indo-Pacific emerges as a response to China's continental strategy in Eurasia by strengthening the maritime sphere with the connection of the Pacific and the Indian Oceans into a single strategic entity. The "Free and Open Indo-Pacific" concept aims to create of an alternative narrative to the BRI, one based on liberal values and the rule of law.[129]

Former U.S. Defense Secretary Jim Mattis was the first American official to make a public presentation of the main elements of the "Free and Open Indo-Pacific," at the Shangri-la Dialogue in June 2017: Key elements included freedom of navigation, military interoperability with allies and partners, strengthening the rule of law and private sector-led economic development. A few months later, President Trump presented his vision of a "Free and Open Indo-Pacific" in a speech before the Asia Pacific Cooperation Summit in Vietnam, a theme that has since been echoed by other members of his administration in ever-greater degree of detail. Finally, the National Security Strategy and the National Defense Strategy have gone so far as to declare China a strategic competitor, putting the Indo-Pacific at the center of American priorities.

A number of initiatives on the part of the Trump Administration to give substance to what had been until now an aspirational concept followed:[130]

129 Jeff M. Smith. "Unpacking the Free and Open Indo-Pacific," War on the Rocks. March 14, 2018. https://warontherocks.com/2018/03/unpacking-the-free-and-open-indo-pacific/

130 'The Trump Administration's "free and Open Indo-Pacific": issues for Congress,' Congressional Research Service. October 3, 2018 https://crsreports.congress.gov/product/pdf/R/R45396

1. The Quad meetings, which were interrupted after Australia decided in 2008 that it did not want to provoke China, were revived ten years later.

2. The United States Pacific Command was renamed the Indo-Pacific Command.

3. The announcement to fund several activities to promote security relationships in the region with $300 million.

4. The decision to increase the number of Freedom of Navigation Operations in the South China Sea.

5. The announcement of $113.5 million by U.S. Secretary of State Pompeo to finance activities in the digital economy, energy and infrastructure. He also presented the BUILD Act in Congress to reorganize and increase American assistance programs in this region. Under this Act, the Overseas Private Investment Corporation (OPIC) will receive resources from the USAID and transform into the U.S. International Development Finance Corporation, with an increased budget of $60 billion dollars, more than doubling the current limit of $29 billion dollars.

6. To enter into partnerships between American and like-minded countries' development institutions. In April 2019, the OPIC signed a MOU with its counterparts in Europe and Canada "to advance shared development objectives and underscore the participants' commitment to providing a robust alternative to unsustainable state-led models," according to the statement published by OPIC. There is no mention of China or the BRI but the intention is clear. OPIC signed a similar partnership with development finance institutions from Japan and Australia in 2018.[131]

The "Free and Open Indo-Pacific" (FOIP) initiative does not intend to have any multilateral structure. Under its informal configuration, like-minded countries like Japan, India and Australia can cooperate in a flexible way among themselves or with third countries. Bilateral initiatives are launched

131 Owen Churchill. "U.S., Canada and EU to offer "robust alternative" to state-led development finance, as belt and road increases reach," South China Morning Sea. April 12, 2019. https://www.scmp.com/news/world/united-states-canada/article/3005798/us-canada-and-eu-offer-robust-alternative-state-led

without claiming the banner of the FOIP but sharing its spirit and principles. The "Asia-Africa Growth Corridor," created by Japan and India to promote infrastructure projects in Africa is one such example. Japan, India and Australia have also strengthened their defense cooperation in the last few years, on a bilateral basis.

Nevertheless, those three countries have different diplomatic traditions. India, as opposed to Japan and Australia, was one of the leaders of the non-aligned movement and is cautious not to move into a formal alliance with the U.S. and its allies.[132] Also, China is the number one trading partner to India, Japan, Australia, South Korea and ASEAN countries. These countries will all have to balance their economic relations with China with their security links with the U.S.

Critics of the FOIP have pointed out that the U.S. withdrawal from the Trans Pacific Partnership (TPP) has considerably diminished the economic incentives to the countries of the region. The still modest amount of funding for the initiatives under the umbrella of the FOIP, compared to BRI, has also been noted as a shortcoming.

132 Robert Manning. U.*S. Indo-Pacific Strategy: Myths and Reality*. Moscow: Valdai papers, 2018. http://valdaiclub.com/files/18834/

8. Building Blocks for a Common Strategy

In the last few years, the European Union has found itself dealing simultaneously with three serious challenges:

1. **A weakening of European integration** underlined by Brexit and the emergence of anti-EU political forces across all member states.
2. **A deteriorating relationship with the U.S.**, both in the trade and the security areas and a shift away from 70 years of bipartisan policy in Washington concerning the U.S. unflinching support for NATO and the EU. Beyond the current administration, there are concerns that the U.S. is heading towards a retrenchment phase, diminishing its engagement in Europe.
3. **A return to great power rivalry with China and Russia both** wielding their power to increase their influence in Europe, designed to drive a wedge in the transatlantic relationship.

Sylvie Kauffmann, the editorial editor of *Le Monde*, has argued that in this new great-power competition, Europe looks more like a soft target than a great power ready to leverage its assets to command the respect of the rest.[133] One reason, as Josef Joffe points out, is because this new world of "great powers locking horns" is antithetical to the EU vision of itself as a "civilian power" whose mission is to promote a rules-bound international system.[134]

Nevertheless, the convergence of these three challenges creates dilemmas for European governments and institutions that cannot be tackled independently. It also produces incentives to overcome divisions and find common answers. These political and cultural constraints have not prevented Europe from reacting in a united fashion after the full impact of Chinese economic and political power in Europe began to be felt in ways

133 Sylvie Kauffmann. "Europe is a soft target. And it's under attack," *New York Times*. March 25, 2019. https://www.nytimes.com/2019/03/25/opinion/europe-xi-putin-trump.html

134 Josef Joffe. "Europe does not exist," Commentary. January 2019. https://www.commentarymagazine.com/articles/europe-not-exist/

that eroded European interests and values. A March 2019 communication of the European Commission to the European Council describes China as a "systemic rival promoting alternative models of governance," for the first time—although the text also describes the country in more familiar terms as a cooperation partner, a negotiating partner and an economic competitor. It is true that member states have different perceptions about the risks and opportunities presented by the rise of China. But the overall trend is clear. In the words of French President Macron, "The time of European naïveté has ended."

Europe and the U.S. can now agree on the characterization of China as a strategic competitor. This coincidence is more meaningful given the current absence of consultations about China at a political level across the Atlantic. In other circumstances, with a different administration, Europe would have likely followed the U.S. in framing a more demanding policy toward China. With transatlantic divisions deepening, Europeans felt compelled had to deliver their own assessment on the nature of the China challenges.

Competition is not a strategy in itself. From now on, Europeans will have to decide what they should do on their own and what can only be done in close coordination with the U.S. and other like-minded countries. For that dialogue to be fruitful, trust between both sides of the Atlantic must be restored. The signs are not encouraging in the short-term but dealing with China's rise is a long game and should be envisioned as such.

Elements of a European strategy to be developed independently

Finding a new balance between cooperation and competition will require an overhaul of European policies in many areas. Most of them are included in the European Commission's report "EU-China. A strategic outlook." François Godement has called this new approach a "Copernican revolution": The fact that the EU will no longer negotiate with China without building leverage first. The EU will agree on a robust set of policies, many of them of a defensive nature, and then will engage with China to find a more balanced relationship.[135]

This new leverage is already delivering concrete results. At the EU-China Summit in April 2019, China showed more willingness to compromise on some of the long-standing European priorities. First and foremost, adjusting the 2020 target for the conclusion of an EU-China Comprehensive Investment Agreement. Achieving this goal will be the most persuasive argument in favor of dealing with China with a maximum of unity, against those member states that claim they will get better deals on a bilateral basis.

Many of these proposals are about fostering reciprocity and fairness in economic relations with China, as well as on building protection against unwanted inroads of Chinese geo-economics in Europe. But an important part of any competitive strategy must be a roadmap of how to increase the EU's economic and competitive profile. The main lines for action are the following:

1. Legislation on investment screening. Its goal is to prevent Chinese (and other countries') foreign direct investment in a now-extended list of strategic sectors. It entered into force in April 2019.
2. New proposals to regulate state subsidies and public procurement markets on a reciprocal basis.
3. A new debate on an industrial policy which would allow the creation of European champions in sectors such as artificial intelligence and electric batteries, building on the Airbus model. To this end, France and Germany have presented a manifesto that proposes to reform EU competition law.[136]
4. The introduction of new rules to strengthen the current regulations to prevent the export of dual-use technologies to China.
5. The development of a common EU approach to the security of 5G networks.

135 François Godement. "Europe facing China: a Copernican revolution," Institut Montaigne. March 18, 2019. https://www.institutmontaigne.org/en/blog/europe-facing-china-copernican-revolution

136 Guy Chazan. "Germany backs French call for right to overturn EU merger decisions," *Financial Times*. February 19, 2019. https://www.ft.com/content/66c932d8-344b-11e9-bb0c-42459962a812

On 5G, the U.S. has been warning European governments about the security risks of letting Huawei and other Chinese telecom companies participate in the deployment of new 5G networks. Failure to take these considerations into account could impact the level of intelligence sharing between EU countries and the US, affect NATO communications and the very presence of military bases in certain countries.

In Europe there is increasing awareness about the security risks involved in 5G networks but business leaders fear that an insistence on decoupling from China in such an important area would have very negative economic consequences. Even at a moment of diminished trust between Europe and the U.S., the discussions on this matter have risen to the top of the transatlantic agenda and will remain there over the coming months and years.

Ingredients for a common strategy

To recite Lee Kwan Yew :"The size of China's displacement of the world balance is such that the world must find a new balance." Robert Blackwill has argued that sooner or later, the U.S. will have to open a discreet dialogue with China to see how both can promote their national interests while avoiding confrontation. But "the U.S. should first clearly establish that it is enhancing its military, diplomatic, and economic power projection into Asia, intensifying interaction with allies and friends, and helping build up their military strength."[137]

This objective of rebalancing China can have different consequences for Europe depending on how it is implemented. It seems that the U.S. could follow two different directions:

On the one hand, certain domestic trends seem to favor less international activism and more retrenchment. In turn, this could translate into a lighter security footprint in Europe in order to concentrate assets on the competition with China.

137 Robert D. Blackwill. "Trump's foreign policies are better than they see," *Council of Foreign Relations. Council Special Report* 84 (2019).

On the other hand, the U.S. would not want to leave Russia and China to wave more influence over Europe. Only continued American engagement in Europe can prevent the emergence of a Eurasia where many decisions affecting Europe would ultimately be framed in Beijing or even in Moscow.

Europeans cannot take for granted that the second option will be the one chosen, no matter how rational it may look to them. Europe can attempt to tilt the scale by demonstrating strategic vision and responsibility.[138] Increasing defense spending according to NATO guidelines is important to allow the U.S. to devote additional resources to competing with China. Nevertheless, when looking at ways in which Europe can contribute to building a balance of power with China, the military is not a priority. EU member states are providers of military equipment to most of the East Asian and Pacific countries. And the French and the British Navies are participating in 'Freedom of Navigation' operations in the South China Sea. Still, these contributions do not make Europe a full military actor in the Indo-Pacific. At the same time, China does not constitute a military threat in Europe. Therefore, the European role must be of a different nature.

The starting point should be to acknowledge that the new strategic challenges cannot be exclusively addressed through a transatlantic viewpoint, as in the past. In the Cold War, security was divided in two theatres, Europe and the Far East, with the U.S. in both. But now that China is projecting its power and influence both in Asia and Europe, this decoupling no longer makes strategic sense. Europe must look East, not as a concession to the U.S. but out of recognition that some of its more pressing security challenges demand it:

- First, because cybersecurity, which has become one of Europe's main concerns, is non-territorial in nature and must be addressed in a coordinated manner by those democracies in the Atlantic and the Indo-Pacific which are targeted from Russia or China.

- Second, because the Belt and Road Initiative is a geopolitical challenge. To compete with it will require an alternative strategy and strong

138 Luis Simon. "Europe, the rise of Asia and the future of the transatlantic relationship," *International Affairs*. 91, 5 (2015).

cooperation across the board between like-minded countries both from the Atlantic and the Indo-Pacific.

As we have seen, the crux of the competition between China, on one side, and the U.S., Europe, Japan, Canada, Australia and others on the other side, lies at the crossroads between technology, security and values. This contest will be decided in the digital realm. As a consequence, Europe could propose the creation of a "Coalition for a Free and Trusted Internet" to the U.S. and like-minded partners. It would have with two pillars:

1. An Alliance for Cyber security

It would cover both the military and the civil aspects of this issue. Members of NATO and the EU, and those willing countries in the Indo-Pacific would join.[139]

Europe and Japan would bear the burden of most of the operating costs of the new organization. In exchange, the U.S. would accept that spending in cyber security would be included as part of national defense expenditures for NATO purposes, along the lines of a recent proposal by Nick Burns and Douglas Lute.[140]

2. A Trusted Digital Fund

This would provide an alternative to the Chinese Digital Silk Road for those countries in Asia, Africa, Latin America and the Pacific that want to upgrade their digital networks and are tempted by Chinese offers of low-cost technology under attractive financial conditions. But these offers are not value-free and Chinese packages for Belt and Road countries increasingly include face-recognition surveillance kits linked to data collection capacities designed to enable social monitoring and political control.

139 Anders Corr. "Extend NATO Cybersecurity to Asian-Pacific allies," *Forbes*. February 9, 2016. https://www.forbes.com/sites/anderscorr/2016/02/09/extend-nato-cyber-security-to-asian-pacific-allies/#1ca6e7491d18

140 Douglas Lute and Nicholas Burns. *NATO at seventy. An Alliance in crisis.* Cambridge, Belfer Center for Science and International Affairs, 2019.

Europe, the U.S., Japan, India, Canada, Australia and others would pool their assets in this area to offer competitive options in terms of digital technology and funding. The EU would use the resources of its EU-Asia Connectivity Strategy alongside fresh loans from the European Investment Bank. Japan is already working on common projects both with the U.S., through the Overseas Private Investment Corporation, and with India through the Asia-Africa Growth Corridor. The U.S. and Japan are also working together with Australia in the Pacific islands.

Europe can also provide its experience of protecting privacy and the rights of consumers through its General Data Protection Regulation. Both American big tech firms and a number of experts - while not endorsing this regulation in its totality - have proposed that the U.S. adopt new legislation inspired by it.[141] In the near future, it could become the international standard as an alternative to the low-protection Chinese model.[142]

Such a comprehensive cooperation scheme would bring advantages to all participants:

1. The U.S. would find new reasons to renew its transatlantic security arrangements with Europeans ready to shoulder new responsibilities in the Indo-Pacific, thus helping to build a viable and stable balance of power with China which would be instrumental to preserving the peace. By linking East and West security, the U.S. would fully leverage one of its main strategic assets, which are its allies and the synergies created by their cooperation.

2. Indo-Pacific democracies would welcome European engagement and resources to help them build a credible alternative to the

141 Eric Rosenbach. "Eric Rosenbach on China: Challenges for U.S. Commerce," Belfer Center March 7, 2019. https://www.belfercenter.org/publication/eric-rosenbach-china-challenges-us-commerce

142 Note: a number of authors are proposing variations on this concept. See: Anders Fogh Rasmussen in "Time for Europe to step its China game". The Japan Times. November 6, 2018; Daniel Kliman and Abigail Grace in "Power play. Addressing China's Belt and Road Strategy. Center for a New American Security. September 2018.

On the wider issue of a closer cooperation between Europe, the U.S. and Indo-Pacific countries see: Elisabeth Economy. The Third Revolution. Oxford University Press. New York 2018. Andrew Small. "Why Europe is getting tough on China and what it means for Washington". Foreign Affairs. April 3, 2019; Thomas Wright. "The return to great-power rivalry was inevitable. The Atlantic. September 12, 2018; Judy Dempsey. "Misplaced nostalgia for the old West". Carnegie Europe. February 17, 2019; Nadège Rolland. "Hearing on China's Belt and Road Initiative: Five years later". One Hundred Fifteenth Congress. January 25, 2018.

Digital Silk Road. As for cybersecurity, working together with NATO countries would provide them with additional means and enhanced political protection to better address China's challenges in this area.

3. Europe would achieve a rejuvenation of its alliance with the U.S., adapted to the new challenges - with a renewed sense of purpose. It would also add leverage to Europe in its dealings with China, compensating for the increased political influence of Beijing in certain European capitals.

4. As for China, participation on this coalition would be compatible with joining the BRI for those countries that wish to do so. Also, a more robust position of Atlantic and Indo-Pacific democracies on digital issues could provide the incentive to negotiate a basic set of rules of the road in cyberspace to diminish the risks of unwanted escalation in this area both in peacetime and in the first stage of an eventual future conflict. It could also foster the negotiation of governance norms in artificial intelligence, an area in which China will need some accepted international standards, if they are to sell new applications worldwide.[143]

Other lines of action for the U.S., Europe and the Indo-Pacific like-minded countries would make strategic sense but present difficulties that could complicate making progress in the coming months and years. Still, they should be part of the ongoing transatlantic debate:

Resurrecting the TPP

Many analysts agree that without the TPP, the "Free and Open Indo-Pacific" will lack economic traction and will be unlikely to compete properly with the Belt and Road Initiative. Although the Trump Administration took the decision to withdraw, Presidential candidate Hillary Clinton had also expressed her opposition to it during the 2016

143 Joseph S. Nye. "Protecting democracy in an era of cyber information war," Harvard Kennedy School Belfer Center. February 2019. https://www.belfercenter.org/publication/protecting-democracy-era-cyber-information-war

campaign. It therefore is an American domestic issue, which needs to be addressed to find a balance between the strategic advantages that the TPP would bring in relation with China and the reluctance of many voters to embrace new free-trade agreements.

U.S. politics notwithstanding, the TPP did enter into force with the signatures of partners. The door remains open for a future U.S. re-entry. Jake Sullivan, a senior foreign policy adviser to Hillary Clinton's campaign, has argued that a resurrected TPP could merge with a more modest version of TTIP in a single instrument if both parties could find a way to gather domestic support. This proposal has the merit of further strengthening the linkage between the Atlantic and the Indo-Pacific regions and increasing the leverage with China in the field of standards, which will be key in the development of new technologies.[144]

To prevent Russia from siding with China in a permanent way

Graham Allison has described this issue in the following manner: "If the defining challenge to U.S. national interests in the 21st century is a rising China, preventing the emergence of a Sino-Russian entente should be a key U.S. priority. Persuading Russia to sit on the U.S. side of the balance of power seesaw will require America policy makers to revise substantially their strategic objectives in dealing with Moscow."[145]

Although a number of analysts are convinced that the geopolitical rivalry between China and Russia over spheres of influence in Central Asia would prevent them from building a close relationship, there are many factors that point in the opposite direction:

1. Above all, there is a strong political will among the leaders of both countries to build strong relations in the face of what both perceive

144 Jake Sullivan, "Where are the Democrats Headed on Foreign Policy?" (seminar, Belfer Center for Science and International Affairs, Cambridge, MA, October 30, 2018).

145 Graham T. Allison and Dimitri K. Simes. "A Sino-Russian Entente again threatens America," *Wall Street Journal*. January 29, 2019. https://www.wsj.com/articles/a-sino-russian-entente-again-threatens-america-11548806978 Also: Graham T. Allison. "China and Russia: A Strategic Alliance in the Making," The National Interest. December 14, 2018. https://nationalinterest.org/feature/china-and-russia-strategic-alliance-making-38727

as a common threat: the U.S. and its allies aiming to undermine their regimes and encircling them through military alliances in the West and the East. President Xi Jinping's first visited Moscow in 2003, in his first foreign visit, and he and President Putin have met 25 times since then.

2. Both countries see eye-to-eye on most international matters and they have voted in the same way 98% of the time in the UN Security Council. They have also jointly led diplomatic initiatives such as the Shanghai Cooperation Organization and BRICS.

3. China has become Russia's number one trading partner. In 2018 they increased their trade by 27% to a record $107 billion. Both countries are also becoming big energy partners: the new *Power of Siberia* natural gas pipeline will provide an extra $400 billion worth of Russian energy exports to China over the next 30 years.

4. In the military realm, Moscow has changed its policy of with-holding exports of advanced defense technologies to China and has agreed to supply it with S-400 missile systems. In another remarkable development, Russia and China held their first joint war games in Siberia in September 2018, with China contributing 3,200 troops.

What is even more meaningful is how determined both countries are to foster cooperation between each other's flagship initiatives in Eurasia: the Eurasian Economic Union, led by Russia, and China's Belt and Road Initiative. Knowing that Russia resents the increase of Chinese presence in its traditional sphere of influence of Central Asia through the BRI, Beijing is going out of its way to reassure Moscow of its intentions. As in other matters, Chinese leaders are playing a long game here, realizing that with current demographic and economic trends, time is on their side. For the time being, the common objective of a Sino-Russian condominium in Eurasia is a powerful reason to work together and put aside their rivalry.[146]

In these circumstances, can the U.S., Europe and like-minded countries in the Indo-Pacific try to drive a wedge between Russia and China to prevent

146 Nadège Rolland. "A China-Russia condominium over Eurasia," *Survival* 62, 9 (2019). https://www.tandfonline.com/doi/full/10.1080/00396338.2019.1568043

their entente from strengthening? As Karl Kaiser has argued, only an understanding with Russia on Ukraine could create the political conditions for such a strategic opening. He quotes Henry Kissinger: "If Ukraine is to survive and thrive, it must not be either side's outpost against the other—it should function as a bridge between them…To treat Ukraine as part of an East-West confrontation would scuttle for decades any prospect to bring Russia and the West –especially Russia and Europe- into a cooperative international system."[147]

This endeavor would be difficult enough. Even if an agreement could be achieved, important differences will remain with Russia on a number of issues. Still, the U.S. and Europe are confronted with the unsavory reality of what a closer relationship between Russia and China will mean for their interests and cannot avoid thinking hard about the best line to follow.

A way forward

Competition with China is already on the transatlantic agenda. It was discussed for the first time at NATO's Ministerial meeting in Washington in April 2019, on the occasion of the 70th anniversary of the Alliance. Some might argue that NATO is not the most relevant institution on this matter as China's rise is more of an economic and geopolitical challenge than a military one, at least in Europe. Still, NATO can add some of its tools, notably in cybersecurity, to those of the EU, in the framework of a common strategy that will also include Indo-Pacific countries.

Now that the U.S. State Department is designing a new strategy on China, it would be good timing for Europeans to start a conversation with Washington. The British could be included, if they want, no matter the final outcome of the Brexit negotiations. If the U.S. Administration shows interest, Europe could then contribute to the creation of a strategy towards China in which its specific interests would be taken into account. If the Americans are not ready for such a dialogue and pending a change of heart, Europe could start discussing these issues with Japan, Canada, India, Australia and others. The EU and Japan have already shown the way by

147 Karl Kaiser. "Ukraine: Root causes of a prolonged conflict," Belfer Center for Science and International Affairs. January 23, 2019.

concluding an Economic Partnership Agreement, which entered into force in February 2019. The U.S. decision to withdraw from the TPP triggered a swift negotiation between both sides after talks had been lagging for many years.

In the last few months, the EU has shown the will to balance cooperation and competition in its relations with China. For the time being, most of the measures under discussion are of a defensive nature—given the nature of the threat described above, this approach is warranted. But Europe must look at both cooperation and competition with China on a global scale. In this endeavor, Europeans and Americans are bound to work together. The current differences across the Atlantic are not likely to lessen the perception of shared interests existing values which remain strong. In the words of Andrew Small of the German Marshall Fund, "The real test will be whether Europe and the United States are able to rethink the transatlantic relationship itself in light of China's rise."[148]

148 Andrew Small. "Why Europe is getting tough on China and what it means for Washington," Foreign Affairs. April 3, 2019. https://www.foreignaffairs.com/articles/china/2019-04-03/why-europe-getting-tough-china

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Printed in the United States of America