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Key Developments in Global Affairs

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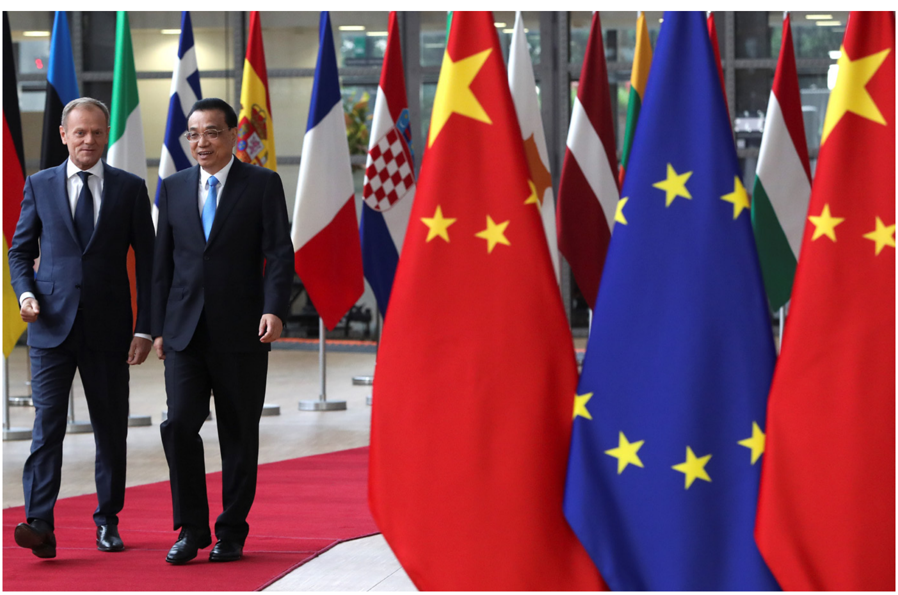
CHAPTER 3

China as a Stress Test for Europe's Coherence

Henrik Larsen and Linda Maduz

China's growing influence in Europe has the potential to create new geo-economic divides. Its purchase of critical infrastructures and successful promotion of national high-tech giants hold long-term security implications for Europe and the world order. As always, Europe's first and most vexing challenge is to find unity. To promote coherence across the continent, the EU will have to implement an activist industrial policy to boost its own high-tech competitive advantage and take all necessary measures to prevent growing economic dependencies on China.



Chinese Premier Li Keqiang and European Council President Donald Tusk at the EU-China summit in Brussels, April 9, 2019. *Yves Herman / Reuters*

China is rapidly emerging as one of the most relevant stress tests for European coherence. As an economic global power, and an aspiring technological one, China is in a new position of strength and is increasingly able to challenge Europe's ability to act cohesively. China's technological prowess may undermine the EU's competitiveness in global markets, which in turn could have long-term negative effects for the continent. Furthermore, Chinese investments and loans exploit differing economic, political, and security needs within Europe. This fosters growing politico-economic dependencies, which can be far more significant for some countries. China's economic policy in Europe proves particularly controversial as some nations benefit from the influx of funds, while China's preference for bilateral dialogue and trade sidelines existing pan-European institutions and norms.

Crucially, 'Europe' is not a unified actor but rather a complex set of actors and relationships involving different levels of decision-making. The European Union (EU) stands out as a central actor in the trade relationship with China. Its task is extremely complicated, as any trade deal must both represent the interests of EU member states and ensure the EU retains important powers, particularly in reference to common trade and investment policy. Moreover, Europe contains a number of countries that are not members of the EU (i.e., United Kingdom, Switzerland, Norway and parts of the Western Balkans), which may seek to benefit from strengthening relations with China. The multitude of actors makes European trade and security politics extraordinarily complicated, with no clear-cut policy response.

Though China is not likely to pose a military security threat to Europe in the foreseeable future, Europe nevertheless faces a new reality. China will challenge both Europe and the United States' status as global economic powers, all while defining technological standards for the next generation of wireless telecommunication (5G). China has both the financial means and the political will to assert itself as a global economic and technological leader, consequently weakening Europe's traditionally strong role in international trade. This will force Europe to adapt. If it proves unable to unite around appropriate and effective policy, European nations stand to lose their technological edge and privileged position in global markets. As the world's second largest economy striving for high-tech supremacy, China is in a position to shape norms at the global level. Its promotion of new technologies impacts societal norms (e.g., surveillance) as well as intelligence-sharing between Western allies, which puts China at a competitive advantage.[1]

China's presence in Europe and the surrounding area has been increasing, and consequently laying bare its divisive effect on European cohesion. Through buying, funding, and building infrastructure, China has expanded its geo-economic footprint, particularly in Europe's South and East. However, Chinese involvement in Europe also has a political, cultural, and security dimension. Taken together, Chinese activities in Europe, including regional cooperation formats or attempts to influence media and politics in China's interest, seem concerted and politically guided. Through its multi-layered approach, China has gradually increased its influence in Europe. European decision-makers therefore must attempt to manage the political and technological risks related to the growing Chinese investments.

China's increased engagement also works to exacerbate Europe's many internal divisions. In essence, we see a strong divergence between the needs and interests in the so-called 'core' as opposed to the 'periphery' of Europe. On the one hand, powerful EU member states like France and Germany (the 'core') generally align with the European Commission on the need for a common European response to Chinese influence. Conversely, a number of smaller 'periphery' countries in Central, Eastern, and Southern Europe are open to closer cooperation with China for both financial and political reasons. The United Kingdom and Italy stand somewhere between the two positions, the former having left the EU and the latter's changing governments casting doubt on the nation's commitment to coordinated European policies and action.

In the face of a highly centralized and evermore powerful economic partner and competitor, it is in all Europeans' best interest to find unity and develop joint transnational responses. Europe should not necessarily develop a 'China strategy', but instead work to address the sectors where China challenges the broader European economic systems and where it has potential to deepen existing political divides between European nations. With its authoritarian, one-party system, China is a highly unified actor with no clear lines between the economic and political realms. By contrast, Europe consists of a number of supranational and national state actors. In addition, sub-national and private actors have their own interests they may pursue in relation to China. Policy responses to China have so far centered on economic initiatives (e.g., investment screenings, industrial policy, trade rules, and infrastructure financing), though they have also sought to address broader security concerns.

This chapter will firstly outline six key areas in which Chinese power challenges Europe and how it impedes European unity. Secondly, it will highlight the instruments Europe has thus far employed to counter the Chinese challenge. Lastly, it will discuss the need for further reform to European policy priorities in an age of geo-economic rivalry.

Six Methods of Chinese Power

European states have consistently accused China of benefitting from unfair trade and competition practices due to the role of the Chinese state in its economy. These fears are exacerbated further by China's unprecedented economic strength, which puts it into a new position of power both globally and in relation to Europe. A key driver of its success is China's expansive and strategic investment practices. In the aftermath of the global economic recession, China capitalized on crises in Southern European countries to take advantage of new investment opportunities. Under the framework of the Belt and Road Initiative (BRI) launched in 2013, Chinese companies started to invest more systematically in infrastructure in Southern as well as Central and Eastern Europe. Five years ago, likely motivated by its *Made in China 2025* plan, China's investments in Europe increasingly shifted to high-tech and research-intensive sectors in Western Europe. These developments raise security concerns and risk further dividing European actors. The table opposite summarizes the six main methods of Chinese power in Europe and describes how they present a challenge to European unity.

Innovate and Rule

China's tech industry now rivals its European counterparts, which puts pressure on European nations to engage in constant economic innovation in order to uphold Europe's long-held comparative advantage. As seen in the figure on page 60, since 2011 China has increased its investments in innovation to great effect. In 2015, China published the *Made in China 2025* plan, which essentially is a blueprint to upgrade the manufacturing capabilities of its high-tech industries. The strategy drew inspiration from Germany's 2013 *Industry 4.0* strategy for industrial digitalization and automation, but its main focus is on reducing China's dependence on foreign technology while establishing targets for domestic production and replacement of imports. *Made in China 2025* continues to draw significant interest in Europe as an indication of

Divide and Rule: 6 Methods of Chinese Power in Europe

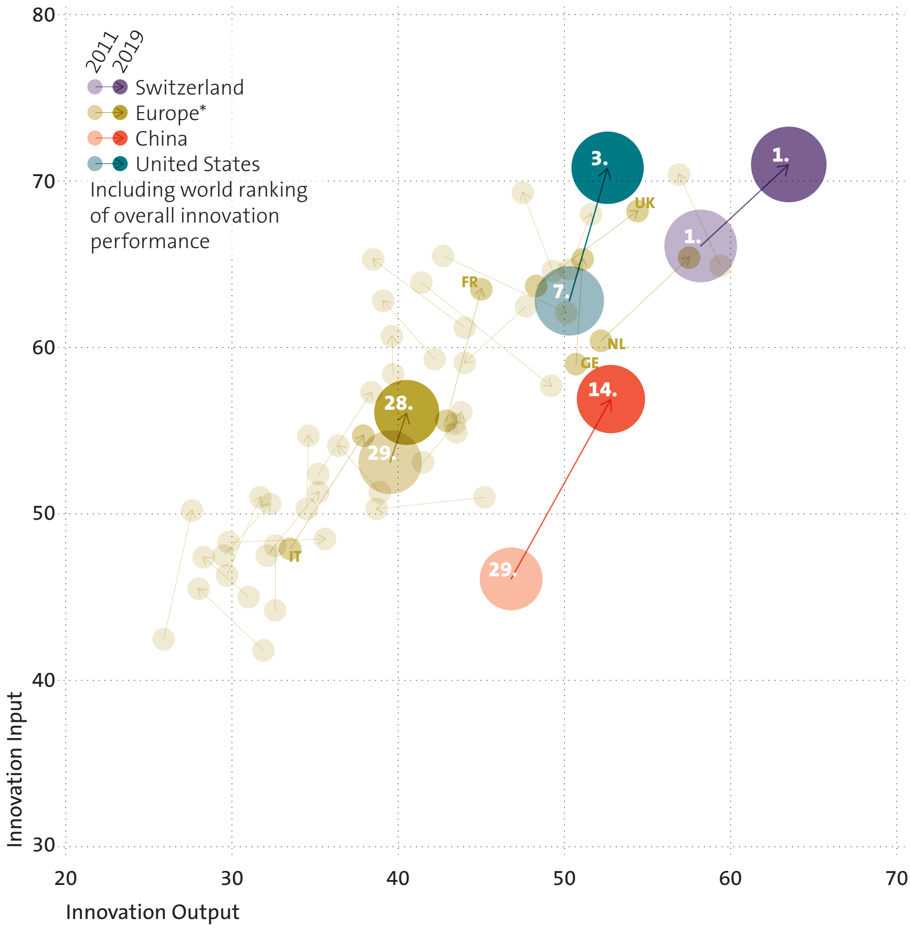
Actors	Challenge
EU/State	**“Innovate and Rule”** – *Made in China 2025:* China declares its ambition to become a high-tech manufacturing powerhouse – The Chinese high-tech giant Huawei has gained a competitive advantage in rolling out 5G networks faster and cheaper than any other provider – China’s ascension challenges Europe in other high-tech areas such as robotics and high-speed railways
EU	**“Cheat and Rule”** – Unequal access to the Chinese markets put European exporters to and investors in China at a significant disadvantage – China seeks domestic growth by favouring Chinese companies through opaque regulatory regimes and transfer of technology through joint ventures with foreign companies – China promotes exports through state subsidies and increasingly so in high-tech areas
State	**“Buy and Rule”** – China acquires strategic assets in European countries and thereby increases its geo-economic presence in Europe: – Chinese investments are diversified and region-specific: they target high-tech sectors in Western Europe, and infrastructure, such as ports, airports, rails and roads, in Southern as well as in Central and Eastern Europe.
State	**“Befriend and Rule”** – China promotes region-specific cooperation formats, often bypassing established institutions and practices, e.g. 17+1 with CEE
State	**“Infiltrate and Rule”** – China attempts to shape European public opinion. Activities range from cultural and language programs to more intrusive activities, such as paying journalists and politicians to act in China’s interest.
State	**“Protect and Rule”** – China seeks a more active role in protecting and securing trade flows, investments, and citizens abroad. – Originally a response to situations faced in politically fragile contexts, China has extended its efforts to the European context, like in the Western Balkans.

China’s ambition to become a high-tech global leader within the decade.

Some aspects of the trade relationship between Europe and China will remain largely untouched. Europe’s dependence on low-value Chinese products is likely to continue through the coming decade, not least because readily available cheap products

WIPO Global Innovation Index (GII)

Comparative innovation advances



* EU(28) including UK + Norway + Switzerland + Iceland. World ranking position of overall innovation based on rank corresponding to median value of Europe aggregate.

Note: Innovation input- and output-subindexes measured on a 0–100 scale. Data for Malta not available for the GII 2011.

Source: WIPO Global Innovation Index (GII)

continue to compensate for wage stagnation in many European countries. China, on the other hand, will continue to depend on exports to the European markets for the sake of its own economic growth. However, China's advancements in the technological sector, combined with its mass manufacturing capabilities, may eventually pose a huge challenge as no European producer can match low Chinese labor and domestic production costs.

China's development of fifth generation wireless communication technology (5G) is the frontline for the new high-tech competition. The Chinese technology giant Huawei is a popular choice among operators that wish to offer the 5G network in Europe, because it can upgrade the networks faster and for a lower price than any of its European competitors. 5G networks will better meet the requirements for large-scale machine-to-machine communication (e.g., autonomous cars, ride-hailing services) in terms of both latency and speed, and has therefore been dubbed the foundation of the fourth industrial revolution. Giving Huawei the competitive edge in rolling out the 5G network may impact European competitiveness in other areas.

Adopting Huawei 5G technology has also become a flashpoint in geopolitics, as the company may be able to insert Chinese backdoors into a system that will presumably become an essential part of Europe's future critical infrastructure. There are objective reasons to question the safety of Chinese high-tech solutions. Chinese legislation obliges companies to comply with Communist Party requests to turn over data or collaborate in disruptive activities. The risk is not merely theoretical; Chinese companies have already been complicit in a series of major cyber thefts in the West. State interference in Chinese companies' operations is so entrenched that it is highly unlikely China can become a reliable provider of technological products in sectors related to national security. The United Kingdom has recently attempted to work around these limitations by granting Huawei limited access to their networks. The company has been classified as a supplier of secondary components of the 5G networks, and thus excluded from critical operations relevant to security.

Nevertheless, the European Commission highlighted the danger of hostile actors pressuring a 5G supplier under its jurisdiction, as the supplier could disrupt critical infrastructure systems in Europe including health, autonomous vehicles, and gas and water supply. Being on the forefront of 5G development will also allow companies to define telecommunication standards at the global level. This includes shaping how new technologies impact Western societies on issues such as surveillance, facial recognition, transportation, and intelligence sharing between friendly states. On a European level, Huawei's presence has proved divisive, as countries must balance the benefits of its 5G network against the need to mitigate some of the risks. Furthermore, countries must choose how best to proceed, either by limiting Huawei's influence to secondary network elements, or following the United States' lead and banning it altogether.

The souring US-China relationship sharpens this dilemma. Beijing has warned that banning Huawei may have negative consequences for other economic relations; in 2019, the Chinese ambassador to Germany threatened retaliation against the German car industry if Berlin were to reject Huawei as a 5G solution. Similarly, China's ambassador to Denmark privately threatened to scuttle future trade deals with the Faroe Islands if Huawei equipment was barred from the Faroese 5G network. Many European countries – and the United Kingdom in particular – do have an interest in continued intelligence sharing with the United States, which would necessarily conflict with adopting Huawei technology. Furthermore, European countries tend to value data privacy and are opposed to Chinese practices like using extensive facial recognition and social credit systems to improve domestic security. Nonetheless, the EU and the United States are significant trade competitors, particularly with reference to high-tech (e.g., Google), where the EU exerted its regulatory power.

Cheat and Rule

China's precipitous technological and economic growth has concurrently drawn increased attention to its circumvention of the rules of the very trade regime that facilitated China's rise in the first place. Beijing takes advantage of the open international economy to maximize exports and outgoing investment, while minimizing imports and complicating the conditions for foreign investors in China. The EU's open market contributed greatly to China's export-driven growth in the past 20 years, whereas Europe by and large (with a few exceptions like Switzerland) does not benefit equally from access to the rapidly growing Chinese consumer market. Europe thus far has not sought to limit China's rise, though it does take an interest in ensuring China follows trade rules. This is framed as both a matter of fairness and as a necessity to maintain a rules-based international trade system, which is inherent to how the EU operates.

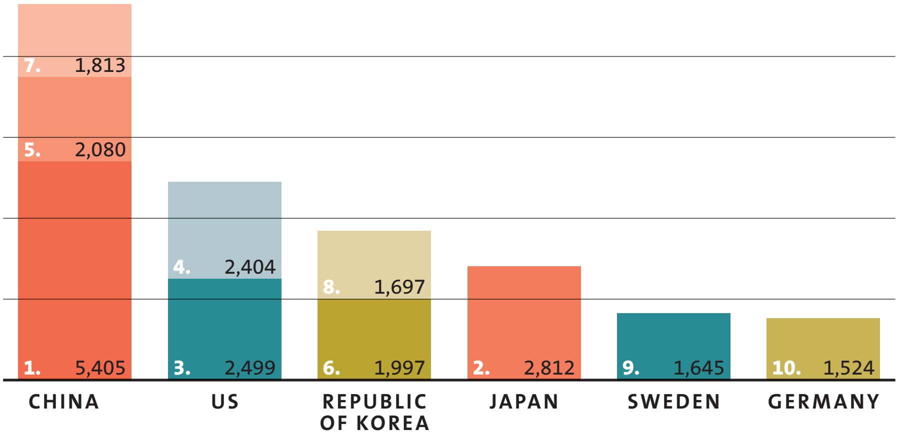
China's preferential treatment of national companies, which is a natural consequence of an economy that combines socialist planning with elements of private enterprise, is the biggest obstacle to a rules-based trade relationship. The subsidization of Chinese national companies provides a significant advantage both at home and abroad. State-owned enterprises account for a third of China's GDP and an estimated two-thirds of its outbound investment. The Chinese state subsidizes national champions in energy, banking, and telecommunications, and further favors domestic production and exports through its industrial and taxation policies. As much as 75 billion USD in Chinese state subsidies were allegedly used to boost Huawei's rise.[2]

China's preferential treatment of national companies comes in many shapes. Despite China's World Trade Organization (WTO) commitments, its licensing requirements are so opaque and so localized that they raise suspicion of systematic discrimination against non-Chinese companies across all sectors. China's procurement market also allows very limited foreign access. Ultimately, the Chinese Communist Party's control over the financial system represents a significant market distortion incompatible with Western market economies. Small and medium-sized enterprises, which make up the backbone of economic growth in Europe, suffer disproportionately from the Chinese market's high compliance costs.

When considering Europe's competitive position, it is particularly problematic that China requires European companies to operate as joint ventures with Chinese companies, rather than establishing themselves as foreign enterprises. Under these terms, European companies are often required to share their technology and advanced knowledge with their Chinese counterparts. In a survey conducted by the European Chamber of Commerce, pharmaceutical companies and ventures dealing in high-end technologies felt the greatest pressure to transfer technology and disclose trade secrets.[3] China's use of joint venture rules to acquire outside technologies is a key driver of China's rapid advancement in manufacturing competitiveness.

China's favoring of its national companies gives the EU reason to nourish its own industrial and high-tech giants, while limiting the access of Chinese investments and exports. On the other hand, it is also worth considering some positive aspects of China's recent policies. China's ascension on the technological ladder means that it has tightened the rules and enforcement of intellectual property rights in recent years. As seen in the figure on page 64, in 2018 China (and Huawei) was the largest filer of patents worldwide. As China itself becomes a source of expertise, it has become increasingly interested in the protection of intellectual property. In addition,

Top Ten PCT* Applicants 2018



1. Huawei Technologies Co., Ltd.
2. Mitsubishi Electric Corporation
3. Intel Corporation
4. Qualcomm Incorporated
5. ZTE Corporation
6. Samsung Electronics Co., Ltd.
7. Boe Technology Group Co.,Ltd.
8. LG Electronics Inc.
9. Telefonaktiebolaget Lm Ericsson (Publ)
10. Robert Bosch Corporation

* WIPO Patent Cooperation Treaty (153 contracting states)

Source: WIPO Statistics Database 2019

China has abandoned another central part of its mercantilist strategy, namely boosting exports through currency depreciation, as China attempts to have the Renminbi accepted as a world reserve currency.[4]

Buy and Rule

Europe has recently become an important strategic priority in China's expansive investment policy framework. For some time, Beijing's investments were mainly driven by its search for natural resources and focused on Africa, Asia, and Latin America. China's focus has now shifted to Europe and the United States, and to new fields of investment. China appears particularly interested in strategic sectors in Europe such as transport, communication technology, real estate, and the heavy industries. The bulk of Chinese foreign direct investments (FDI), which hit a record high in 2016, went to large and economically advanced EU member states in Western Europe. This included the United Kingdom, Germany, Italy, and France. In these countries, Chinese investors have targeted high-technology sectors as well as research and development networks. The logic of profit-maximization through a positive return on investments and gaining global technological leadership as stated in the *Made in China 2025* plan is particularly apparent.

Before Chinese investors turned to high-tech sectors in Western Europe, China's engagement with Europe centered on new investment and financial opportunities in Southern as well as Central and Eastern Europe (CEE). In Southern Europe, restructuring after the global economic recession and the subsequent privatization processes opened new doors for Chinese companies. In Portugal, for example, Chinese companies acquired significant interests in the energy and finance sectors starting in 2010. Since the launching of the BRI in 2013, China has targeted Southern Europe and CEE more systematically. Under this massive initiative, Chinese companies have invested in ports around the Mediterranean, including Greece, Italy, and Spain (see map). China's state-owned shipping and logistics company, COSCO, also famously acquired a majority stake of Athens' Piraeus port in 2016.

In Central and Eastern Europe, China's spending on infrastructure has significantly increased since the BRI was launched. China is financing large construction projects across the continent (see map), such as bridges (e.g., the Pelješac Bridge in Croatia), motorways (e.g., in Montenegro and North Macedonia), and high-speed rail lines (e.g., between Belgrade and Budapest). China announced over 12 billion EUR in loans for construction projects in CEE between 2007 and 2017.[5] Over half of these loans had been earmarked for the Western Balkans, with a majority of the loans going to the energy or transport sectors. Montenegro and Bosnia and Herzegovina recently awarded the largest construction contracts in their history to Chinese companies. Even if some BRI projects in Europe under negotiation have been cancelled or delayed, many projects are materializing. At a minimum, the value of projects in the Western Balkans financed by China is 6.2 billion EUR.[6]

European reactions to China's BRI show that policy needs in the European periphery and the interests and principles of the European core may critically diverge. On one hand, the BRI opens up new trade development opportunities to participating countries by creating or modernizing infrastructure linking Asia and Europe. The initiative also helps countries address significant infrastructure investment gaps. On the other hand, it is a concern that the Chinese state deliberately seeks to purchase critical infrastructure abroad and establish relationships based on debt dependency with financially weaker countries. For the construction of its highway, Montenegro took a loan with China's Export-Import bank that caused its GDP-to-debt ratio to increase to over 80%. Some EU officials criticize Chinese practices, particularly the environmental impact of BRI's investments and its opaque public procurement procedures. They also warn of the "socioeconomic and financial effects" of some investments, saying they would often come "with strings attached."[7]

There is good reason for European policymakers to distrust China's lending and investment practices. Enterprises owned by the Chinese state play a key role in buying and financing infrastructure in Europe, and some states come to rely on that financial support. They also do not follow a strict market logic in terms of profit-maximization. This means that the standard criteria of economic and financial viability are not uniformly applied. Chinese investments in Mediterranean ports or construction projects in the Western Balkans are illustrative examples of this. These projects suggest that Chinese investments are motivated at least partly by geopolitical reasoning and not by purely commercial interests.

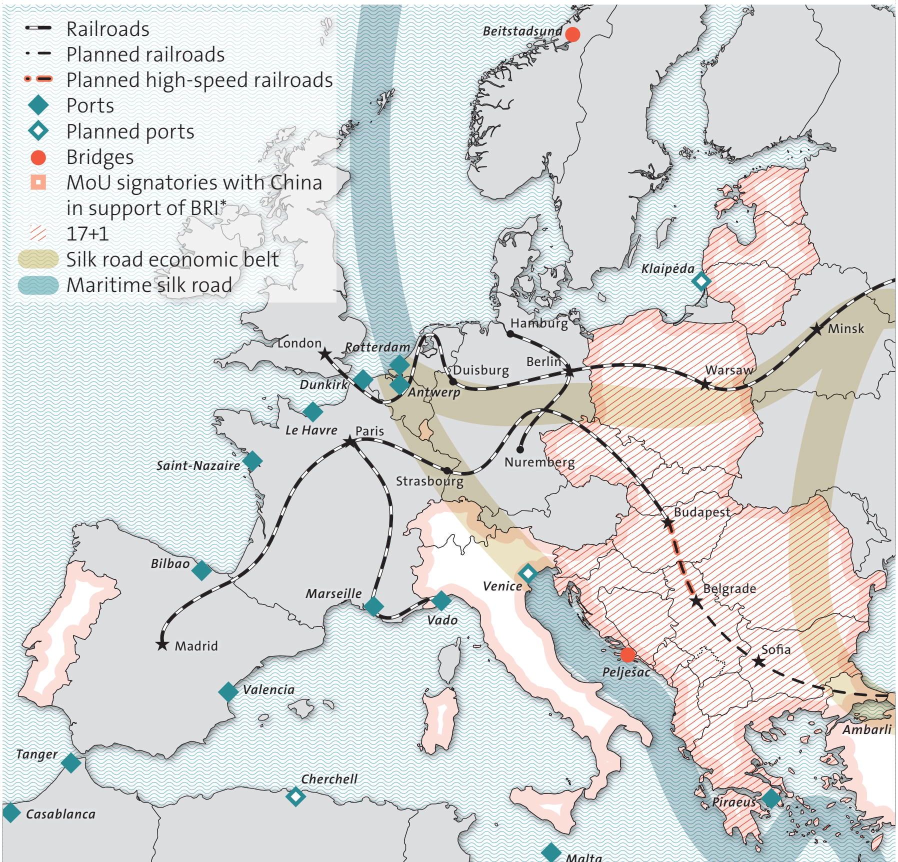
Befriend and Rule

In concert with its growing European investment portfolio, China has escalated its diplomatic activities in European states. As of today, it maintains comprehensive strategic partnerships with most European countries.[8] These relations are typically tailored to specific countries and regions. For example, China has held targeted forums and conferences on specific topics with Southern European states since 2013, pushing for sectoral cooperation in the fields of agriculture and maritime cooperation.[9] Furthermore, China launched a CEE-specific cooperation format in 2012: the "16+1" mechanism, which involves both EU and non-EU member states.[10] Through this, leaders of 16 CEE states and the Chinese Premier meet in annual summits. In 2019, Greece joined the group to form what is now referred to as 17+1. Notably, the 17+1 format is about more than economic partnership: it implicitly institutionalizes a more pro-Chinese group of states, which could be used to weaken European criticism of China on human rights and other global issues.[11]

The appeal of Chinese-led international cooperation efforts lies in the flexibility, openness, and the non-formal, non-binding, and non-conditional character of interactions. Since the early 2000s, China has promoted

The Belt and Road Initiative in Europe

Chinese infrastructure investment in Europe



* MoUs with China for a general framework of cooperation under the BRI as of December 2019.

Sources: Merics, CSIS Reconnecting Asia, Steer Davies Gleave, European Parliament Policy Department for Structural and Cohesion Policies, Republik, CSS research

regional cooperation formats with African, Arab or Latin American countries to complement its bilateral relations with those countries. These cooperation arrangements are generally loose and minimally regulated. Since 2014, China and European countries have been signing Memorandums of Understanding (MoUs) in the BRI Framework.[12] This includes both EU member states and non-member states (particularly in the CEE region). Yet, when Italy and Switzerland signed a similar MoU in

2019, they were criticized by some European countries. It is important to note, however, that these declarations are not legally binding. China's preparedness to supply vital medical equipment and doctors during the Covid-19 pandemic may be its so far most effective measure to befriend a number of European countries, notably Italy. By doing so, China also proved itself a reliable actor in contrast to the EU, which has proved incapable of assisting the European countries during such an important crisis.

With these cooperation initiatives, China brings not only money but also diplomatic attention to regions in Europe that feel in need of both. The Western Balkans is a region where Chinese advances have been particularly successful. Within a decade, China has become a key economic actor in the region funding "everything from energy and infrastructure projects to arms procurement."[13] The EU's engagement with the region is wavering, as best shown by its refusal to start accession negotiations with Montenegro and North Macedonia. By contrast, China is deepening its ties with individual states in the region, building on the billions it has already invested. Chinese initiatives not only have the potential to redirect trade and investment flows, but also to redraw the map of political influence in Europe.

China's initiatives in Europe are divisive as they often circumvent existing institutions and practices. National power centers that have held historical importance, like capitals, do not necessarily have a key role in shaping China-Europe relations. China engages individual countries on the BRI through bilateral discussions rather than through EU institutions. It also seeks to create partnerships and dependencies among sub-national actors. The city of Duisburg is an excellent example. Duisburg, which hosts the world's largest inland port, is quickly becoming China's central logistics hub in Europe. The multi-level, multi-actor, and multi-issue nature of China-led cooperation makes it difficult for national or EU policymakers to intervene and coordinate to formulate joint positions and policies. Even if fundamental strategic shifts occur at the EU or national levels, competition over and openness towards Chinese investments and money will continue to persist in smaller European countries and at lower political levels.

Infiltrate and Rule

The perceived threat to Europe that China poses also has an ideological dimension. Beyond promoting economic and political cooperation, China has taken steps to foster cultural exchange and people-to-people contacts with Europe. Some of these activities seek to nurture favorable opinion towards China among the European publics. As part of broader efforts to increase China's soft power in the world and raise its international reputation, beginning in 2004 the Chinese government opened hundreds of Confucius Institutes around the world. It is currently operating 187 of these language and cultural centers in Europe, seven of which are located in the Western Balkans. China has also pursued partnerships with foreign news outlets to expand its international media network and exert additional influence.

There are additional, insidious ways in which China is attempting to bolster its position relative to Europe. In part, Chinese activities aim at penetrating civic and political organizations in other countries. Under President Xi Jinping, the Communist Party's United Work Front Department (UFWD) – the party's propaganda machine – has expanded its role and consequently the Party's influence abroad. In particular, the UFWD exploits both Chinese-language media as well as Chinese community and student associations to deliver its messages. Chinese attempts to influence public opinion even include financially supporting academics and local politicians that promote Chinese interests, as revealed in the Czech Republic.[14] These tactics constitute an infringement of civil liberties (e.g., free expression, including at universities and think tanks) as well as political rights (e.g., through political corruption).

Whilst China's influence efforts are a global undertaking, their regional foci vary. Comparatively, European countries have not been a major focus of Chinese influence activities abroad. Nevertheless, China has attempted to shape political and public debates in Europe over conflicts in Hong Kong, Xinjiang and the South China Sea. Furthermore, given its growing capabilities, Chinese attempts at infiltrating civic and political institutions in Europe can be expected to increase.

Some countries and regions have shown more acceptance of Chinese interest than others, which has negative repercussions for European unity. Common EU positions and policy decisions vis-à-vis China – be it criticism of China's incursions into the South China Sea, human rights concerns, or the coordination of investment controls – are becoming more difficult, as recent examples show. Countries like Greece and Portugal, which strongly benefit from Chinese investments, no longer can be counted on to stand in solidarity with the EU. Additionally, some Euro-skeptic leaders like Hungarian Prime Minister Viktor Orban show outward support for the Chinese economic and political model.[15]

Protect and Rule

Finally, China has been successful in buying influence by offering some countries security cooperation as well as economic and cultural partnership. Serbia, the biggest country in the Western Balkans, has participated in several security-related arrangements. This includes joint police patrols in Serbian cities and joint anti-terror drills; arms procurement deals; and the Huawei pilot project Safe City Solution, which employs facial recognition technology.[16] China-Serbia cooperation is particularly relevant when examined in the context of China's global efforts to build security ties with other countries. Typically, the Chinese engage in activities related to disaster management and crime prevention and offer its partner countries its police and military capabilities, technological equipment, and knowledge. It exports security technology and engages in capacity building of security forces in partner countries.[17] China has also been active in promoting its knowledge and views with regard to counterterrorism and cyber security.

China has been successful in expanding its capacity and presence as a security actor beyond the East Asian region. The country opened its first military base abroad in Djibouti on the Horn of Africa, a strategically important location for commerce between the Suez Canal and the Indian Ocean. Having developed a range of modern weapon systems, it now figures among the major arms sellers globally.[18] Simultaneously, China undertook a widespread modernization of its army, which included training for conducting operations abroad. In recent years, China has increasingly exerted a naval presence and conducted military exercises internationally, including in the Mediterranean and the Atlantic.

What should perhaps be European policymakers' biggest concern is China's apparent preparedness to secure its investments and citizens abroad. In some instances, as many BRI projects are located in politically fragile countries, China was specifically asked to provide security assistance. Joint police and military patrols in continental Europe, including in Italy, prompt questions about the extent of China's ambitions. Such initiatives have, so far, been topic- and site-specific. However, as Chinese BRI investments in Europe continue to grow, it remains to be seen how decisively China will act to ensure its security presence. It will almost certainly encounter resistance from the core European countries if it attempts to expand its security presence further.

Europe's Response to China: Laggard and Piecemeal

The clearest positioning vis-à-vis China is taking place at the EU level and at the national level in its large member states. It took the EU almost five years from the publication of *Made in China 2025* to acknowledge the need to respond to China's growing ambitions on the continent. In 2019, the European Commission acknowledged China as a "systemic rival promoting alternative models of governance", and an "economic competitor in the pursuit of technological leadership." European leadership also expressed regret over the use of China's increasingly protectionist practices to fulfill its economic ambitions.[19] Only in recent years has Germany come to understand China as an economic and possibly political rival, compared to the early 2010s when it was able to successfully advance opportunities for German businesses in the Chinese market. China's centralization of power, human rights abuses at home, industrial espionage abroad, and its attempts to play Europe off against the United States in trade disputes have started to alarm Berlin. The French, whose economy is less dependent on Chinese markets, more readily saw Chinese investments and trade as a potential source of Chinese power. France in 2019 called for an end to European 'naïveté' regarding China and highlighted the need to join forces within the EU to establish a balanced relationship. Conversely, other economically important countries have reacted much more warmly to Chinese intervention; as the United Kingdom has grappled with Brexit and Switzerland has taken heart in its trade surplus, the 'threat' of China seems less present. Finally, economically weaker countries in Central, Eastern, and Southern Europe appear to be the least opposed to Chinese economic and political action in the region. Evidently, the European response to China has been piecemeal and passive.

Chinese interference takes many forms, including many tangible reactions like specific trade policies. Of particular relevance to this discussion are the use of investment screenings as a security measure, industrial policy as a way to boost competitiveness, reforming trade rules, and seeking further infrastructure funding.

Investment Screenings as a Security Measure

Ensuring secure and independent critical infrastructure stands out as perhaps the most pertinent challenge facing Europe. However, European capitals are unable to come to consensus about the utility and pitfalls of growing Chinese investment in their nations. An EU-wide framework for foreign direct investment screening was adopted in March 2019 but was weakened considerably from the Commission's original proposal. Southern and Eastern Europe, which benefits economically from ties with China, opposed the framing of China as a security threat while Italy abstained from the vote. The EU framework defines minimum common requirements for the national screening mechanisms and gives the Commission the right to issue an opinion when it believes a foreign investment threatens security or public order.

However, investment screenings only become a useful tool if they have the backing of member states and can be implemented. Currently, actions vary across the continent; some European countries have tightened or introduced investment screenings to address security concerns related to the recent inflow of Chinese FDI, while others are still discussing such policy changes. The choice of 5G supplier across all the European countries stands out as an imminent subject of screening. European countries still vary in their determination of the level of risk, from considering reliance on foreign-made high-tech systems in the digital age a risk to national security or merely to critical infrastructure. The fact that like-minded countries with greater exposure to an increasingly powerful China in the Pacific (i.e., Japan, Australia, New Zealand) have opted to ban Huawei rather than mitigate its risks underlines the strong geopolitical dimension of who supplies the 5G networks. Furthermore, European NATO members have to consider the fact that the United States has threatened allowing Huawei access may have implications for its ability to share intelligence. Most European countries are likely to drift toward the EU Commission's recommendation to diversify the number of suppliers, and perhaps cut Huawei out of the central components of the 5G rollout, rather than impose an outright ban against the company.

For many of the key member states of the EU, there are sharp drawbacks to resisting Huawei's 5G network in particular. As Europe's economic powerhouse, Germany has struggled to balance its trade interests and its security concerns over the new network. At first, Chancellor Angela Merkel sought the approval of Huawei as Germany's 5G provider, likely in anticipation of Chinese retribution against German businesses. However, she quickly faced backlash from a majority in the German Bundestag. This contingent believed the Chinese Communist Party cannot be trusted, and now wishes to legislate to ban Huawei from the core of the

5G network rollout. As for France, it considers the US pressure to ban Huawei altogether "unhelpful" and opted to improve oversight over the activities of foreign firms, both Chinese and American, in high-tech sectors and to introduce safeguards in critical parts of its telecommunications network.[20] The United Kingdom approved Huawei's restricted role in its 5G networks, despite Washington's warnings that this would threaten the intelligence-sharing special relationship. Hungary stands out as an EU country that blatantly stated it does not see any security risk to involve Huawei in its 5G rollout.

Investment screening is a policy also relevant to other strategic industries. Germany once again assumes a central role in shaping the response to Chinese industrial investments; maintaining a nearly equal trade balance with China no longer suffices as Berlin's main ambition. In 2018, Germany vetoed a Chinese takeover of a national company, Leifeld, which produces metals for the automobile, space, and nuclear industry. Germany subsequently adopted legislation banning non-European purchases of more than ten percent of a German business (down from 20 percent). This is believed to have been an attempt to contain Chinese purchases of mass media in particular, which would have allowed it to influence the information industry to its advantage.[21] Chinese involvement in other German industrial giants, including Daimler and Kuka, which develop new battery technologies and robotics respectively, has pushed Berlin to call for the establishment of an EU–wide investment review body. As for France, its prescient position on China manifested primarily as foreign investment restrictions to stop what it calls the 'looting' of sensitive technologies. France requires foreign companies to get permission from the French state before taking control of French firms in the energy, telecoms, transport, water, and health sectors.

The situation is more complicated when it comes to measures against the Chinese purchase of transportation hubs like ports and airports. It is this situation in particular where the European 'core' and 'periphery' fail to come to an agreement. Germany, France, and the Netherlands have publicly criticized Italy's endorsement of the BRI, which they say allows China to take advantage of Europe's divisions and inequalities. Italy is domestically split on the issue: the government at the time argued that other EU member states already loosely cooperate within the bounds of the BRI (not least of which Germany, with Chinese transportation hubs in Duisburg and Hamburg), whereas the new government in 2019 stressed the need for coordination with the EU. As for Hungary, it refused to echo EU language denouncing BRI as hindering free trade and putting Chinese companies at an advantage. Despite the varied national responses to Chinese investments, EU regulations have thus far been successful in imposing bottlenecks on Chinese investment and financing, like in cases where loans conflicted with EU debt ceilings.[22]

Boosting Competitiveness through Industrial Policy

To truly rival China on the world stage, the EU would need to develop its own approach to innovate at scale. China's active state support of national champions, including high-tech manufacturing enterprises, undermines the EU's original function to create the best possible conditions for competition on the internal market. In 2019, when the European Commission blocked a merger between a German and a French rail manufacturing company (Siemens/Alstom), the event was symptomatic of this tension. Taking into account Europe's desire to remain competitive with the Chinese, the decision was arguably particularly limiting as the *Made in China 2025* plan highlighted railways as part of China's industrial strategy. The decision prompted 19 EU countries to call for a revision of the existing EU antitrust rules to better facilitate mergers between large European groups, and to develop an industrial strategy targeting investments in innovative technologies.

It seems clear that Europe (and the United States) did not anticipate the full extent to which China gained a strategic advantage in becoming the world's number one supplier of 5G technology through heavy state investments and subsidies. China has made a credible bid to establish a global 5G standard, which can have particularly large ramifications for developing nations. That being said, 5G non-stand-alone systems are likely to operate alongside 4G for at least a decade. This gives European companies the time and opportunity to regain an advantage. Admittedly, the EU and the leading European economies cannot promote the emergence of industrial champions in the way China subsidizes its own companies. However, they can work to empower and incentivize European companies to be innovative on their own by optimizing conditions. Nowhere is this need more pertinent than the high-tech communications industry.

The discussion around 5G pushes the EU debate in favor of a Europe-wide industrial policy, even if the potentially large scope of market intervention would push the EU out of its comfort zone. Europe is China's closest competitor on global telecommunications technology. In terms of world market shares, Ericsson represents 13% and Nokia 16% against Huawei at 28%. However, neither of the two is able to match Huawei's prices and rollout speed. The European Commission has allocated 700 million EUR for research, which EU industries are set to complement, reaching an overall amount of more than 3 billion EUR. Complaints from Ericsson about the lack of European support and the practice of moving industry to non-European countries highlight the need to abandon purist free trade principles to prevent Europe from falling further behind in the global tech competition.[23]

The question of whether to boost Europe's existing high-tech industries cannot be isolated from US pressure. US government officials have suggested that European countries issue credit to Nokia and Ericsson to enable them to match Huawei's artificially low prices. By contrast, no American company has the capacity to build the equipment needed to transfer signals between receivers (i.e., mobile phones) nor the towers or sites that make up the network.[24] Although refusing Huawei will be costlier and slow the 5G rollout, European companies have one big advantage on the world market: a high level of transparency and credible guarantees of state non-interference into their operations. Moreover, as opposed to Chinese disregard for personal liberties, European companies can emphasize their obligation to protect personal data in accordance with EU regulations ('General Data Protection Regulation'). Wealthy countries that can afford safety over rollout speed and price are a key opportunity for European 5G providers.

Trade Rules: Old Measures for an Old Challenge

China's unfair trade practices give it a distinct advantage over market economies, and as such the nation may be unlikely revise its policies. To prompt change, there must be either a domestic benefit or the threat of damaging external sanctions. Yet this is a particularly important goal for the international community, as the open global economy cannot be upheld if one economic power uses mercantilist strategies to dominate other economic powers.

The EU has taken piecemeal measures to correct the competition imbalances. For example, it has tried to negotiate an investment strategy that would increase the low levels of European FDI in China and vice versa.

However, ongoing negotiations over investments since 2013 have yielded little progress. However, some policies have been enacted that both attempt to limit China's advantage and advance the EU's normative aims – namely, free and fair markets. The EU and the United States successfully uphold anti-dumping tariffs on Chinese goods, particularly commodities like steel and aluminum, in response to Chinese state subsidies and state-backed oversupply. Under WTO rules, the EU and the United States refuse to grant China the status of a 'market economy' due to the deep level of state intervention. While underpriced Chinese exports can thus be successfully contained within the existing trade system, a significant problem remains regarding how to respond to China's unequal market access.

Compared to five years ago, the political realities in Europe are changing and the environment is increasingly conducive to countersanctions against China. In Germany, although large companies like Volkswagen, Siemens and Daimler depend on the Chinese market, it has a broader business interest in safeguarding equal treatment. In France, several industrial groups (Auchan, Alstom, Carrefour) have left or vastly reduced their presence in China due to the difficult investment climate. As part of its response to unfair trade practices around the world, the EU lowered the threshold for instituting and raising the maximum countervailing tariffs in 2018. Two-thirds of all of the EU's trade defense measures during 2014–18 targeted imports from China. France and the European Commission proposed limiting foreign tenders in public procurement, but not all member states agree that this would force China to open up its own procurement markets.

The competition for high-tech supremacy highlights the importance of protecting intellectual property if companies are to have an economic incentive to drive innovation forward. In 2018, the European Commission challenged China's practice that forces European companies to give up sensitive technology and know-how as a precondition for doing business in China in the WTO. It specifically challenged Chinese laws that regulate strategic sectors under the *Made in China 2025* strategy and the approval of joint ventures that compel technology transfers. (The United States later joined the EU's dispute settlement case.) A favorable WTO ruling would naturally support the EU's attempt to maintain the international trade system, but it remains to be seen what impact this would have on the Chinese regulatory regime.

Seeking Active Competition: Infrastructure Financing

While reactions to China's BRI vary at the national level, the EU has started to coordinate a joint response. It launched its own connectivity strategy in 2018[25] and appointed an Ambassador-at-large for Connectivity in 2019. Building on its EU-Asia connectivity strategy, the European Commission organized an EU-Asia Connectivity Forum in 2019. Statements and discussions by EU officials at the Forum showed that the EU increasingly sees itself in a competition with China over political influence, and connectivity investments play a key role in the fight. The EU policy proposals and initiatives reflect a political will to globally engage and deepen ties with Asia, but they also seek to promote "the European way" of connectivity. Connectivity projects should be "economically, fiscally, environmentally and socially sustainable in the long term" and "international rules-based."[26] The criticism of China's approach is implicit, but clearly identifiable.

To match Chinese connectivity efforts in the EU, its neighborhood, and beyond, the EU wants to strengthen its own efforts in infrastructure financing and seeks to collaborate with like-minded countries for this purpose. At the core of this effort is the recognition that infrastructure investment needs are high and increasing in some countries, and that policymakers need to address existing gaps. China has proven quick to respond to these needs. Moreover, the EU wants to leverage the strengths of existing multilateral financial institutions, such as the European Investment Bank or the European Bank for Reconstruction and Development. According to the EU-Asia connectivity strategy, these institutions – in addition to private investors – will have a significant role to play in the funding and managing of infrastructure projects.

Simultaneously, the EU has intensified its cooperation with Japan, a key partner in Asia, by signing a trade agreement and a Strategic Partnership Agreement. The latter adds a political dimension to the partnership and is designed to promote shared political values including democracy, human rights, and the rule of law. Japan, as Asia's number one moneylender until a few years ago, has been systematic in trying to balance Chinese engagement in infrastructure financing regionally and globally. As such, they are a particularly helpful ally to the EU, particularly in reference to engagement in the Western Balkans and Africa.

More Competition Ahead

The coordinated efforts of the EU have already resulted in significant policy responses to the challenges that China poses, though it failed to come to agreement in others. Moving forward, Europe as a whole will have to come to terms with the need for even more active policy responses, some of which will require a rethinking of existing orthodoxies. To re-establish its role in the international system, European states need to stand up to China and confront it in areas where Chinese policy bestows an unfair advantage on Chinese companies and undermines European unity.

Europe, as always, is at its best when united in solving international disputes through the established rules. The China-Europe trade imbalance must be addressed through the WTO legal mechanisms and the counter-sanctions allowed therein. The market distortions of China's opaque regulatory regime and state-owned enterprises are a direct result of the power of the Chinese Communist Party and its control over the Chinese economy. China has thus far remained focused on its pursuit of growth through state-supported investments and exports. Nevertheless, the nation may reach a point where regulatory and legal reforms become necessary to avoid the 'middle-income trap', a fate that befalls many former communist countries. In the meantime, China's heavy dependency on continued access to foreign markets makes it vulnerable to external trade sanctions. For the EU in particular, that may represent its best chance to counter China.

In essence, the pursuit of technological dominance is driven not only by financial ambitions, but also by concerns that the autonomy of Europe's critical infrastructure may be undermined by a foreign power. The reality of Chinese state subsidies forces Europe to prioritize its external competition policy. Industrial support in reasonable measures may be a necessary precondition for Europe to secure its own technological platform and critical infrastructure. Research funding, launch aid and low-interest loans benefiting the consolidated European aerospace industry *(Airbus)* serves as an excellent example of legitimate elements of a new European industrial strategy that does not even compare to the extent of the Chinese state subsidies to its own national champions. Going forward, perhaps the EU's ambition should be to lead the rollout of 6G, which is expected to arrive at the earliest in 2030.[27]

Finally, industrial policy interplays with the crucial issue of Europe's unity. In pursuit of this goal, the EU would do well to ensure that the successes of some of its highest-performing industries are shared with less advanced economies within Europe. By ignoring this factor, 'peripheral' countries may feel alienated from any economic boost and may be more receptive to competing offers from China. As of yet, the securitization of China mostly happens in the 'core' European countries. Yet policymakers must guard against the urge to see all areas of trade as an extension of its rivalry with China. It may lead to the greater isolation of some Southern and Eastern European countries, which have indicated discomfort over the role of having to choose a side in the intensifying China-Europe competition. Despite limited success thus far, Europe's best chance of continued success lies in pursuing economic cooperation with China where it remains possible, particularly within existing frameworks (e.g., EU-China Connectivity Platform, EU-China Co-Investment Fund). In short, European nations must work together towards a geo-economic policy that is fundamentally intertwined with its geopolitical strategy to prevent China from undermining the foundations of Europe.

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