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TASK FORCE

The Donald C. Hellmann Task Force Program



Partner & Strategic Competitor:
Evaluating the EU's Shifting Relationship with
China

2020



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Partner and Strategic Competitor:
Evaluating the EU's Shifting Relationship with China

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Glossary of Abbreviations

ADB	the Asian Development Bank
AI	Artificial Intelligence
AIIB	the Asian Infrastructure Investment Bank
APT	Advanced Persistent Threat
BRI	the Belt and Road Initiative
CCP	the Chinese Communist Party
CEEC	Central and Eastern European Countries
CETA	the Comprehensive Economic and Trade Agreement
COSCO	the China Ocean Shipping Company
DOJ	the Department of Justice
EC	the European Commission
ENISA	the European Union Agency for Cybersecurity
ETS	European Trading Systems
EU	the European Union
FDI	Foreign Direct Investment
FTA	the Free Trade Agreement
FTT	Forced Technology Transfers
GDP	Gross Domestic Product
IMF	the International Monetary Fund
IP	Intellectual Property
IPR	Intellectual Property Rights
IPTO	the Independent Power Transmission Operator
JV	Joint Venture
MSC	the Mediterranean Shipping Company
NATO	the North Atlantic Treaty Organization
NZEC	the China-EU Net Zero Emission Coal
OEM	the Original Equipment Manufacturer
BOC	the People's Bank of China
PPA	the Piraeus Port Authority
PRC	the People's Republic of China
R&D	Research and Development
SAIC	the Shanghai Automotive Industry Corporation
SAR	Special Administrative Region
SCS	the South China Sea
SOE	State Owned Enterprise
SPC	the Supreme People's Court
TFEU	the Treaty on the Functioning of the European Union
UDHR	the Universal Declaration of Human Rights
UK	the United Kingdom
UN	the United Nations
UNCLOS	the United Nations Convention on the Law of the Sea
UNFCCC	the United Nations Framework Convention on Climate Change
US	the United States

WB the World Bank
WTO the World Trade Organization
ZTE Zhongxing Telecommunication Equipment

Executive Summary

China has risen to become both a prominent competitor and collaborator to the European Union (EU). The EU's predominant concern in this relationship centers around China's increasing economic engagement through investment and trade in Europe. Meanwhile, European firms in China experience a lack of reciprocity in being able to do business there. The EU, itself facing internal challenges, must coordinate to address both these economic concerns as well as other issues such as security challenges China poses as well as its human rights and environmental record.

This Task Force aims to analyze key issues in the EU-China relationship:

1. Evaluate China's economic presence in Europe
2. Address European concerns on entering the Chinese market
3. Compare and analyze different member states' responses to Chinese investment
4. Assess possible security threats China may pose to the EU
5. Evaluate possible EU concerns on China in the human rights and environment spheres

This report recommends several measures for the EU to undertake, as a unified and multifaceted response will allow for leverage in navigating the rise of China.

Concluding from our analyses, this Task Force recommends to the EU the following:

1. Uphold a unified response among member states
2. Aim for win-win solutions
3. Push for reciprocity

Introduction

Michelle Lai and Audrey Black

China is looking to cement its status as a rising power by creating a new economic sphere in Eurasia. At the same time, the liberal world order led by the United States (US) and jointly upheld by the European Union (EU) is being threatened. Global destabilization, the disintegration of international institutions, lack of coordinated leadership, and the rise of populism is undermining globalization.¹ These factors, combined with China's unprecedented economic growth, are significantly altering the world order. Impacted by the declining Western liberal world order, the EU is facing challenges in maintaining not only political unity, but also economic and military security. Therefore, the EU is primarily concerned with the direct economic, political, and security implications of China's rise and how they should be navigated.

China opened its doors to global trade in 1978 and officially joined the World Trade Organization (WTO) in 2001, furthering its participation in the global market economy. At the time, the US and Europe believed that China's successful economic development would naturally lead to liberal democratization and thus supported China's entry in the hopes of attaining a future liberal ally. However, instead of these expected reforms, as of 2020, the Chinese government has perplexed the West by remaining politically authoritarian while simultaneously partaking in market capitalism. When the 2008 global financial crisis heavily affected the US and EU economies, China recovered rapidly and even grew, in stark contrast to the West.² Not only did the crisis highlight China's newfound economic strength but also emboldened the Chinese government to become more politically assertive.³ China is currently the EU's second largest trading partner, and in 2019, Chinese Foreign Direct Investment (FDI) in Europe amounted to an estimated EUR 13.4 billion.⁴

¹ Bremmer, Ian. "The American International Order Is Over." *Time*, Time, 18 Nov. 2019, time.com/5730849/end-american-order-what-next/.

² Cabestan, Jean-Pierre., Di Meglio, Jean-François, and Richet, Xavier. *China and the Global Financial Crisis A Comparison with Europe*. Routledge Studies on the Chinese Economy. Hoboken: Taylor and Francis, 2012 (page 15)

³ Ibid.

⁴ Xiaoxia. "Chinese Investments in North America, Europe Hit 9-Year Low in 2019: Report." *Xinhua*, Xinhua, 9 Jan. 2020, www.xinhuanet.com/english/2020-01/09/c_138690620.htm

The rise of China along with the deepening of EU-China relations has multiple economic and political implications for the EU. Under the leadership of President Xi Jinping since 2013, it has become clear that China has no plans to stray from authoritarian governance, upheld chiefly by the Chinese Communist Party (CCP). The party has adopted a strategy called the Belt and Road Initiative (BRI), its name and purpose paying homage to the historic Silk Road route connecting Europe and Asia.⁵ Through the BRI China is investing in transportation and energy infrastructure in various developing countries, expanding economic and political influence, and demonstrating its global authority. China's efforts to craft its own economic sphere in Eurasia through the BRI and the creation of new international institutions like the Asian Infrastructure Investment Bank (AIIB) are generating questions over the continued viability of the liberal world order.

China's economic ventures into Europe have created concern in the EU due to the perception that Chinese firms are obligated to serve the state. As a result, there are suspicions surrounding Chinese intentions in the EU, such as uncertainty in distinguishing between strategic and portfolio investment. The growing trade deficit, in combination with the barriers to European entry into the Chinese market, have created worries about a lack of economic reciprocity. The Chinese state's record on human rights and the environment further complicates the EU-China relationship.

The current US-China rivalry puts the EU in a precarious position between the two contending powers. While the US has historically been the EU's greatest political and economic ally, the Trump administration's recent actions have implied that US military and economic support in Europe may decrease. On the other hand, China's economic expansion across Eurasia provides many opportunities for Europe, but also incites issues of its own. The preconceived notion that developing nations would reach a final state of liberal democracy is challenged by China's strengthening authoritarian regime and state intervention into foreign markets. The world order as it stands is teetering between a US in relative decline and a Chinese state exuding potential, leaving Europe at a crossroads, torn between two divergent paths to the future. Nonetheless, the US-China conflict, although significant, should not take overwhelming precedence. The EU must determine the course of action that serves its own best interests. It is

⁵ Belt and Road Initiative (BRI)." *European Bank for Reconstruction and Development (EBRD)*, www.ebrd.com/what-we-do/belt-and-road/overview.html.

imperative that the stance the EU member states take is with regard to the union as a whole, rather than as individual member nations. This report will operate on the belief that it is within the EU's best interest to act as a collective.

It should be noted that due to the United Kingdom's departure from the EU in January 2020, this report may contain data from past studies that count the UK as part of the EU, but will not include the UK in analyses, examples, or policy recommendations.

A Chinese hegemonic world order is not inevitable. China has its own internal issues: an aging population, growing wealth disparity, security control maintenance in the Eastern hemisphere, and resistance from members of the Western world order. While Chinese expansion could be perceived as an inherent threat to European sovereignty, a rising world power with a system that challenges the orthodox view of the world does not necessarily equate to ill intent. Chinese expansion into Europe creates concerns over reciprocity, security, business standards, human rights, and cultural differences. In order to form a mutually beneficial relationship between the EU and China, such concerns must be addressed. This report seeks to present to the EU a multifaceted approach to address the issue of EU-China economic relations and its underlying implications.

Chapter 2: Core Challenges for the EU in its Relationship with China

Colin Chung

China's rise is creating a new economic and geopolitical reality for the EU. In June of 2016, the European Commission published its first joint communication proposing elements for a policy framework toward China's increasing economic and political power. This framework has remained the cornerstone of the EU's China strategy. The joint communication describes the extent to which the rise of China has affected the EU and stresses the need for a unified EU foreign policy toward China. It calls for genuine reciprocity and "win-win" cooperation between the EU and China "in both political and economic terms." Additionally, the report underlines the importance of the EU encouraging China to "assume responsibilities in line with the benefits it draws from the rules-based international order."⁶ With a new joint communication on China issued in March 2019 that largely emphasizes the same economic issues and warns of the security implications of China's growing presence in Europe, it is clear that these problems in the relationship persist and require a collective EU response.⁷

It is important for the EU to address the negative ramifications of Chinese engagement in the region. However, it is equally crucial that aspects of the relationship where collaboration is possible should not be ignored. In its response to China's rise, the EU will have to defend its economic interests while considering its own security. EU commitments to upholding human rights and environmental protections are other important issues between the EU and China that should be addressed.

The European Union within a Changing World Order

The BRI and other overarching foreign policy initiatives pushed by the CCP point to a strategy of combining economic leverage with political influence to cement China as a major

⁶ European Commission, "Joint Communication to the European Parliament and the Council: Elements for a New EU Strategy on China" (Brussels, 2016), 4.

⁷ "EU-China: A Strategic Outlook." *European Commission - European Commission*, 13 Mar. 2019, ec.europa.eu/commission/news/eu-china-strategic-outlook-2019-mar-12_en.

power in the international system. Individual Chinese investments in the EU are not inherently problematic, but collectively they suggest a strategy of gaining political, economic, and military leverage rather than simply being profit-maximizing portfolio investments. Geopolitically, the EU is also in a difficult position due to the intensifying conflict between China and the United States, its most important ally. While the EU needs to be fully cognizant of the long-term implications of growing Chinese power, it should also be wary of alarmism when addressing these problems. Rather than blindly antagonizing China, the EU should instead look for areas of the relationship conducive to cooperation.

Europe between China and the United States

Escalating US-China tensions are creating economic and political dilemmas for the EU.⁸ EU countries are increasingly pressured to take a side in disputes like the US-China trade war and the American campaign to dissuade other countries from allowing Chinese national telecommunications champion Huawei in their 5G networks. The controversy over Huawei in particular is becoming a major point of tension between all three parties, putting the EU in a “no-win” position.⁹ The Trump Administration has threatened to cut intelligence ties with European countries that allow Huawei into their 5G networks. Likewise, Chinese officials have warned that EU exports to China, especially from German automakers, could suffer if EU countries pull out of contracts with Huawei.¹⁰ Navigating US-China tensions without alienating either country is a major challenge for the EU, and another reason for the EU to remain united in its foreign policy.

China within the International Rules-Based System

China has become fully embedded as a major player in the world, and it is in the EU’s interest to encourage China’s integration into the international rules-based system. The current system will not be viable in the future without China’s inclusion. Like other developing countries

⁸ Warrell, Helen. “Nancy Pelosi Warns Europe over Huawei 5G Dangers.” *Subscribe to Read | Financial Times*, Financial Times, 14 Feb. 2020, www.ft.com/content/c2fbacf2-4f43-11ea-95a0-43d18ec715f5.

⁹ Sanger, David E., and David McCabe. “Huawei Is Winning the Argument in Europe, as the U.S. Fumbles to Develop Alternatives.” *The New York Times*, The New York Times, 18 Feb. 2020, www.nytimes.com/2020/02/17/us/politics/us-huawei-5g.html?referringSource=articleShare.

¹⁰ Ibid.

before it, including many European countries during the nineteenth and twentieth centuries, China is attempting to expand its influence in order to both maintain its economic growth and prove its legitimacy as a state. This means that China may decide to reject a world order that it sees as protecting US and Western interests over their own interests. The EU must do everything in its power to prevent further tensions between China and the current world system.

In order for the EU to help further facilitate China's entrance into the international rules-based system, it is crucial for the EU to recognize the potential of the new institutions created by China and look for areas where mutual cooperation can exist. There are frameworks that foster this kind of cooperative spirit, such as the "EU-China 2020 Strategic Agenda for Cooperation," a broad goal-setting declaration which called for greater cooperation between the EU and China in areas of shared interest released in 2013.¹¹ Additionally, the EU and China have held joint summits every year since 1998 to discuss economic and political issues. Building upon these types of agreements and frameworks are an opportunity for the EU to attempt to solve key issues in the relationship through diplomacy rather than direct confrontation.

The EU can work from within the new institutions created by China such as the AIIB to embed core EU values and encourage greater cooperation with long-standing western institutions. It was the entrance of multiple EU nations into the AIIB, including the core EU countries of France and Germany, that finally encouraged the US-oriented World Bank and Japan-oriented Asian Development Bank to cooperate with the AIIB.¹² If the EU does not participate in China's new institutions, it will have even fewer levers to influence China's behavior. These actions on behalf of the EU will be instrumental in integrating China into the international rules-based system.

An Uneven Playing Field between the EU and China

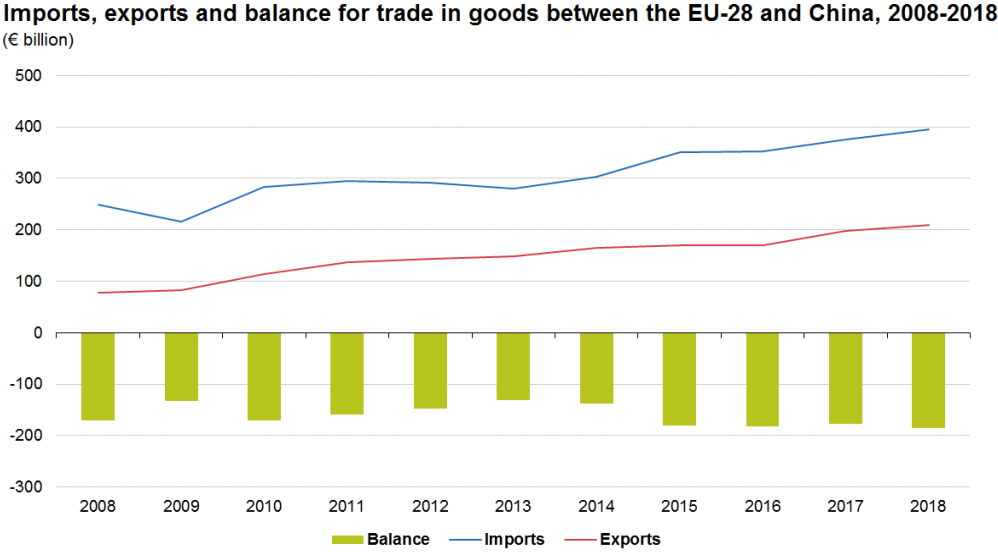
Economic issues, primarily over trade and investment, define much of the EU-China relationship. Within the past ten years China has transitioned from the "factory of the world" to a

¹¹ European Economic and Social Community, "EU-China 2020 Strategic Agenda for Cooperation" (2019).

¹² Bustillo, Ricardo, and Maiza Andoni. "China, the EU and Multilateralism: the Asian Infrastructure Investment Bank." *Revista Brasileira De Política Internacional*, Instituto Brasileiro De Relações Internacionais, 2018, www.scielo.br/scielo.php?script=sci_arttext&pid=S0034-73292018000100207.

more advanced manufacturing economy and is developing a competitive edge in important high-tech industries. This feat has been achieved through targeting and subsidizing firms in strategic industries, pouring money into state-owned enterprises (SOEs), as well as utilizing outbound FDI to acquire important technologies. This effort is part of a wider plan outlined in the *Made in 2025* report released by Premier Li Keqiang in 2014 to transition away from low-end manufacturing industries to production of high value goods and services.¹³ Imports of these goods from China have adversely impacted European efforts to indigenously develop industries in areas such as digital infrastructure and telecommunications. Collectively, these trends raise questions over whether Chinese SOEs and other private firms investing and exporting into Europe are acting under a government-driven strategic policy to artificially strengthen their national champions in key industries at the expense of Europe, rather than with the goal of simply making profit.

Trade Imbalance



Source: Eurostat (online data code: ext_it_maineu)



Fig. 1: The trade deficit between the EU and China since 2008.

The growing trade imbalance with China is a concern for the European Union due to its specific contents. Imports from China have negatively impacted the production and labor market

¹³ Institute for Security & Development Policy, “Made in China 2025.” (2018)

in the EU, especially in areas such as manufacturing. This trade deficit has not been completely harmful to the EU's economy. For example, Chinese imports provide some benefits in the form of lower prices for European consumers. However, the trade imbalance with China has created some major liabilities for the EU in key industries.¹⁴ While the EU still holds "the upper hand" in terms of technological advancement, Chinese penetration of specific high-tech industries could result in the EU losing its competitiveness in areas such as the digital and telecommunications industries where it is becoming increasingly reliant on Chinese imports.

Foreign Direct Investment

Chinese FDI into Europe has dramatically increased since 2015. A large proportion of this investment has gone into attaining greater technological knowledge through acquisitions of European companies and mergers in core EU nations, as well as buying out infrastructure projects and utilities in the EU's southern and eastern peripheral countries. Most Chinese investments, especially mergers, acquisitions, and infrastructure contracts, are performed by SOEs that answer to the government as well as private firms whose connections to the state are very opaque. Thus, there is a possibility that these are strategic investments rather than just portfolio investments. The implications of a coordinated Chinese investment strategy in Europe are significant. Concerted mergers and acquisitions would allow one-sided technology transfer from Europe and further develop unfair advantages for Chinese companies while gutting the EU's competitiveness in key industries.

Barriers to Entering the Chinese Market and Reciprocity

Another important issue for the EU is the lack of reciprocity from China and the difficulties European firms face upon entering the Chinese market. While Chinese state-owned enterprises (SOEs) and subsidized companies operate and invest relatively freely in the EU, within the Chinese market the central government uses tariffs, non-tariff barriers and other trade policies to prevent European firms from competing on a level playing field in China. Much of this problem stems from different economic models in China and Europe. In China, the state holds much more control over the economy and is prone to intervene on behalf of its own interests, whereas European

¹⁴ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. "The State of China-European Union Economic Relations." *Bruegel*, no. 09 (2019).

economies are largely laissez-faire, supporting free and fair trade.¹⁵ These differences put EU firms at a major competitive disadvantage. There is also evidence that Chinese SOEs and private companies have unethically engaged in forced technology transfers and intellectual property theft in joint ventures with their European partner firms. One fifth of EU companies conducting business in the Chinese market have claimed that they were obliged to transfer technologies in order to continue operating in 2019.¹⁶ Meanwhile, Chinese SOEs and subsidized businesses operating in the EU are not subjected to the same treatment.

Points of Leverage for the EU

Most aspects of the economic relationship with China are not advantageous to the EU. The possibility that China is pursuing strategic goals in its trade and investment relationship with Europe suggests that a new EU approach to economic engagement with China would be optimal. However, it is neither realistic nor desirable for Europe to completely decouple from trade and investment with China. Forced decoupling from trade relations with China, a scorched-earth strategy which some in the Trump Administration are pursuing in order to eliminate the US trade deficit with China and prevent China from establishing “superiority in innovation and market dominance in advanced technology products and services,” would hurt an EU economy that is highly interconnected with the Chinese economy.¹⁷ Chinese trade and investment bring many substantial benefits to certain EU countries that have struggled to maintain growth and dynamism. Instead, the EU ought to use its economic weight as the second largest trading bloc in the world as leverage to solve these key issues within the economic relationship and cultivate win-win solutions.

The EU could also continue attempting to utilize the WTO to settle economic disputes with China. Although the EU was eager to help China integrate into the world economy and the wider

¹⁵ McGregor, Richard. “How the State Runs Business in China.” *The Guardian*, Guardian News and Media, 25 July 2019, www.theguardian.com/world/2019/jul/25/china-business-xi-jinping-communist-party-state-private-enterprise-huawei.

¹⁶ Lappin, John. “China Compels Technology Transfers, Say EU Firms.” *Global Investment Megatrends*, 21 May 2019, gimegatrends.com/articles/we-are-compelled-to-transfer-technology-say-one-in-five-eu-firms-in-china/.

¹⁷ Broadman, Harry G. “Forced U.S.-China Decoupling Poses Large Threats.” *Forbes*, Forbes Magazine, 13 Oct. 2019, www.forbes.com/sites/harrybroadman/2019/09/30/forced-u-s-china-decoupling-poses-large-threats/.

international rules-based system by supporting China's accession to the WTO twenty years ago, China has still not followed through on many of the promises conditional to its entry. The WTO has become increasingly ineffective in handling disagreements over trade. WTO rules and regulations do not account for the fact that China's economy features heavy state intervention and is unlikely to transition into a market-oriented system.¹⁸ Due to the Trump Administration's frustrations with the WTO's inability to force China to "play by the rules" and other developments, the US has prevented the appointment of new judges to the appellate body of the WTO.¹⁹ Thus, the WTO cannot issue new rulings on trade disputes. As the WTO is unlikely to begin functioning effectively in the near future, the EU should look for other avenues to address inequalities in the economic relationship.

There are many opportunities for the EU to push for Chinese concessions while fostering a mutually beneficial trade and investment relationship. For example, the EU could make demands within the bilateral investment treaty that has been under negotiation for the past few years or use the potential of a free trade agreement, something which China has long desired, as an incentive for China to behave better.²⁰ However, if China refuses to accept European demands or doesn't follow through on its commitments then a more aggressive strategy utilizing tariffs and other forms of "tit for tat" retaliation could be used. At the end of the day, the EU must act assertively and collectively to level the economic playing field between itself and China.

Long Term Implications of China's Rise for Europe

The implications of China's rise for Europe go beyond the scope of economic issues. Under President Xi Jinping, China's rapid economic growth has been accompanied by expanding political and military power. These developments pose a security risk to European countries, along with conflict over human rights and environmental issues.

¹⁸ Amaro, Silvia. "A Reform-or-Die Moment!: Why World Powers Want to Change the WTO." *CNBC*, CNBC, 7 Feb. 2020, www.cnbc.com/2020/02/07/world-powers-us-eu-china-are-grappling-to-update-the-wto.html.

¹⁹ Ibid.

²⁰ Bickenbach, Frank; Liu, Wan-Hsin (2018) : Chinese Direct Investment in Europe – Challenges for EU FDI Policy, CESifo Forum, ISSN 2190-717X, ifo Institut – Leibniz Institut für Wirtschaftsforschung an der Universität München, München, Vol. 19, Iss. 4, pp. 15-22.

Security

In the joint communication on EU-China strategy published in March 2019, the European Commission outlined the security implications of China's increased presence in Europe.²¹ Europe is beginning to respond to the rise of China and is starting to position itself defensively. Last December, NATO, for the first time in its history, officially recognized China's rise as a security issue for Europe. The EU aims to walk a tightrope of economic collaboration and strategic defense, balancing the "opportunity and challenges" of China.²² FDI from China poses long-term security problems for the EU. China is investing in poorer regions of the EU, especially southern countries most impacted by the Eurozone Crisis and developing Central and Eastern European Countries (CEEC). This could make those countries more reliant on China and subject to its political influence. This development also compromises a collective EU strategy towards China. Two important EU countries, Greece and Italy, both signed onto the BRI in 2019. A large proportion of these investments have been in key infrastructure projects and facilities, including ports and other strategically significant facilities. The security risks of these investments are significant. For example, Chinese control of key ports in the Mediterranean could affect the operational and intellectual integrity of NATO naval operations.

Cybersecurity is another element of the security threat China poses to the EU. China's increasingly powerful high-technology sector, in some areas even challenging Silicon Valley in the United States, is creating new problems for EU countries reliant on outside providers for internet and telecommunications infrastructure. The close relationship between China's government and nominally "private" firms in China like Huawei has the potential to further jeopardize the security of European information systems. These security liabilities include the presence of Chinese companies in the EU's telecommunications industry (especially in providing 5G capabilities), intellectual property threats, and hacking. The cybersecurity threat posed by

²¹European Commission and HR/VP contribution to the European Council, "EU-China – A strategic outlook" (Brussels, 2019)

²² "Nato to Formally Recognise China 'Challenges' for First Time." *South China Morning Post*, 4 Dec. 2019, www.scmp.com/news/china/article/3040457/nato-formally-recognise-china-challenges-first-time. European Commission and HR/VP contribution to the European Council, "EU-China – A strategic outlook" (Brussels, 2019)

China is a particularly fluid issue which will require flexibility, initiative, and a united front from the EU.

Human Rights and the Environment

While developing a collective strategy toward China, the EU must also weigh its commitment to human rights and environmental protections. The CCP has been engaged in multiple human rights abuses in different territories. The most serious of these cases is in Xinjiang, where the Uyghur Muslim minority has been subject to incarceration in forced re-education camps. Although the EU lacks the ability to outright force China to change its policies in these areas, the EU does possess economic and political tools that could pressure China into abiding by internationally recognized human rights and environmental conventions. The benefits and drawbacks of using these tools ought to be carefully considered.

Conversely, climate change is an opportunity for the EU and China to work together within the framework of the international system. Following the US exit from the Paris Climate Accord under Donald Trump, the EU and China are the largest economies remaining in the agreement. If the US continues to refuse global leadership on this existential issue, EU-China cooperation will be more important than ever.

Conclusion

In order to address unprecedented economic and political changes stemming from China's rise, it is necessary for the EU to be united in its strategy toward China. The divide between the responses of core EU countries to China and the responses of periphery countries in the south and east remain major obstacles to a collective European approach toward China.²³ These kinds of divisions will be difficult to overcome unless EU member countries find common ground, or the EU itself becomes more of a political union rather than a purely economic union. Regardless, China's growing economic and political influence throughout the world and in Europe itself will require a united front from the EU.

²³ Kavalski, Emilian. "China's '16+1' Is Dead? Long Live the '17+1'." – *The Diplomat*, For the Diplomat, 30 Mar. 2019, thediplomat.com/2019/03/chinas-161-is-dead-long-live-the-171/.

Chapter 3: China's Economic Influence in the EU

Yiru Luo

Trade Deficit in Goods

The EU's trade surplus with China became a trade deficit in 1997,²⁴ and continued to expand exponentially thereafter, reaching EUR 185 billion in 2018.²⁵ Although the data looks alarming, the trade deficit itself is not as problematic as its implications. This trade disparity results from a combination of forces, including economic globalization, China's rise, and the lack of an efficient trade framework to ensure fair trade. At first glance, the trade deficit appears overwhelming to the EU. However, its magnitude does not account for the fact that China, as a final assembly place in the production line, takes some trade volume from other Asian countries. From 1997 to 2007, Chinese imports to the EU increased by nine times while imports from other East Asian economies increased only by less than 10%.²⁶ Some studies also show that the EU's direct investment in China replaced some of the EU's exports to China, widening the trade disparity.²⁷

Though not as significant as comparable negative effects felt in the US, imports from China do cause disruptions in some EU sectors. A 2014 study shows that competition from China has had a negative impact on employment, for example, in the Danish textile and clothing industry.²⁸

²⁴ Chen Xin, "China-EU Economic and Trade Relations," in *China-EU Relations Reassessing the China-EU Comprehensive Strategic Partnership* (Springer: Singapore, 2017), ed. Hong Zhou, 78.

²⁵ "China-EU - International Trade in Goods Statistics." Eurostat. Accessed February 28, 2020. https://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics#Both_exports_to_and_imports_from_China_rose_between_2008_and_2018.

²⁶ Chen Xin, "China-EU Economic and Trade Relations," in *China-EU Relations Reassessing the China-EU Comprehensive Strategic Partnership* (Springer: Singapore, 2017), ed. Hong Zhou, 80.

²⁷ Ibid.

²⁸ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. "The State of China-European Union Economic Relations." Bruegel, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/>, 8.

Other research shows that competition from China caused around 10% of the fall in manufacturing employment in Norway.²⁹ However, a 2012 study suggests that although the impact of import competition in the EU is similar to that in the US, it is less evident in the EU.³⁰ This report further shows that early-joining EU members are less sensitive to import competition from China than late-joining EU members.³¹ Nonetheless, the EU is concerned about the growing competition from China and the lack of trade framework to ensure fair trade and reciprocity.

Competition

As China moves up the value-added global supply chain, China's demand for EU exports is expected to decrease, whereas the EU's dependence on China is expected to grow. From 2002 to 2018, the share of machinery and electrical equipment imported from China increased from below 40% to over 50%.³² Meanwhile, the share of machinery and electronic equipment exported to China declined sharply from above 50% to 30%.³³

The *Made in China 2025* initiative corresponds to the emerging industrial revolution termed as "Industry 4.0," which envisions digitizing manufacturing with a "cyber-physical system" where big data, cloud computing, and robotics revolutionize information systems and human-computer interaction.³⁴ Multiple EU countries have launched projects to develop the Industry 4.0 model, but their efforts appear fragmented when compared to well-structured plans in China. Germany and France took the initiative by launching the *High-Tech Strategy 2020 Action Plan* and *Industry of the Future Initiative* respectively. However, these projects are devised for the benefits of their countries rather than an effort to upgrade industries for the entire EU.³⁵ The EU has a program called *Factories of the Future* under the *Horizon 2020* plan, in which participation is also open to non-EU countries.³⁶ Consequently, although not all EU

²⁹ Ibid, 8.

³⁰ Roderik H. van Rinsum, "The Effect of Chinese Imports on EU Employment," 2012, 18.

³¹ Ibid, 1.

³² Ibid, 6-7.

³³ Ibid, 7.

³⁴ "China Manufacturing 2025 Putting Industrial Policy Ahead of Market Forces", *European Union Chamber of Commerce in China*, 2017, 6.

³⁵ Ibid, 6.

³⁶ Ibid, 6.

countries participate in *Horizon 2020*, China is one of its top international partners for joint research projects.³⁷ This reveals that the EU lacks a unified emphasis and approach in developing innovations that align with Industry 4.0.

The Chinese government's substantial intervention artificially increases the competitiveness of Chinese products in international markets, leading to market distortion. The EU is losing competitiveness not only in both its own and Chinese markets but also in third-party markets. The Chinese government's support helps Chinese businesses gain a price advantage by significantly lowering their cost and incentivizing technology innovation, depressing innovation globally. For instance, the leading Chinese telecommunication companies, like Huawei and Zhongxing Telecommunication Equipment (ZTE), win contracts internationally based on price advantages, created by the export credits companies receive from government agencies.³⁸ Policy instruments include preferential tax rates and low-interest loans from state-owned banks.³⁹

The EU is also losing competitiveness to China in third-party markets. A prominent example lies in Latin America, a major export market for the EU. China has quickly expanded its market share from 3% in 2000 to 18.3% in 2016,⁴⁰ whereas the European market share remains stagnant at approximately 14% for the past 15 years.⁴¹ As China gradually climbs up the value-added chain as envisioned in *Made in China 2025*, it challenges the European exports in high-end markets. The EU may also lose its competitiveness in capital-intensive sectors, as the EU is already facing fierce competition in electric machinery and road vehicles.⁴² Economic analysis also suggests that the EU competes more intensely with China than with the rest of the world.⁴³

Trade Framework

³⁷ Ibid, 7.

³⁸ Ibid, 26.

³⁹ Ibid, 27.

⁴⁰ Garcia-Herrero, Alicia, et al, "European and Chinese Trade Competition in third markets: The Case of Latin America", *Bruegel*, Jun 2019, last accessed February 28, 2020, https://www.bruegel.org/wp-content/uploads/2018/06/WP-2018-06_-060618.pdf, 2.

⁴¹ Ibid, 7.

⁴² Ibid, 13.

⁴³ Ibid, 11.

Institutional arrangements governing bilateral trade between the EU and China remain limited. The ongoing trade disputes also slow the formation of a comprehensive investment treaty. The lack of an effective trade framework is reflected in the fact that there are unequal trade barriers, a lack of free trade agreements, and continuing trade disputes. One dispute is over the EU denying China ‘market economy status’(MES) in the WTO. This status would give China advantages over anti-dumping cases because goods prices could be measured using China’s domestic market price standards rather than the EU's price standards.⁴⁴ China has dedicated a large number of diplomatic resources to gaining recognition of MES and it obtained recognition from 81 countries by 2016, though neither from the EU nor the US.⁴⁵ This remains to be a lever for the EU to push for further market reforms in China.

Despite the EU having China as its second-largest trading partner, there exists no free trade agreement (FTA) between the two. China has been eager to form a free trade agreement with the EU since President Xi Jinping made the first call for an FTA negotiation in 2014. China restated its intention to start FTA negotiations with the EU in its 2018 policy paper, planning on a joint feasibility study on China-EU Free Trade Area.⁴⁶ However, the EU is rather hesitant. Numerous trade issues in industries from solar panels to steel, as well as major issues such as reciprocity, unequal market access, and technology transfer still exist and are far from being resolved.⁴⁷ Instead, the EU signed an FTA with Japan in 2018. The potential of an FTA is another lever for the EU in the EU-China negotiations.

The EU and China have been working on a comprehensive EU-China investment agreement since 2013. This agreement aims to remove market access barriers, lift discriminatory trade practices, increase transparency regarding business environment, SOEs, and subsidies, and

⁴⁴ Hui Dai, “再看关乎贸易的中国市场经济地位问题”, *Development Research Center of the State Council*, July 2018, last accessed February 28, 2020, <http://www.drc.gov.cn/xscg/20180730/182-473-2896686.htm>

⁴⁵ Ibid.

⁴⁶ Julian Chan, “What’s New About China’s Latest EU Policy Paper?”, *The Diplomat*, February 2019, last accessed February 28, 2020, <https://thediplomat.com/2019/02/whats-new-about-chinas-latest-eu-policy-paper/>

⁴⁷ Ibid.

provide investment protection for both parties.⁴⁸ Negotiations have proved to be difficult and slow, but both parties are committed to concluding negotiations by the end of 2020.⁴⁹ The disagreements center on whether or not China can still be considered a “developing economy.” The EU wants reciprocity and a level playing field between the two large world economies, whereas China insists that as a developing economy, it is unfair to compete with developed economies without protections.⁵⁰

Investment

FDI has grown significantly as trade between the EU and China has surged. From 2008 to 2017, the stock of Chinese FDI in the EU has grown nearly tenfold, reaching EUR 59 billion in 2017.⁵¹ The FDI reached a peak in 2016, driven by a need to export capital to avoid creating domestic bubbles.⁵² In addition, continued Chinese capital liberalization and low-interest rates until 2016 had made domestic financing of overseas acquisitions less costly, greatly incentivizing outbound investments. Nonetheless, Chinese FDI in the EU has declined sharply since 2017, after the EU strengthened scrutiny over Chinese investment and after Beijing re-imposed administrative controls to curb irrational capital flows.⁵³

⁴⁸ “EU-China Comprehensive Agreement on Investment”, *European Commission*, February 2020, last accessed February 28, 2020, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115>

⁴⁹ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. “The State of China-European Union Economic Relations.” *Bruegel*, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/>, 20.

⁵⁰ Jorge, Valero, “China calls for opening free trade talks with the EU”, *Euractiv*, December 2019, last accessed February 28, 2020, <https://www.euractiv.com/section/economy-jobs/news/china-calls-for-opening-free-trade-talks-with-the-eu/>

⁵¹ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. “The State of China-European Union Economic Relations.” *Bruegel*, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/> 13.

⁵² Hanemann, Thilo, et al, “Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies”, *Rhodium Group and the Mercator Institute for China Studies*, March 2019, last accessed February 28, 2020, https://www.merics.org/sites/default/files/2019-03/190311_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf, 8.

⁵³ Hanemann, Thilo, et al, “Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies”, *Rhodium Group and the Mercator Institute for China Studies*, March 2019, last accessed February 28, 2020, https://www.merics.org/sites/default/files/2019-03/190311_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf 8–9; “境外媒体：中国加强监管境外投资缓解人民币贬值压力”，*消息参考网*, December 2016, last accessed February 28, 2020, <http://m.cankaoxiaoxi.com/finance/20161202/1482293.shtml>

The bilateral FDI flows remain small but lucrative, implying the potential for further growth and deepened cooperation. Chinese FDI only represented about 4% of the total FDI in the EU as of 2017.⁵⁴ EU firms have enjoyed higher rates of return on investment in China than Chinese investment in the EU. From 2013 to 2017, the EU earned EUR 81 billion from investments in China, while China only earned EUR 8.3 billion from investments in Europe. The average annual rate of return for the EU's FDI in China was 10.1%, higher than that in other countries, such as Japan (8.9%), India (7.2%), and the US. (2.9%). Meanwhile, Chinese FDI in the EU only had an average annual rate of returns of 4.2%.⁵⁵ Moreover, Chinese FDI in the EU generated increasing economic value at a growth rate of 30%.⁵⁶ Chinese enterprises also created employment for the EU. The number of employees Chinese firms hire in the EU grew at an average annual rate up to 39% between 2013 and 2018. Meanwhile, the percentage of EU-native employees increased from 52% to 75%.⁵⁷ It is in the EU's best interest to promote further FDI flows with China.

The small but increasing levels of Chinese investment raise concerns for the EU regarding technology transfer and national security. Heavy state involvement in mergers and acquisitions caught the attention and caused suspicion of Chinese investment. On a sectoral level, investment focuses on transport, utilities and infrastructure, ICT and advanced industrial machinery and equipment,⁵⁸ overlapping with the focus of China's industrial policy.⁵⁹ It follows that Europe would question whether the Chinese investment in the EU is portfolio or strategic. European decision-makers fear that European core technology is migrating to China, adversely impacting the EU industries. Issues raised by Chinese investments also reveal the lack of an efficient and unified framework to ensure a level playing field for FDI transactions within the EU.

⁵⁴ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. "The State of China-European Union Economic Relations." *Bruegel*, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/>, 14

⁵⁵ *Ibid*, 14.

⁵⁶ China chamber of Commerce to the EU, "Report on the development of Chinese Enterprises in the EU", *Roland Berger*, October 2019, last accessed February 28, 2020, <https://huawei.eu/file-download/download/public/2035>, 16.

⁵⁷ *Ibid*, 17.

⁵⁸ *Ibid*, 15.

⁵⁹ *Ibid*, 15.

Technology Transfer

The EU is concerned about the transfer of its advanced technologies to China via acquisitions of high-tech EU companies. These companies are considered strategic because they are key to a nation's economic growth and international competitiveness. The effects can be detrimental if China gains access to the EU's core competencies. Meanwhile, China is also actively promoting a technological catch-up process, evidenced by the *Made in China 2025* initiative and its Five-Year plans. Fear of losing competitiveness technologically and economically is a major concern for the EU.

China's desire to acquire technology from European firms through extensive state support is evident. The 12th and 13th Five-Year plans that encompass the years 2011 to 2020 encourage overseas investments in order to gain access to global supply chains, advanced technology and high-quality brands,⁶⁰ shifting Chinese investment from emerging economies to advanced economies. Chinese industrial policies are well reflected in the data of Chinese FDI in the EU. Mergers and acquisitions (M&A) are the main forms of Chinese investment in the EU, taking up over 95% of the total FDI in recent years.⁶¹ The EU has been the most favored M&A investment destination by value for China between 2014 and 2018.⁶² Developed EU member states, such as Germany, France, Sweden, and Luxembourg, continued to receive a majority share of the Chinese investment by 2018.⁶³ The SOEs dominated Chinese FDI from 2010 to 2018, with a share of over 60% in most years.⁶⁴ The pattern of Chinese investment also indicates China's

⁶⁰ Hellstrom, Jerker, "China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications", ResearchGate, December 2016, last accessed February 28, 2020, https://www.researchgate.net/publication/315497771_China's_Acquisitions_in_Europe_European_Perceptions_of_Chinese_Investments_and_their_Strategic_Implications, 11.

⁶¹ Hanemann, Thilo, et al, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies", *Rhodium Group and the Mercator Institute for China Studies*, March 2019, last accessed February 28, 2020, https://www.merics.org/sites/default/files/2019-03/190311_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf, 10.

⁶² "PwC M&A 2018 Review and 2019 Outlook", *PwC*, February 2019, last accessed February 28, 2020, <https://www.pwccn.com/en/deals/publications/ma-2018-review-and-2019-outlook.pdf>, 25.

⁶³ Hanemann, Thilo, et al, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies", *Rhodium Group and the Mercator Institute for China Studies*, March 2019, last accessed February 28, 2020, https://www.merics.org/sites/default/files/2019-03/190311_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf, 11.

⁶⁴ *Ibid*, 14.

efforts to climb up the value-added chain. Investment between 2000 to 2014 concentrated on the sectors of energy, automotive, agriculture, and real estate, reflecting a strategy of upgrading technology and acquiring brands.⁶⁵ The focus has shifted towards advanced manufacturing assets since 2015. Chinese investment grew particularly in machinery, information and communication, encompassing one-third of the total Chinese deal value in the EU between 2015 and 2016.⁶⁶

The automotive industry is a representative case since it is a major pillar of industrialization for China and is a core competency of the EU. The development of the automotive industry is strategically nurtured by the Chinese government. A report in 1978 first developed the idea of foreign technology acquisition via the ‘trading market for technology’ strategy,⁶⁷ which spread to aid the development of other key industries.⁶⁸ In practice, the Chinese government enabled the industry to acquire foreign technologies by encouraging joint ventures.⁶⁹ In 1991, the 8th Five-Year plan instructed automotive enterprises to gain market access in North America and western European markets. Correspondingly, the Chinese government increased medium-to-long-term loans with discounts and provided talented students with foreign trade education. The Ninth Five-Year Plan simplified procedures to encourage auto exports, making these products artificially cheap.⁷⁰ In recent years, China shifted its focus to technological innovation, dominating domestic market shares, and initiating development in green-energy and energy-saving cars.⁷¹ Responding to the national ‘Going Out’ strategy, China began to use outbound FDI, especially financial and technology-oriented acquisitions, as a strategy to upgrade economic development and technology. As a result, Europe became a favored investment destination for automotive acquisitions, taking an average share of 41% of mergers and acquisitions internationally from 2009 to 2014.⁷² Evidence shows that most investors have focused on German suppliers because they are interested in technological expertise, brand value, and

⁶⁵ Jan, Drahokoupil, “Chinese investment in Europe: corporate strategies and labour relations”, *ETUI aisbl*, Brussels, 2017, 8.

⁶⁶ *Ibid*, 8.

⁶⁷ *Ibid*, 47.

⁶⁸ *Ibid*, 54.

⁶⁹ *Ibid*, 54.

⁷⁰ *Ibid*, 48.

⁷¹ *Ibid*, 48.

⁷² *Ibid*, 51.

entrance into the global supply chains of leading car original equipment manufacturers (OEMs).⁷³

Most private corporate acquisitions remain small but strategic, whereas the capital abundant SOEs play a large role in helping China buy into the global supply chain. Although most of these private takeovers were under EUR 100 million,⁷⁴ buying small companies allows Chinese private investors to obtain European know-how as well as easier access to supply chains, since German car OEMs and leading top tier car suppliers are too large for a direct takeover by most Chinese investors. The involvement of the capital abundant SOEs greatly sped up China's catch-up process by acquiring leading brands. Between 2005 and 2016, at least 13 of the 51 Chinese acquisitions in the EU were SOE acquisitions, with all transactions exceeding EUR 50 million. For instance, ChemChina's division, China National Tire & Rubber, acquired the Italian tire supplier Pirelli, one of the largest tire makers worldwide for EUR 7.1 billion in 2015.⁷⁵ ChemChina also acquired a German supplier Kraus Maffei, a specialist mechanical engineering enterprise for EUR 925 million in 2016.⁷⁶ The SOEs have enabled China to take over expensive but well-established supplier brands, paving the way for China to enter the long-existing and the traditionally Western-dominated global supply chains.

Private sector Chinese companies have also made larger acquisitions in the high-tech field, raising concerns for the transfer of core technology to Chinese competitors. The two biggest acquisitions of car OEMs in the EU were Zhejiang Geely Holding Group's (Geely) acquisition of Volvo and NEVS's acquisition of Saab. Both European companies are relatively small OEMs, but they are well-established auto brands in high-end markets and leaders in engineering and technology.⁷⁷ In 2016, China's Midea took over Kuka, a market-leading robot manufacturer, for EUR 4.6 billion. Deeming Kuka as having strategic technology, the German government tried to

⁷³ Ibid, 51.

⁷⁴ Ibid, 53.

⁷⁵ Ibid, 53.

⁷⁶ Ibid, 58.

⁷⁷ Ibid, 52.

obstruct the deal by making a counteroffer with German cooperation but failed.⁷⁸ This reflects a lack of effective intervention mechanisms to protect strategic industries when necessary.

National Security

In addition to the Chinese takeover of some strategic companies, the EU is also concerned about possible national security issues due to Chinese control of sensitive national infrastructure via SOE acquisitions. The Eurozone crisis presented investment opportunities for China, as the “periphery” of the Eurozone was actively seeking liquidity and capital. These countries had no choice but to privatize national infrastructure, a condition outlined in the bailout packages by international lenders.⁷⁹

Chinese SOEs expanded their influence in key sectors in many EU countries, including infrastructure projects in Greece and Hungary, utilities and energy in Portugal and Spain, transportation in Greece and France, and communication infrastructure in most EU countries.⁸⁰ For instance, the state-owned China Ocean Shipping Company (COSCO) bought the Greek port of Piraeus for EUR 600 million. This Greek port location is strategic in that it becomes China’s gateway to Europe by expanding trade flows. China’s state-owned State Grid and China Three Gorges, which holds a 23.3% stake in the port, offered a EUR 9 billion bid in 2018, aiming for a majority stake in the top electricity grid Energias de Portugal (EDP). The EDP has subsidiaries in the field of renewable energy in Spain, Brazil, and in the US.⁸¹ The growing Chinese presence in EDP potentially undermines the security of Portugal as well as other stakeholders like the US, because China is not a security ally of the EU members.

⁷⁸ Ibid, 53.

⁷⁹ Godement, Francois, Angela Stanzel, “The European Interest in an Investment Treaty with China”, *European Council on Foreign Relations*, Feb 2015, last accessed February 28, 2020, [https://www.ecfr.eu/page/-/ECFR127-_The_European_interest_in_an_investment_treaty_with_China_\(both_graphics\).pdf](https://www.ecfr.eu/page/-/ECFR127-_The_European_interest_in_an_investment_treaty_with_China_(both_graphics).pdf), 1.

⁸⁰ Hellstrom, Jerker, “China’s Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications”, ResearchGate, December 2016, last accessed February 28, 2020, https://www.researchgate.net/publication/315497771_China's_Acquisitions_in_Europe_European_Perceptions_of_Chinese_Investments_and_their_Strategic_Implications, 17.

⁸¹ Peter, Wise, “China Three Gorges’ EUR9bn bid for Portuguese utility EDP collapses”, *Financial Times*, April 2019, last accessed February 28, 2020, <https://www.ft.com/content/c4e7a0ae-66b7-11e9-9adc-98bffd35a056>

Another controversial deal is the purchase of a 49.99% stake in the French Toulouse-Blagnac airport, adjacent to one of the European industrial bases of the aerospace company Airbus. The winning consortium consisted of Chinese SOEs Shandong Hi-Speed Group and Friedmann Pacific Asset Management, which paid EUR 208 million to the French government.⁸² Some feared that foreign companies were capitalizing on France's economic weakness as well as were concerned about possible political implications, whereas President Macron defended the decision by saying that only the business was sold, not the runway and buildings.⁸³ Later chapters will delve into the details of possible political complications and security threats posed by China's control over some key and strategic EU industries.

The risk awareness relating to Chinese investment varies among the EU members, creating opportunities for unwanted Chinese investment in key and strategic sectors within the EU. Germany's block of the takeover of chip equipment maker Aixtron by Chinese investors in 2016 indicates its increasing scrutiny of Chinese investment. The German deputy economics minister, Matthias Machnig, repealed the clearance certificate issued before and reopened a review of the deal for security reasons. Machnig and deputy chancellor, Sigmar Gabriel, backed a proposal to restrict foreign acquisitions of EU companies if involving key technologies that are important for further industrial processes.⁸⁴ France and Italy agreed to cooperate with Germany on a stronger industrial policy to protect the key domestic strategic industries. However, other members, especially peripheral EU member states like Portugal, hardly raise national security concerns with Chinese investment, rather they encourage it. Portugal not only established a joint technological laboratory called STARLab with China focusing on the construction of microsatellites, but also plans to cooperate with China on the deep-water of Sines, a strategic port for Beijing to connect the land and maritime routes of the BRI.⁸⁵ The lack of consensus on

⁸² Michael, Stothard, "France to sell airport stake to Chinese", *Financial Times*, December 2014, last accessed February 28, 2020, <https://www.ft.com/content/05d84b74-7c6e-11e4-9a86-00144feabdc0>

⁸³ Ibid.

⁸⁴ Guy, Chazan, "Germany withdraws approval for Chinese takeover of tech group", *Financial Times*, October 2016, last accessed February 28, 2020, <https://www.ft.com/content/f1b3e52e-99b0-11e6-8f9b-70e3cabccfae>

⁸⁵ Philippe, Corre, "China's Golden Era in Portugal", *The Diplomat*, November 2018, last accessed February 28, 2020, <https://thediplomat.com/2018/11/chinas-golden-era-in-portugal/>

Chinese investment can undermine the security as well as the core competencies of the entire EU.

Cooperation

It should be noted that EU cooperation with China has brought benefits to the EU as well. Chinese investments strengthen R&D and some manufacturing capabilities by providing a stable financial environment the acquired companies need. Reports show that either executive management teams are kept in place or hired from Europe, not China, after an acquisition. Chinese investors help to provide needed investments for mid-sized suppliers who have developing potential but are without a stable financial environment. Meanwhile, they exercise control via financial targets, allowing relative autonomy for European operations, which helps to strengthen R&D and some manufacturing capabilities in Europe.⁸⁶ For example, Geely offered substantial financial support and allowed extensive management autonomy to the Swedish team of Volvo, so that they could modernize the production line and continue R&D. The joint development center in Gothenburg marked the technological cooperation between Geely and Volvo. This cooperation has led to considerable cost savings regarding development, testing, and sourcing. Geely and Volvo still operate under different brands. Both parties managed to achieve the sharing of knowledge and technology without jeopardizing brand integrity.⁸⁷

Moreover, Chinese investment also boosts local economies and improves economic efficiency by modernizing the acquired assets and providing liquidity to the selling party. In the case of the Toulouse Blagnac Airport, the plan of the Chinese consortium was to double the amount of traffic within the airport by creating more point-to-point routes between Asia and Europe.⁸⁸ Additionally, COSCO Shipping expanded and modernized Piraeus, raising the port's world ranking from 93rd to 36th.⁸⁹ Other EU port acquisitions by COSCO also demonstrated impressive performances: Zeebrugge (Belgium) achieved a container throughput of 390,000

⁸⁶ Pawlick, Peter et al, "China's cars and parts: development of an industry and strategic focus on Europe", *ETUI aisbl*, 2017, 55.

⁸⁷ *Ibid*, 73.

⁸⁸ *Ibid*, 73.

⁸⁹ China chamber of Commerce to the EU, "Report on the development of Chinese Enterprises in the EU", Roland Berger, October 2019, last accessed February 28, 2020, <https://huawei.eu/file-download/download/public/2035>, 27.

TEU, 24.1% higher year-over-year; Port of Noatum (Spain) hit 3.62 million TEUs, 544% higher year-over-year; and Vado Ligure (Italy) reached 70,000 TEUs, 69.6% year-over-year. These ports significantly increased trade between the EU and Asia, not to mention their role in boosting local economies.⁹⁰

Some studies also argue that the EU should encourage Chinese investment in the areas in which China excels, namely transport and communication infrastructure.⁹¹ China is known for its capacity to build railways, with projects in over 100 countries.⁹² The EU is currently considering contracting with Huawei for the construction of a limited part of its 5G infrastructure under rigorous government surveillance for security reasons, as no viable alternative exists in terms of technology and price.⁹³ The EU is facing a difficult decision between economic benefits and issues regarding core technology transfer and national security. It is time for the EU to build up the necessary framework to protect key and strategic EU industries while promoting Chinese investment and mutually beneficial cooperation.

Investment Framework

A potential risk involved with heavy SOE participation and government support is distortion in the global market. European companies are disadvantaged when bidding with Chinese companies, which are either state-owned or recipients of preferential state treatment. Moreover, European law forbids state aids to European companies, which is monitored and enforced by the EU Commission's competition authorities. There is no global definition of investment subsidies nor an institutional framework that can address disputes in the investment context.

⁹⁰ Ibid, 27.

⁹¹ Godement, Francois, Angela Stanzel, "The European Interest in an Investment Treaty with China", *European Council on Foreign Relations*, Feb 2015 [https://www.ecfr.eu/page/-/ECFR127-_The_European_interest_in_an_investment_treaty_with_China_\(both_graphics\).pdf](https://www.ecfr.eu/page/-/ECFR127-_The_European_interest_in_an_investment_treaty_with_China_(both_graphics).pdf), 8.

⁹² Viviana, Zhu, "Europe-China rail competition- 'Bigger is better'?", *Institut Montaigne*, February 2019, last accessed February 28, 2020, <https://www.institutmontaigne.org/en/blog/europe-china-rail-competition-bigger-better>

⁹³ David, Sanger, David, McCabe, "Huawei is winning the argument in Europe, as the US fumbles to develop alternatives", *New York Times*, February 2020, last accessed February 28, 2020, <https://www.nytimes.com/2020/02/17/us/politics/us-huawei-5g.html>

The EU took a step to protect key and strategic industries by introducing FDI screening. Although it yielded some results, current FDI screening remains relatively incomplete and fragmented across the EU. The European Commission (EC) President Jean-Claude Juncker initiated an EU-wide instrument for FDI review in September 2017. The creation of a Foreign Investment Screening (FSI) framework is aimed at increasing transparency and communication among member states regarding FDI. The screening combined with Beijing's capital control greatly reduced Chinese SOE investments and reduced Chinese FDI in general. Chinese FDI in the EU started to decline in 2017. The combined value of completed FDI transactions declined by 40% in 2018 from the 2017 level and by over 50% from the 2016 peak.⁹⁴ The share of SOEs within China's FDI in Europe has declined to a 5-year low, decreasing from over 80% between 2010 to 2012 to an average of 50% to 60% in the past five years.⁹⁵

Nonetheless, the new EU screening mechanism is much less invasive and comprehensive compared to those used by most other members of the Organization for Economic Co-operation and Development (OECD). It is only based on "coordination and cooperation" that EU countries can share and require information from other member states on specific FDI if there exists a potential threat to their national security and public order.⁹⁶ This mechanism lacks force, as the opinions by the EC are non-binding and the final say belongs to the member state concerned. Moreover, the screening mainly focuses on "security and public order concern", without economic criteria for reviews that several other OECD countries employ.⁹⁷

Recommendations

1. Reach a consensus on risk awareness regarding Chinese investment across the EU

First, the EU needs to reach a consensus on an approach to its own strategic industries and Chinese FDI to clarify its scope of protection. This is a critical step towards the EU

⁹⁴ Hanemann, Thilo, et al, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies", *Rhodium Group and the Mercator Institute for China Studies*, March 2019, last accessed February 28, 2020, https://www.merics.org/sites/default/files/2019-03/190311_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf, 9.

⁹⁵ *Ibid*, 13.

⁹⁶ *Ibid*, 15.

⁹⁷ *Ibid*, 15.

being able to develop unified and binding screening mechanisms. This can be hard to reach due to many conflicting national interests. The consensus may initially be considered superficial due to a lack of enforcement. Therefore, the EU must affirmatively prove its commitment to upholding this consensus by establishing concrete mechanisms.

2. Develop a unified and effective pan-EU screening mechanism to protect key industries

The nonbinding nature of the current EU-wide screening framework creates vulnerable areas for strategic Chinese investments in the EU. In order to better protect key industries in the EU and ensure a level playing field, it is vital to develop a unified, effective, and comprehensive pan-EU screening mechanism. The EU's Foreign Investment Screening framework should mandate the creation, improvement, and uniformity of screening mechanisms among all member states. The EC and Foreign Investment Screening framework should also require all member states to create their own national investment screening mechanisms.

3. Expand the concept of “investment subsidies” to forbid government subsidies from non-EU countries

The EU should develop measures to counteract the market distortions caused by Chinese state interventions. It will be difficult to push China for less SOE involvement and no subsidies to its SOEs in the EU-China Investment treaty. However, the EU can fully utilize the recognition of MES in the WTO and an FTA with China as leverage.

Chapter 4: The EU in China

Olivia Holton

Business Environment

The business environment in China poses major disadvantages for European firms trying to enter China. In order to make their own industries more competitive, China's policies demand forced technology transfers, forced joint ventures, shorter payment periods for foreign firms, and there is thus a lack of a level playing field. Likewise, a major problem between the EU and China is the lack of reciprocity that China demonstrates in its treatment towards the EU. The Chinese market is an incredibly lucrative place for businesses, due to China's large population, growing purchasing power, and Chinese consumers' increasing interest in the European-dominated luxury market. The rise of Chinese household incomes has led to an increase in Chinese purchasing power, providing ample opportunities for European firms to gain a share of the Chinese market. Asialink Business states that more than 400 million Chinese people are currently considered middle class, meaning they have a high degree of disposable income. By 2022, over 550 million people in China will be considered middle class, elevating the market potential even further.⁹⁸ The stock of the EU's FDI in China increased by 225% from EUR 54 billion to EUR 178 billion.⁹⁹ Gaining even a small share of the Chinese market would be extremely profitable for European firms.

China and EU member states work under different economic environments that rely on varying degrees of government control. European countries such as France and Germany have market economies whereas China has a quasi-market economy controlled by the CCP. This causes disagreements about the treatment of foreign enterprises. The PRC prioritizes SOEs and private companies with close government ties. China sees companies as state-owned or privately owned; however, from the European perspective, the lines distinguishing the two are very blurred. China's definition of "government control" differs from the EU definition. This results

⁹⁸ <https://asialinkbusiness.com.au/china/getting-started-in-china/advantages-of-doing-business-in-china?doNothing=1>

⁹⁹

in all Chinese firms operating under some degree of association to the government, even if they are not necessarily denominated as state-owned. In SOEs, government intervention predominantly manifests as direct and concrete ownership. Nominally “private” Chinese firms, which do not fit the EU’s definition of a private firm, still experience a degree of government influence, and may often have government officials on their boards.

EU exporters face more trade barriers entering the Chinese market than Chinese firms face in the EU. In 2017, the weighted average of effectively applied tariffs on Chinese exports was 3.6%, whereas China’s top exports to the EU, machinery and electronic equipment, face tariffs of 1.2% and 0.8% respectively.¹⁰⁰ Both the EU and China have worked on reducing trade barriers and progress has been made due to negotiations. For example, China’s tariffs on vehicle and vehicle parts, the largest product category of EU export to China, was cut from 25% to an average of 13.8% in 2018.¹⁰¹ Despite some progress, there are numerous trade disputes between China and the EU. China has 18 ongoing anti-dumping investigations against the EU,¹⁰² while the EU has 33 ongoing investigations against China.¹⁰³ The EU is concerned about China’s industrial overcapacity in areas of steel, aluminum, photovoltaic, telecommunication, chemical, and ceramic sectors. In 2017, the EU updated its dumping calculation methodology to better address the market distortion issue in imports caused by state interference.¹⁰⁴

For EU firms to become competitive in China would require domestic Chinese firms to relinquish market share. The 2016 “New EU Strategy on China” states that “the EU expects its relationship with China to be one of reciprocal benefit in both political and economic terms.”¹⁰⁵

¹⁰⁰ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. “The State of China-European Union Economic Relations.” *Bruegel*, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/11>.

¹⁰¹ *Ibid*, 10.

¹⁰² “Actions against imports into the EU”, *European Commission*, January 2019, last accessed February 28, 2020, <https://ec.europa.eu/trade/policy/accessing-markets/trade-defence/actions-against-imports-into-the-eu/>

¹⁰³ “Investigations”, *European Commission*, February, 2020, last accessed February 28, 2020, <https://trade.ec.europa.eu/tdi/>

¹⁰⁴ “Anti-dumping”, *European Commission*, December 2018, last accessed February 28, 2020, <https://ec.europa.eu/trade/policy/accessing-markets/trade-defence/actions-against-imports-into-the-eu/anti-dumping/>

¹⁰⁵ “EU Texts: Documents: D-CN: Delegations: European Parliament.” Documents | D-CN | Delegations | European Parliament, www.europarl.europa.eu/delegations/en/d-cn/documents/eu-texts.

However, at the current moment, discriminatory treatment foreign firms face in China makes it difficult, if not impossible, for EU firms to enter the Chinese market.¹⁰⁶ European firms in China pay taxes, hire Chinese employees, and contribute to the innovation and development of the Chinese economy just as Chinese firms do. The EU Chamber of Commerce (ECC) describes how non-tariff measures work against foreign companies. The ECC depicts how unequal access to cheap financing and subsidies that act as de facto low-interest loans result in the dominant position of Chinese SOEs and private domestic firms.¹⁰⁷ Many European firms state that they want China to succeed, and believe that the completion of the economic liberalization process is the way for China to receive more FDI. Economic liberalization would mean that China would not only further separate government and business, but also become more transparent. By ensuring that firms connected to the government do not benefit from a competitive advantage, China can make progress in achieving competitive neutrality in their market.¹⁰⁸ More competitive neutrality is favorable for EU firms to be competitive against Chinese firms.

The “ECC in China” is the major actor involved in negotiations between the Chinese government and EU firms trying to enter the Chinese market. The agency operates to serve both its European and Chinese members corporations in order to provide a level playing field for European companies operating in China, give specific information to its members on how to conduct business in China, and improve market conditions for all businesses in China.¹⁰⁹ Discrimination towards foreign firms is the main problem the “ECC in China” works with China to address. China’s protection of its firms, especially those denoted in the *Made in China 2025* initiative, contributes to the blatant discrimination of European firms in these industries.

The EU deems Chinese protection of its domestic firms as anti-competitive. Rather than the Chinese government’s method of protecting industries through prolonged government control, EU protection exists in the form of IP protection and subsidizing key industries in the early stages of development.¹¹⁰ Davide Cucino, the former President of the “ECC in China,”

¹⁰⁶ European Business in China Position Paper, pg. 1

¹⁰⁷ Transport Systems and Delivery of Cargo on East–West Routes, pg. 81

¹⁰⁸ “Competitive Neutrality.” UNCTAD. Accessed February 10, 2020.

<https://unctad.org/en/Pages/DITC/CompetitionLaw/ResearchPartnership/Competitive-Neutrality.aspx>.

¹⁰⁹ European Business in China Position Paper, pg. 3

¹¹⁰ “Government Support for Industry (State Aid).” Government support for industry (state aid) – European Commission. Accessed February 10, 2020.

https://ec.europa.eu/competition/consumers/government_aid_en.html.

attributes Chinese discrimination against foreign firms to a difference in perspective between the EU and China. Cucino states that China differs from the EU in ideological terms, in that it believes European firms should be treated under a different policy simply because they are foreign.¹¹¹ China further justifies its treatment towards foreign firms by still viewing itself as a developing economy. However, from a Western viewpoint, such preferential treatment could be considered corrupt and discriminatory.

China's admission to the WTO was conditional upon its agreement to terms of transparency, non-discrimination of foreign enterprises, import and export licensing, subsidies, and other liberal economic features. Although China has received the benefits of WTO membership, such as the lowering of export trade barriers, China has not followed through on its commitments. In the background of current negotiations is the remembrance that China still needs to live up to the agreement it signed almost two decades ago. Given this pattern of noncompliance, there are growing fears that China will refuse any changes stipulated by the EU. Therefore, possible solutions must acknowledge the level to which the Chinese government, SOEs, and regulators will realistically be willing to change. Without China adopting the reforms it had promised in its WTO accession agreement, European firms already have limited chances at being competitive in China. With the WTO reforms as a first step and the additions of new changes like prohibition of forced technology transfers and forced joint ventures, the Chinese market would become more accessible to Europe.

Reforms to the Chinese system to facilitate market accessibility for Europe could result in advantages that would make China more willing to negotiate on some of the structural problems that EU firms are facing. The former governor of the People's Bank of China, Zhou Xiaochuan, recognizes that although China has not developed enough economically liberal policies to achieve competitive neutrality, it is moving in that direction. Zhou affirms that in order to solve structural problems in the Chinese economy, China must strengthen intellectual property protection, accelerate domestic reform and opening up strategies, and "consider" treating SOEs with the principle of "competitive neutrality".¹¹² Zhou's acknowledgement that China will consider treating SOEs with the principle of competitive neutrality, though perhaps unreliable

¹¹¹ China's Offensive in Europe, pg. 14

¹¹² European Business in China Position Paper, pg. 6

given China's unwillingness to conform 20 years ago, opens the door for further negotiations for the EU to achieve greater inclusion in the Chinese market.

Involvement of the Chinese Communist Party

Chinese government involvement in its businesses is largely perpetrated by its sole political party, the CCP. The CCP's involvement is illustrated by the lack of transparency on government backing of businesses, the status of CCP officials on the boards of major Chinese firms, and the unequal treatment facing foreign firms. Lack of transparency also makes it difficult to analyze EU firms in China, as information is less accessible than information on Chinese companies' entrance into the EU market. EU firms have complained to the ECC that private firms, including foreign ones, are coming under rising pressure to formalize roles for the CCP in their governance structures. The EU is critically concerned over how China's government system and party-state apparatus may distort the decisions of otherwise independent entities in a market economy.¹¹³ The CCP's capacity to affect business processes and operational goals presents a threat to foreign firms. The CCP's imposition of its officials on the boards of both domestic and foreign enterprises serves as both a barrier and a threat to EU firms' success and sovereignty.

The varying levels of closeness to the Chinese government creates a divide between the Chinese companies with close ties to the government and the foreign companies without. Business ethics and cultural values may prevent EU firms from even desiring a relationship with the CCP. The EU's policies and values surrounding the protection of IP and maintaining sovereignty over business operations deter them from wanting this relationship, even if it would lead to benefits from preferential treatment. The disparity of policy between foreign and domestic firms cannot only be attributed to their differing statuses, but also that they do not both carry the advantage of having members with ties to the CCP.

The *Made in China 2025* initiative may further decrease China's demand for EU exports. Six protected high-tech industries highlighted in *Made in China 2025* overlap with top EU

¹¹³ European Business in China Position Paper, pg. 6

exports.¹¹⁴ China clearly desires to develop key industries into national champions and innovative global leaders, reducing China's dependency on the EU's technology and undermining its core competencies. In pursuit of its economic goals related to *Made in China 2025* and its Five-Year plans, China uses a variety of policy tools to support its industries. For instance, favored companies in priority industries can enjoy the indirect provision of cheap credit, low-interest loans, preferential licenses, and even facilitation of mergers and acquisitions.¹¹⁵ The government also established investment funds to help key industries upgrade, such as the National New Venture Capital Fund for Emerging Industries.¹¹⁶

Forced Technology Transfers

European firms are at risk of losing key technology and getting edged out of the Chinese market in industries that both economies prioritize. The EU has a number of key industries that compete with China's protected sectors maintained in the *Made in China 2025* initiative. The six competing main sectors aggregate to 39.9% of the EU's total exports in 2018, making the success of these industries imperative to EU economic stability. Chinese state support in the form of direct and indirect assistance received by private Chinese companies causes a distorted competitive field in the international market. The purpose of the benefits received by the domestic firms is strategic; China has been clear in its ambition to become champions in key industries identified in its *Made in China 2025* initiative and its regular Five-Year economic policy plans.

The lack of transparency that the Chinese state exhibits has made the subsidies received by these firms unclear and hard to assess externally. The forms of state aid afforded to domestic firms include preferential licenses, access to cheaper credit, and the encouragement and facilitation of joint ventures. However, the actual degree of this preferential treatment is hard to measure, as there are no official reports. Current discrimination against EU firms in these industries also includes but is not limited to, the 8.75% tariff rate that all European goods face

¹¹⁴ Daniel, Workman, "The European Union's Top 10 Exports", *World's Top Exports*, 2019, accessed February 21, 2020; <http://www.worldstopexports.com/european-unions-top-10-exports/>.

¹¹⁵ Dadush, Uri, Marta Domínguez-Jiménez, and Tianlang Gao. "The State of China-European Union Economic Relations." Bruegel, 2019. <https://bruegel.org/2019/11/the-state-of-china-european-union-economic-relations/>, 22.

¹¹⁶ "China Manufacturing 2025 Putting Industrial Policy Ahead of Market Forces", *European Union Chamber of Commerce in China*, 2017, 17.

upon entrance to China, required joint ventures, and the CCP's preferential treatment of Chinese companies in these industries.¹¹⁷ The EU has clearly stated its grievances with the current lack of transparency and Chinese practices towards foreign firms, and therefore the next steps to address the discriminatory practices need to be more hard-hitting and utilize the leverage that the EU has.

Forced technology transfers (FTT) are a tactic often employed by the Chinese government to gain access to foreign technology. This is especially the case in SOEs where executives are not just motivated by profits, but also the future of the sector within the Chinese economy, making the stakes of technology acquisition much higher. Many of the multinational companies that operate in China must do so through joint ventures because some industries are closed off to foreign competitors.¹¹⁸ This forces European firms to partner with a Chinese competitor with whom they will share operations. In doing so, China lessens the sovereignty Europeans have in China because control over business operations and technology are forsaken. Cecilia Malmstrom, the EU's trade commissioner, has said that the mandate for EU firms to give away profitable technology in exchange for investing in China is intolerable.¹¹⁹ Forced partnerships can compel foreign companies to share their sensitive technology with the domestic firms, the very same firms that will likely become their competitors in the free market.¹²⁰ This also clearly violates the rules that China committed to in its accession to the WTO. In a 2018 "ECC in China" survey, 20% of respondents said that they were compelled to agree to technology transfers. Strategic industries were among the most affected with 30% of chemical and petroleum firms being compelled, 28% of medical firms, and 27% of pharmaceutical firms.¹²¹ The elimination of FTT should be a priority in EU-China negotiations.

China's *Made in China 2025* initiative holds acquiring technology as the means to become the global leader of the technology industry. This state-led industrial policy gives government subsidies to China-owned enterprises to help them acquire intellectual property in

¹¹⁷ Ibid.

¹¹⁸ Jake, Frankenfield. "Forced Technology Transfer (FTT)." Investopedia. Investopedia, January 29, 2020. <https://www.investopedia.com/forced-technology-transfer-fft-4687680>.

¹¹⁹ "EU Adds Tech Transfers to Complaints about China." Gale Academic OneFile. NI Syndication Limited, December 21, 2018. https://go-gale-com.offcampus.lib.washington.edu/ps/i.do?id=GALE|A566588556&v=2.1&u=wash_main&it=r&p=AONE&sw=w.

¹²⁰ Ibid.

¹²¹ Ibid.

order to catch up to and surpass Western technological leaders.¹²² FTT and access to the intellectual property of successful European firms poses a threat to the firms' long-term competitive edge. The advantage that Chinese firms gain through acquiring access to established technology does not provide an equal opportunity for EU firms to be competitive in the Chinese market. FTT again demonstrates a lack of reciprocity between the EU and China in their treatment of foreign firms. Intellectual property theft from China is a critical concern for the EU, especially due to possible security concerns as discussed in Chapter 6.

Pathway to Progress

Although China has made several concessions in creating a more level playing field for foreign firms, remaining structural barriers create the need for European firms to explore other avenues to become competitive in China. Though China has failed to follow through on some of the promises made in its accession to the WTO, China has progressed in making its economic and political environment more conducive for foreign businesses. For example, the April 2019 EU-China Summit addressed FTT, Chinese state aid, unfair practices that create distortions in competition within China, and the need to strengthen WTO rules.¹²³ China was also recently ranked 31st out of 190 economies in the "Ease of Doing Business Index" in 2019, moving up from 78th place in 2017. The index ranks economies using factors including regulatory environment and protection of property rights. In comparison, France was ranked 32nd and Germany 22nd in 2019. The IMF recognized China's recent progress in their 2019 Article IV Consultation with China, which noted the revisions made to their national Patent Law, their rapidly increased status in the "Ease of Doing Business Index," and the strengthened IP protection achieved through the establishment of the IP tribunal.¹²⁴ This progress, though apparent, has not been enough to create a completely level playing field for foreign firms entering China.

There are some tactics Chinese firms use in Europe that could be applicable for EU firms attempting to become more competitive in China. In Europe, Chinese firms have made efforts to localize products and processes to European standards. The EU should develop strategies to emulate similar success in China in order to address market interests more effectively. For

¹²² Ibid.

¹²³ Ibid.

¹²⁴ European Business in China Position Paper, pg. 6

example, adapting products to suit Chinese consumers' preferences or adopting a more inclusive corporate structure to align corporate cultures. European firms that do not adjust their business processes when entering China may risk failure in the Chinese market in areas outside of their competencies.

Adapting to Chinese business practices is a strategy European firms can employ in order to make their transition into China easier.¹²⁵ In many cases, when European firms open operations in China, they hire Chinese employees for the transition period but fail to sustain any new policies or characteristics of the Chinese corporate environment. They will also “edge out” the Chinese employees once they have learned the bare minimum to operate in China.¹²⁶ China has been accused of similar practices against European employees when entering Europe, though not to the same degree as their European counterparts.¹²⁷ This pattern, done by both parties, creates an alienating environment for the others' contributors and makes coordination and cooperation more difficult for firms that could profit from cultural assimilation. If European firms greater valued their Chinese employees' careers, a more open dialogue could be created to integrate a company's culture to the Chinese environment, and have shorter, more efficient transition periods. A greater deal of balance is necessary from both the EU and China in order to achieve a better environment for EU firms attempting to enter the Chinese market.

Recommendations

1. Create an EU-China summit focused on the market access of EU firms in China

This summit would utilize the EU's leverage of MES and FTA for China in exchange for an agreement that would push for competitive neutrality and more transparency while prohibiting FTT and forced joint ventures. If China continues noncompliance with these standards, the EU should consider harsher measures such as tariffs.

2. Establish a unified stance on EU company contract provisions

¹²⁵ Chu, et al. “How IKEA Adapted Its Strategies to Expand and Become Profitable in China.” *Business Today*, 6 Dec. 2013, www.businesstoday.in/magazine/lbs-case-study/how-ikea-adapted-its-strategies-to-expand-in-china/story/196322.html.

¹²⁶ *China's Offensive in Europe*, pg. 31

¹²⁷ *China's Offensive in Europe*, pg. 31

These provisions would prohibit EU firms from entering the Chinese market unless China strictly forbids FTTs and CCP involvement in business operations. It is the job of the EU to demand reciprocity from the Chinese government. Beyond influencing EU firm contracts and using leverage to push China to agree to the terms provided, it is difficult to expect immediate cooperation by China given its history of not following the terms of its WTO agreement. The EU should be very hard lined on its requests and impose restrictions for Chinese firms in the EU should they not cooperate.

3. Emphasize the concept of competitive neutrality

Adopting the principle of competitive neutrality would not only benefit EU enterprises but might also raise EU confidence in the Chinese market leading to a rise in investment.¹²⁸ Creating greater trust in the Chinese system for European firms would have a positive effect on the overall perception of the Chinese system. This confidence can contribute to greater reciprocity in terms of trade agreements, a greater influx of European exports meeting the demand of the growing middle class, and an increase in European firms entering the Chinese market.

¹²⁸ European Business in China Position Paper, pg. 2

Chapter 5: Case Studies – China’s Entry into Different European States

Diana Van Hoosier

The 2010s saw the largest influx of Chinese investment in the EU, which was unequally distributed among member states and industries. Chinese investment in mainland Europe is largely geared towards infrastructure, value-added manufacturing, and hospitality services. Greece and Italy, two countries hit the hardest in the Eurozone Crisis, saw many strategic acquisitions with little control of what was purchased. Conversely, France and Germany’s robust economies allowed them to limit what and how much Chinese investors could purchase. Examining these cases yields a greater understanding of the nature and future of Chinese involvement in the EU.

Greece and Other Vulnerable Economies

The global financial crisis hit hardest in Greece, which has since grappled with a serious public debt crisis.¹²⁹ Financial assistance provided to Greece by the International Monetary Fund (IMF) and other European banks was contingent upon structural fiscal reforms and restructuring debt held by private investors who lost 75% of their investments. The Greeks felt these austerity measures bred humiliation and did little to relieve their debt.¹³⁰ The IMF declined to participate in the third financial assistance package for Greece in July 2015, due to concerns about Greece’s debt sustainability and reform commitments.¹³¹ The debt and broader economic crises in Greece have shaken the Greek political system and fueled public resentment toward EU institutions and fellow Eurozone members.¹³² This resentment has pushed Greece to look to outside help in confronting their debt problem.

China is by no means one of the top investors in Greece nor is Greece an essential destination for Chinese FDI, even as Chinese investment continues in the EU. However, Piraeus has captured EU attention because it has combined in one single site the fears and opportunities

¹²⁹ “Greece Government Debt: % of GDP [1995 - 2020]” [1995 - 2020] [Data & Charts], January 1, 1970. <https://www.ceicdata.com/en/indicator/greece/government-debt--of-nominal-gdp>.

¹³⁰ Nelson, “The Greek Debt Crisis: Overview and Implications for the United States,” 3.

¹³¹ *Ibid*, 6.

¹³² *Ibid*, 9.

caused by the recent influx of Chinese investment into Europe. Within Greece, there is little governmental concern about their loss of full autonomy over their industries and ports. Greece's geostrategic position has long been of great interest to the European powers, the United States, and Russia. China may affect the relationship between Athens and the EU, as it provides the Greek government – to some degree – with an alternative source of financial and diplomatic support.

Piraeus Port Authority

In the wake of Greek turmoil, Chinese investors saw a huge opening into the European market. Austerity drastically damaged the Greek economy as privatization allowed for key infrastructure to be sold. It should be noted that China is not even one of the top five foreign countries investing in Greece, but concerns remain about strategic investments by a country that is not considered to be an ally. As previously stated, the political economy of China is vastly different than that of the EU, leaving European firms and governments unclear on the extent they are dealing with the Chinese government. Even private firms are granted large government subsidies and can thus make incredibly large acquisitions. The largest Chinese infrastructure project in Greece, COSCO's flagship investment, raised alarm in the EU regarding Chinese strategic investment. After signing the initial EUR 831.2 million agreement in 2008, COSCO purchased a 51% stake in the Piraeus Port Authority (PPA) in 2016 for EUR 280.5 million.¹³³ Since then, infrastructure development has been underway with Piraeus rapidly transforming into a major transshipment logistics center and cruise hub.¹³⁴ One condition of this agreement gives COSCO Group full control of the three container piers and almost full control of all Greek container activity,¹³⁵ providing huge advantages to Chinese firms looking for entry into Europe and solidifying Chinese presence.

The port of Piraeus, coined the “pearl of the Mediterranean” for its strategic position, is becoming China's gateway to Europe. China and Europe have developed a large trade flow

¹³³ Plamen Tonchev, “China’s Growing Economic and Political Clout through Investment in Greece,” in *Chinese Investment in Europe: A Country-Level Approach*, ed. John Seaman (French Institute of International Relations, 2017), 71.

¹³⁴ *Ibid.*, 71.

¹³⁵ Huliaras, A., Petropoulos, S. “Shipowners, ports and diplomats: the political economy of Greece’s relations with China.” *Asia Eur J* **12**, 215–230 (2014). <https://doi.org/10.1007/s10308-013-0367-1>

centered around maritime trade, as 80% of Chinese imports and exports with Europe are transported through sea lanes.¹³⁶ COSCO has introduced modern equipment and improvements that have increased the PPA's efficiency, expanding shipping activity in Greece and changing shipping patterns at large. In addition to technology, COSCO also brings its business associates to the port. COSCO itself is a major customer for the Piraeus terminal and also shares ships with members of its business alliance such as K-Line, Hanjin and Yang Ming, automatically ensuring that these companies also utilize the port.¹³⁷ This also makes Piraeus more attractive to non-exclusively Chinese-owned firms such as Maersk Line, Mediterranean Shipping Company, French transportation company CMA CGM, China Shipping Container Lines, and Evergreen Line.¹³⁸ After years of hardship under austerity, a great deal of money flowing into the Greek economy through an improved shipping industry serves as a strong incentive for the Greek government to cooperate with Chinese investors.¹³⁹

The EU is concerned about whether Chinese shipping and naval expansion are part of a long-term strategic investment strategy, or simply scattered profit-seeking investment opportunities. In addition to purchasing strategic ports, China is also expanding its maritime power in terms of shipping assets and naval power, as well as streamlining its shipping network to Chinese-owned ports. Second only to the US, China's trade and military presence in international waters rivals or surpasses that of the majority of EU countries. With control over strategic ports around the world, Chinese naval forces can secure the best shipping lanes, a necessity for expanding Chinese presence, which is crucial to the BRI.¹⁴⁰ Experts view developing routes, naval support, securing assets, supply lines, and creating new political and economic ties around the world as strategically advancing both BRI and naval ambitions.¹⁴¹

¹³⁶ Ibid.

¹³⁷ Ibid.

¹³⁸ Tonchev, Plamen, "China's Growing Economic and Political Clout through Investment in Greece," 73.

¹³⁹ Tonchev, Plamen, and Polyxeni Davarinou. "Chinese investment in Greece and the Big Picture of Sino-Greek relations." *Institute of International Economic Relations, December (2017)*.

¹⁴⁰ Van der Putten, Frans-Paul, and Minke Meijnders. *China, Europe and the maritime silk road*. Clingendael, Netherlands Institute of International Relations, 2015.

¹⁴¹ Ibid.

Infrastructure and Telecommunications

Other potentially strategic investments made by China are in energy and telecommunications. The second largest Chinese investment in Greece took place in 2016, with the purchase of a 24% stake in Greece's Independent Power Transmission Operator (IPTO/ADMIE) by China State Grid International Development Ltd. The investment was valued at EUR 320 million and was completed in 2017, in addition to smaller scale investments in different renewable energy sectors.¹⁴² In addition to energy, Chinese telecommunications corporations such as Huawei and ZTE have entered Greece by selling equipment and providing mobile telecommunications services and big data management. Some of these investors seek cooperation with local software companies on the development of next generation networks and broadband Internet backbone infrastructure.¹⁴³

Similar Patterns in Italy

Though less extreme than Greece's near economic collapse, EU periphery states also faced hardships during the global financial crisis. Chinese investments in Italy have soared since 2014, and in 2015, Italy was the top destination of Chinese investments in Europe. China's primary investment in Italy was ChemChina's acquisition of Pirelli.¹⁴⁴ The funding for this investment came from the China Investment Corporation, the Export-Import Bank of China, and the China Development Bank.¹⁴⁵ These state-owned institutions are known to finance takeovers abroad in sectors deemed strategic for the realization of the BRI. So far, Beijing has invested almost EUR 5 billion in listed companies on the Italian stock market, a sum which corresponds to around 10% of total Chinese investments in European stocks, estimated at EUR 54 billion.¹⁴⁶ By the end of 2016, more than 260 Chinese industrial and financial companies had invested in around 450 Italian businesses, which employ more than 25,000 workers in total.¹⁴⁷

¹⁴² Drahokoupil, *Chinese Investment in Europe*. 71.

¹⁴³ Ibid, 71.

¹⁴⁴ Nicola Casarini, "Chinese Investment in Italy: Changing the Game in *Chinese Investment in Europe: A Country-Level Approach*", ed. John Seaman (French Institute of International Relations, 2017), 85.

¹⁴⁵ Ibid, 85.

¹⁴⁶ Ibid, 83.

¹⁴⁷ Ibid, 86.

More investments are likely to come in the near future, as projects related to China's BRI are implemented.¹⁴⁸ Italian political parties and government officials on both ends of the ideological spectrum have raised reservations about China's penetration in industrial sectors considered important to their domestic economy. Moreover, there are growing fears that Beijing may gain access to sensitive technology and expand unwanted political influence. In October 2017, the Italian government strengthened its existing screening mechanisms so as to ward off the so-called "predatory" investments made by third-party countries in key strategic, high-tech sectors.¹⁴⁹ This explains Italy's decision to reinforce its own measures and join Germany and France in backing the call for an EU-wide investment screening mechanism in February 2017.

States with Increased Control of Chinese Entry into their Countries

Stronger economies, like those of Germany and France, can afford to control how much Chinese investment comes into their country and in what industries. Chancellor Merkel urged Europe to be wary about opening its markets to products that had been developed with public subsidies in China and to demand reciprocity on access to public tenders.¹⁵⁰ EU lawmakers, at the urging of Germany and France, are finalizing legislation that will give national governments more discretion to review and authorize Chinese investments.¹⁵¹ While maintaining openness to FDI provides economic opportunities, such openness must be accompanied by effective policies to ensure reciprocity. On the other hand, protecting critical European assets against investment would be detrimental to legitimate interests of the EU.¹⁵² Currently, the general trend is toward stricter FDI screening in Europe.

Germany

¹⁴⁸ Ibid, 84.

¹⁴⁹ Ibid, 85.

¹⁵⁰ citNewsroom. "Merkel's Discontent for Greece-China Relations." The Greek Observer, July 3, 2017. <https://thegreekobserver.com/greece/politics/article/13908/merkels-discontent-greece-china-relations/.ation>

¹⁵¹ Duvernoy, Christian. "EU to Establish a Framework for Screening Foreign Direct Investment." WilmerHale, September 18, 2017. <https://www.wilmerhale.com/en/insights/client-alerts/2017-09-18-eu-to-establish-a-framework-for-screening-foreign-direct-investment>.

¹⁵² Maçães, Bruno. *Belt and Road: a Chinese World Order*.

In the wake of the 2008 crisis, trade with China became an important driver of economic growth in Germany. German industries benefited from the increase in Chinese import demand more than other European countries, particularly in strong sales of their automotive products.¹⁵³ Germany is the second largest recipient of Chinese foreign investment, as FDI hit a record value of EUR 12 billion in 2016. On the other hand, FDI from Germany to China has declined, down EUR 1.5-2.5 billion between 2013 and 2016.¹⁵⁴

Germany and China have a strong economic relationship. Maintaining access to foreign knowledge and technologies can aid China in becoming a worldwide high-level technology leader. As a global leader in advanced manufacturing and engineering, Germany is an attractive location for Chinese direct investments.¹⁵⁵ From 2015 onward, Chinese investment in Germany has largely comprised of high-profile acquisitions valued above EUR 500 million.¹⁵⁶ Chinese investors are primarily interested in industrial machinery and equipment, which compose 40% of their investment in Germany, followed by automotives (15%) and utilities (15%). Their focus in advanced machinery and engineering is so that Chinese firms can modernize production processes and climb up the value chain, which has been the Chinese industrial policy since the announcement of *Made in China 2025*.¹⁵⁷ Acquiring these typical German companies facilitated the transfer of technology, R&D, and management know-how to the Chinese firms. However, despite this strong economic affiliation, problems with reciprocity and limited market access remain.

Auto Industry

One of the best known international joint ventures between Germany and China is that of Shanghai Automotive Industry Corporation (SAIC) and Volkswagen. Many Chinese automobile companies lacked the technology or production to meet the demands of the growing Chinese

¹⁵³ Erber, and Georg. "German-Chinese Economic Relations: Opportunities and Risks for Germany." DIW Economic Bulletin. Berlin: Deutsches Institut für Wirtschaftsforschung (DIW), January 1, 2014. <https://www.econstor.eu/handle/10419/92930>.

¹⁵⁴ Mikko Huotari, "Germany's Changing Take on Chinese Direct Investment: Balancing Openness with Greater Scrutin," in *Chinese Investment in Europe: A Country-Level Approach*, ed. John Seaman (French Institute of International Relations, 2017), 64.

¹⁵⁵ Erber "German-Chinese Economic Relations: Opportunities and Risks for Germany."

¹⁵⁶ Mikko Huotari, "Germany's Changing Take on Chinese Direct Investment: Balancing Openness with Greater Scrutiny," 62.

¹⁵⁷ Erber "German-Chinese Economic Relations: Opportunities and Risks for Germany."

middle class. In 2009, China overtook the US to become the world's largest automotive market in new car sales. At the same time, sales in countries with well-known automotive manufacturers like Germany, Japan, and the US stagnated or decreased due to limited demand. The Volkswagen Group was one of the first foreign automotive companies that began operations in the Chinese market. In 1984, they started a joint venture with SAIC, and in 1990 started a second joint venture with First Automotive Works (FAW).¹⁵⁸ SAIC Volkswagen succeeded by balancing crucial strategic decisions and maintaining good relations. As of 2019, Volkswagen earns almost half its sales revenue in China, occupying 14% of the Chinese car market.¹⁵⁹

As German automakers have grown more interdependent with Chinese investors and the Chinese market, they also have become more beholden to the Chinese government.¹⁶⁰ Entering a joint venture with a Chinese SOE requires a degree of compliance with the CCP's social and political stances. Much controversy has risen over whether or not Germany should block Huawei from entering its market, especially due to resistance from the Trump administration. The Trump administration put heavy pressure on member states to disallow Huawei, a firm suspected to be closely tied to the Chinese military, from their markets, warning that opening up European 5G networks would be a security risk.¹⁶¹ Germany faces pressure from both sides in relation to the automotive industry. On one hand, relations with the Trump administration are tense due to the threat of tariffs against German automakers. China, on the other hand, has become the biggest source of growth for Germany's main carmakers and the key to their dominance in the luxury car market. Wu Ken, China's ambassador to Germany, warned that if "Germany were to make a decision that led to Huawei's exclusion from the German market, there will be consequences."¹⁶² Wu's threat begs the question to what extent the Chinese government would expect German

¹⁵⁸ Tonchev, Plamen, and Polyxeni Davarinou. "Chinese investment in Greece and the Big Picture of Sino-Greek relations." Institute of International Economic Relations, December (2017), 865.

¹⁵⁹ Bennhold, Katrin, and Jack Ewing. "In Huawei Battle, China Threatens Germany 'Where It Hurts': Automakers." The New York Times. The New York Times, January 16, 2020.

¹⁶⁰ Sanger, David E., and David McCabe. "Huawei Is Winning the Argument in Europe, as the U.S. Fumbles to Develop Alternatives." The New York Times. The New York Times, February 18, 2020. <https://www.nytimes.com/2020/02/17/us/politics/us-huawei-5g.html>.

¹⁶¹ Landler, Mark, and Stephen Castle. "Johnson Risks a Rift with Trump by Granting New Access to Huawei." The New York Times. The New York Times, January 28, 2020. <https://www.nytimes.com/2020/01/28/world/europe/johnson-trump-huawei-rift.html?searchResultPosition=1>.

¹⁶² Bennhold, "In Huawei Battle, China Threatens Germany 'Where It Hurts': Automakers." The New York Times.

firms to comply. Exclusion from the fastest growing automotive market could be devastating for the German automotive industry. As China's development of domestic key industries becomes more competitive through technology transfers, as has been seen with Huawei, the future of Sino-German relationships may shift to reflect the strength of the Chinese economy and thereby undermine the German economy.

Geely's high-profile acquisition of Swedish car company Volvo is another prominent example of Chinese strategic investment, as Volvo is an established Western automotive maker with a strong global brand and high level of R&D investment.¹⁶³ Prior to the acquisition of Volvo, Geely was known for producing mass-produced inexpensive cars, but only managed to secure 2.5% of the entire Chinese market share.¹⁶⁴ Their main competitors in China were international automotive manufacturers that had partnered with local Chinese firms.¹⁶⁵ Thus, Geely could only look outside of China to start capturing market share, as its cars were nowhere near the consumer standard in the international market. For Chinese manufacturers in knowledge-intensive industries, foreign company acquisitions have become important vehicles for rapidly obtaining innovation capabilities. With the acquisition of Volvo, rather than trying to enter the European market, Geely aimed to begin exporting abroad and to capture a larger domestic market in China.

The purchase of Volvo immediately raised awareness of the Volvo brand in China, which Geely capitalized on to improve positive domestic conceptions of its own Geely brand. Geely used Volvo engineers, designers, and expertise to make Geely cars competitive for foreign export. Initially, there was resistance from inside Volvo to being bought out by and operated by a Chinese company, so Geely's management made concessions. Original management of Volvo was allowed to operate independently, while Geely agreed to only use older Volvo designs for Geely cars as to not dilute the Volvo brand. Despite being fully owned by a Chinese firm, Volvo is still treated as a foreign entity by the Chinese government, which excludes it from the perks of other Chinese owned enterprises. In order for Geely-Volvo to be fully considered a Chinese company, Geely would need to absorb all of Volvo's assets and close Volvo's Swedish

¹⁶³ Yakob. "Chinese foreign acquisitions aimed for strategic asset-creation and innovation upgrading: The case of Geely and Volvo Cars," 1.

¹⁶⁴ Ibid, 3.

¹⁶⁵ Ibid, 5.

headquarters.¹⁶⁶ This is unlikely, given that in the process Geely would either force out or lose all the technological, design, and managerial advantage that it gained in the acquisition of Volvo. Geely and Volvo tell the tale of an advanced European firm being acquired by a Chinese firm, transferring technology and know-how, but still being able to function autonomously while maintaining its brand identity. Volvo provides a key study in how Chinese acquisitions of big European companies are being used to boost the domestic Chinese economy, improve products, and use competitive advantages to move into new markets.

The acquisition of knowledge-intensive firms producing products with high-technology content is not limited to the automotive industry, but Volkswagen and Volvo represent well-known examples. The German public and government are concerned about Chinese firms acquiring technology that could boost Chinese military strength. The increasing number of high-tech deals has led to controversies in the public and the media, resulting in the German government changing its policy stances and framework on inbound FDI. As the significance of information and communications technologies increased, China gradually displaced Western firms as the producer of these high-tech goods from the global market, although globally active multinational corporations from Japan, South Korea, Taiwan, and the US also contributed to this process. Since Germany already withdrew from the high-tech market long ago, there have only been a small number of trade conflicts with China, but if Germany wants to maintain its competitive advantage in manufacturing it will need to make sure to protect its domestic market from being overrun and outpaced.

France

France has tightened its rules on investment and called for stronger overall European regulation. The recent EU regulation on FDI screening is thus part of the European response to Chinese strategic investment. France aspires to create a uniform framework within the EU for screening investments by defining common principles and establishing a cooperation mechanism involving the Commission and the member states to exchange information on FDI projects falling within their jurisdiction.

¹⁶⁶ Ibid, 14.

Chinese investment in France has mainly been in lifestyle industries.¹⁶⁷ Chinese consumers prize France's specialty well-known brand names and products related to the "art of living." In the tourism sector, Chinese firms are buying a large number of shares in well-established French hotels brands. The same is true of agro-food and health sectors in which the Chinese middle class is no longer satisfied with Chinese producers.¹⁶⁸ For example, Chinese food safety concerns have led to an upsurge in purchasing French baby formula and milk. There is also a growing wine market in China which has led to growing Chinese investment in Bordeaux, a French wine manufacturing company. In 2000, Bordeaux exported less than 400,000 bottles to the small Chinese market. Today, China is Bordeaux's number one export market, where it sells 80 million bottles a year.¹⁶⁹ While not insignificant, such investments do not raise the same level of alarm that buying a port or manufacturing firm entails.

Screening

From a corporate standpoint, Chinese investment is an influx of much needed capital as well as a means to open new market opportunities and new avenues for collaborations. The French government remains open to Chinese investment and business, but not in every sector.¹⁷⁰ Security and defense communities have raised concerns about China looking to invest in high-tech sectors and the increasingly close links between private high-tech enterprises and the armed forces. Still, Chinese investment in France is not solely limited to lifestyle. The China Investment Corporation (CIC) has been one of the most active investment groups in France. In 2011, the CIC bought a 30% stake in the *Exploration and Production* division of GDF Suez, one of the world's largest gas and electricity utility companies, for EUR 2.9 billion. The CIC has also invested EUR 385 million in Eutelsat and over EUR 1 billion in a joint development of infrastructure projects in the greater Paris metro area signed with Caisse des Dépôts et

¹⁶⁷ John Seaman, "Chinese Investment in France: An Openly Cautious Welcome," in *Chinese Investment in Europe: A Country-Level Approach*, ed. John Seaman (French Institute of International Relations, 2017), 57.

¹⁶⁸ Corre, Philippe Le, and Alain Sepulchre. *China's Offensive in Europe*. Washington, D.C.: Brookings Institution Press, 2016. chap 1

¹⁶⁹ Beardsley, Eleanor. "Chinese Lovers Of French Wine Are Snapping Up Bordeaux Vineyards." NPR. NPR, November 8, 2017. <https://www.npr.org/sections/thesalt/2017/11/08/551354364/chinese-lovers-of-french-wine-are-snapping-up-bordeaux-vineyards>.

¹⁷⁰ John Seaman, "Chinese Investment in France: An Openly Cautious Welcome," 60.

Consignations.¹⁷¹ While these investments are strategic in nature, Chinese firms have not been approved to acquire a majority share.

To combat rising concerns regarding Chinese investments, France has one of the most developed screening mechanisms for foreign investment. French authorities have taken advantage of the provisions granted in Article 65 of the Treaty on the Functioning of the European Union (TFEU) that allows for scrutiny of non-European investments into sectors deemed critical for national security.¹⁷² For Paris, this definition goes beyond the arms industry to include the media, judicial services, internal waters, maritime transport, privatization of public assets and even tourism. In May 2014, the French government decreed to widen the original 2005 regulation to include investments relative to water, energy, transport, electronic communications, and public health. France is the first member state to provide an attractive framework for foreign investment based on clear and commonly accepted rules, while identifying problematic FDI projects.¹⁷³

France's relationship to China differs significantly from Greece's relationship to China. All FDI from non-EU member states is heavily screened, and more importantly, France has a strong enough economy and was a lender rather than a borrower during the Eurozone Crisis. In general, France is wary of the lack of reciprocity, but still willing to engage in business. France's strict regulations and screening process could set the tone and provide the foundation for the unified front the EU wants to develop towards Chinese investment.

Recommendations:

1. Prioritize investment of EU member states in weaker economies before allowing foreign acquisitions

The EU's biggest concern is China systematically targeting its periphery to exert an undue amount of influence in the member states that China has invested in. To combat this,

¹⁷¹ John Seaman, "Chinese Investment in France: An Openly Cautious Welcome," 57.

¹⁷² Ibid, 58.

¹⁷³ "Will the EU Let Itself Be Bought? New Framework for Foreign Direct Investments in Europe." Afficher la page d'accueil du site. Accessed February 25, 2020. <https://www.ifri.org/en/publications/etudes-de-lifri/will-let-itself-be-bought-new-framework-foreign-direct-investments>.

EU member states should be given preference in acquisitions of strategic industries. Overall, the EU should promote increased investment by stronger member states in periphery economies to ensure that strategic industries are not bought up by Chinese companies during recessions.

2. Emphasize a united front

As examined through these case studies, the EU employs a variety of different policies among its member states. In order to have consistent leverage in its negotiations with China, there needs to be a consistent policy among all EU member states.

Chapter 6: Security in an Era of Rising China

Shannon Pierson

The EU views its relationship with China simultaneously as an economic boon and a security challenge. The EU hopes to find common ground with China on national security issues described in the *EU-China 2020 Strategic Agenda for Cooperation*, engaging on issues including cybersecurity, climate change, nuclear security, maritime security, and terrorism.¹⁷⁴ NATO shares the EU's concerns over China. In December 2019 at a two-day summit marking its 70th anniversary, NATO discussed security threats from China for the first time in its history. The discussion on China centered on communications security, 5G networks, and cyberattacks.¹⁷⁵ NATO Chief Jens Stoltenberg explained NATO's wish not "to create a new adversary," rather a desire "to analyze, understand and then respond in a balanced way to the challenges China poses."¹⁷⁶ However, the EU has three primary issues of contention. First, EU interests are threatened by China's refusal to abide by the rules-based international order, specifically in areas of intellectual property, state-sponsored economic espionage, and maritime claims in the South China Sea (SCS) area. Second, the EU lacks a unified security approach towards China, evidenced by the lack of consensus over Huawei's involvement in 5G digital infrastructure and differing EU commitments to BRI projects. Third, EU interests, as well as regional and global security, are threatened by Chinese incursion, exhibited by China's maritime claims in the SCS and acquisition of ports and property along key trade routes to the EU region.

Economic Security

Foreign Direct Investment Screening

¹⁷⁴ European Union. "EU-China 2020 Strategic Agenda for Cooperation." [eeas.europa.eu](http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf). European Union, November 23, 2013. http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf.

¹⁷⁵ NATO. "London Declaration." NATO, December 4, 2019. https://www.nato.int/cps/en/natohq/official_texts_171584.htm.

¹⁷⁶ Deutsche Welle. "NATO Recognizes China 'Challenges' for the First Time: DW: 03.12.2019." DW.COM, December 3, 2019. <https://www.dw.com/en/nato-recognizes-china-challenges-for-the-first-time/a-51519351>.

One major security concern for EU member states is unchecked Chinese FDI. A lack of regulation of Chinese asset acquisition—especially for geostrategic locations in Europe—may threaten the EU’s regional and national security and strategic interests. As mentioned earlier in this report, Chinese investment in EU nations has surged in recent years—increasing tenfold over the course of 2008 to 2017 and reaching EUR 59 billion in 2017.¹⁷⁷ In April 2019, the EU initiated the Foreign Investment Screening framework, an EU-level investment screening mechanism to increase transparency and communication among member states about foreign investments.¹⁷⁸ This framework allows member states to share information on FDI, raise concerns over investments and their potential implications, submit EC opinions on investments if requested by member states and set standards for national investment screening mechanisms.¹⁷⁹ However, the Foreign Investment Screening framework lacks force, as EC opinions are non-binding. Final decisions belong to the member state concerned, even if the investment affects the interests of the entire Union. Individual member states may, but are not required to, create their own national investment screening systems. Currently, only 14 EU member states have formalized national investment screening mechanisms, which have varying degrees of effectiveness and scope. For example, the Netherlands only screens foreign investment in the energy sector, whereas Greece does not screen any foreign investments whatsoever.¹⁸⁰ A lack of regulation of Chinese asset acquisition, especially for geostrategic locations, may threaten the regional and national security of the EU.

Intellectual Property Threats

Rather than outright interstate aggression, the security challenges posed against the EU by China predominantly exist between European commercial firms and the PRC. The primary arena for PRC-sponsored aggression is in intellectual property (IP) and technology. In December

¹⁷⁷ Dadush, Uri, Marta Dominguez-Jimenez, and Tianlang Gao. “The State of China-European Union Economic Relations.” bruegel. bruegel, November 20, 2019. <https://bruegel.org/wp-content/uploads/2019/11/WP-2019-09-China-final.pdf>.

¹⁷⁸ European Council. “Foreign Investment Screening: New European Framework to Enter into Force in April 2019.” European Commission - European Commission. European Council, March 5, 2019. https://ec.europa.eu/commission/presscorner/detail/en/IP_19_1532.

¹⁷⁹ *ibid.*

¹⁸⁰ European Commission. “List of Screening Mechanisms Notified by Member States.” European Commission. European Commission, February 28, 2020. https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157946.pdf.

2019, the EC published a report on the status of IP rights protection in EU dealings with third-party countries and it identified China as a “Priority 1” country of concern for the EU due to poor protection of Intellectual Property Rights (IPR), including forced technology transfer, IP theft, and weak IP enforcement.¹⁸¹ IPR violations and the lack of IP protection enforcement from China cause “irreparable harm” to European businesses, leading to significant losses in revenue.¹⁸²

As mentioned previously in this report, FTT of trade secrets in exchange for Chinese market access is a significant barrier for EU stakeholders and businesses entering the Chinese market. Although FTT is not a major security concern for EU member states, it is the EU’s chief concern on IPR protections in relation to China.

Counterfeiting of EU goods in China is a large problem. Approximately 73% of IPR-infringing goods in the EU emanate from China.¹⁸³ Moreover, China practices weak IP enforcement, leaving trade secrets vulnerable to theft. The loose regulatory environment allows room for Chinese authorities to extract foreign technology, sometimes in collaboration with Chinese joint-venture partners.¹⁸⁴

China is one of the most capable and active culprits in economic espionage globally, and the EC estimates that its cyber espionage activities in Europe have cost EUR 60 billion in economic growth.¹⁸⁵ ¹⁸⁶Trade secret theft and industrial espionage emanating from China are big problems, specifically in the technology sector. Under the Chinese National Intelligence Law (2017), Chinese organizations and citizens are compelled to “support, assist and cooperate with state

¹⁸¹ European Commission. “Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries.” European Commission, January 8, 2020.

https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158561.pdf.

¹⁸² *ibid*.

¹⁸³ Customs Union, and European Commission. “Report on the EU Customs Enforcement of Intellectual Property Rights : Results at the EU Border, 2017.” Publications Office of the European Union. Publications Office of the European Union, September 26, 2018. <https://op.europa.eu/en/publication-detail/-/publication/64dda5ad-c197-11e8-9893-01aa75ed71a1/language-en/format-PDF>.

¹⁸⁴ European Commission. “Report on the Protection”.

¹⁸⁵ National Counterintelligence and Security Center. “Foreign Economic Espionage in Cyberspace.” dni.gov. Office of the Director of National Intelligence, 2018. <https://www.dni.gov/files/NCSC/documents/news/20180724-economic-espionage-pub.pdf>.

¹⁸⁶ Cerulus, Laurens. “Europe Raises Flags on China's Cyber Espionage.” POLITICO. POLITICO, April 18, 2019. <https://www.politico.eu/article/europe-raises-red-flags-on-chinas-cyber-espionage/>.

intelligence work.”¹⁸⁷ Such a law would require an SOE to share trade secrets or technology with the Chinese government upon request.¹⁸⁸ Although more frequent in the US, state-sponsored technology theft attacks mainly targeting technology companies are not uncommon in Europe. In a recent example in April 2019, semiconductor chipmaker ASML experienced IP theft from its own research and development employees linked to ASML’s Chinese competitor XTAL, which had ties to the Chinese Ministry of Science and Technology.

Despite obvious challenges, the EU has made efforts to engage with China to improve IP protections. Throughout 2018 and 2019, China made notable progress in the development and reform of its IPR litigation system. In 2018, China established an IP Court within the Supreme People’s Court (SPC). The SPC has jurisdiction over technical civil IP cases and validity appeals on patents.¹⁸⁹ In 2019, China also began creating an IP court specialized on patents, which may disseminate IP knowledge of courts everywhere in China.¹⁹⁰ This is all part of an effort to strengthen IP protections throughout China.

The Belt-and-Road Initiative

The BRI has gained significant traction among EU member states. Thus far, 13 EU member states have committed to BRI projects, nearly half of the EU. These member states are predominantly located in southern and central Europe, as China has focused on securing deals with Europe’s periphery countries and their smaller economies to access the EU’s core economic juggernauts, as well as gain influence over geostrategic assets in Mediterranean shipping ports.¹⁹¹

¹⁸⁷ ArjunKharpal. “Huawei Says It Would Never Hand Data to China’s Government. Experts Say It Wouldn’t Have a Choice.” CNBC. CNBC, March 5, 2019. <https://www.cnbc.com/2019/03/05/huawei-would-have-to-give-data-to-china-government-if-asked-experts.html>.

¹⁸⁸ Keane, Sean. “Huawei Ban: Full Timeline on How and Why Its Phones Are under Fire.” CNET, March 13, 2020. <https://www.cnet.com/news/huawei-ban-full-timeline-us-government-china-trump-ban-rural-carriers-security-threat/>.

¹⁸⁹ Cohen, Mark. “A Federal Circuit with Chinese Characteristics? – The Launch of China’s New National Appellate IP Court 中国特色的联邦巡回上诉法院？” China IPR - Intellectual Property Developments in China, January 10, 2019. <https://chinaipr.com/2019/01/04/a-federal-circuit-with-chinese-characteristics-the-launch-of-chinas-new-national-appellate-ip-court-%e4%b8%ad%e5%9b%bd%e7%89%b9%e8%89%b2%e7%9a%84%e8%81%94%e9%82%a6%e5%b7%a1/>.

¹⁹⁰ European Commission. “Report on the Protection”.

¹⁹¹ Zeneli, Valbona. “Italy Signs on to Belt and Road Initiative: EU-China Relations at Crossroads?” thediplomat.com. The Diplomat, April 3, 2019. <https://thediplomat.com/2019/04/italy-signs-on-to-belt-and-road-initiative-eu-china-relations-at-crossroads/>.

Italy became the largest EU economy and first G7 member to join China's BRI when it signed a non-binding but wide-ranging Memorandum of Understanding with Beijing on March 23, 2019. EU leaders Germany and France have yet to pursue a BRI deal, initially disavowing them and discouraging other member states from signing on. However, Germany later outlined an accepting European position towards China's BRI. At a bilateral meeting just days after Italy signed on to the BRI, Chancellor Merkel flipped her opinion on the subject, saying, "We, Europeans, want to play a role."¹⁹²

BRI dealings may threaten EU member states with debt, loss of territory and strategic assets, and compromises of national and regional security. BRI infrastructure projects can carry significant financial risk, as they require huge sums of up-front capital expenditures that take a long time to generate returns on investment. Payments may be due before returns are ever generated and BRI countries may subsequently become locked in indebtedness, an outcome that has resulted in the transfer of land and strategic assets to pay off debts. China is accused of creating debt traps for financially vulnerable countries that buy into BRI deals, specifically geostrategic locations along China's key trading routes. For example, in 2017, the Sri Lankan government relinquished control of the BRI-built shipping Hambantota port and 15,000 acres of land surrounding it for a 99-year lease because it failed to repay its debts to China on the project.¹⁹³

It is theorized that China has underlying expansionist motives and military ambitions for the BRI. China has already undertaken military commercial dual-use port projects in EU-relevant sea lanes in Djibouti, Sri Lanka, and Pakistan. Djibouti, the gateway point to the Suez Canal, permitted Chinese companies to finance and build the Doraleh Multipurpose Port, located directly next to an existing Chinese overseas military base. Opened in 2018, the port is now operated by SOE China Merchants and functions as a commercial port while accommodating the People's Liberation Army Navy (PLAN) military operations on a dedicated berth.¹⁹⁴ Reportedly,

¹⁹² Hermes. "EU Wants to Play Active Part in BRI, Says Merkel." *The Straits Times*, March 27, 2019. <https://www.straitstimes.com/world/europe/eu-wants-to-play-active-part-in-bri-says-merkel>.

¹⁹³ Abi-habib, Maria. "How China Got Sri Lanka to Cough Up a Port." *The New York Times*. *The New York Times*, June 25, 2018. <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

¹⁹⁴ Economy, Elizabeth C. "China's Strategy in Djibouti: Mixing Commercial and Military Interests." *Council on Foreign Relations*. *Council on Foreign Relations*, April 18, 2018. <https://www.cfr.org/blog/chinas-strategy-djibouti-mixing-commercial-and-military-interests>.

the berth houses fuel, weapon, and equipment storage as well as ship maintenance facilities. Additionally, the berth is capable of accommodating nearly all of the vessels in PLAN's fleet.¹⁹⁵ While China is the seventh country to have a military base in Djibouti, China has blurred the lines between economic power and military power in BRI projects by allowing its military to tap into its commercial projects, challenging the state sovereignty of its BRI partners. It is suspected that China has also involved its military in BRI projects in Sri Lanka's Hambantota port along one of the world's busiest shipping lanes and Pakistan's Gwadar region in the Gulf of Oman.¹⁹⁶ This military involvement is likely to be replicated in other BRI projects. These ports are located in economically and militarily strategic areas for China and that concern EU interests and markets.

Through BRI dealings, China could acquire assets or gain influence in geostrategic locations in Europe. For example, China is organizing a "Five Ports" Initiative with Italy, Slovenia, and Croatia to revitalize shipping ports in the north Adriatic Sea, namely Venice, Trieste, and Ravenna, Capodistria, and Fiume. This deal will grant China's 21st Century Maritime Silk Road direct access to the center of Europe.

Chinese presence in strategically important ports poses a surveillance threat to US and NATO naval forces. Since 2015, a large proportion of Chinese investment in Europe has been directed into key infrastructure projects and facilities, including strategically significant ports.¹⁹⁷ For fiscally weaker EU countries bordering the Mediterranean Sea such as Greece and Italy, these offers are difficult to refuse.¹⁹⁸ As previously mentioned, COSCO bought a controlling stake in Greece's Port of Piraeus in 2016 and transformed it into the busiest port in the Mediterranean. China has also invested in ports outside of southern Europe, including Europe's largest port in Rotterdam, the Netherlands. Many of these ports are frequented by US and NATO warships. Chinese influence over these facilities creates significant risks for NATO and US naval

¹⁹⁵ Downs, Erica, Jeffery Becker, and Patrick deGategno. "China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base." CNA. CNA, July 2017. https://www.cna.org/cna_files/pdf/DIM-2017-U-015308-Final3.pdf.

¹⁹⁶ Economy, Elizabeth C. "China's Strategy in Djibouti".

¹⁹⁷ Mehta, Aaron. "NATO Struggles with Its China Conundrum." Defense News, Defense News, 4 Dec. 2019, www.defensenews.com/smr/nato-2020-defined/2019/12/03/nato-struggles-with-its-china-conundrum/.

¹⁹⁸ Pelagidis, Theodore. "China's Backdoor to Europe." Brookings, Brookings, 23 Apr. 2019, www.brookings.edu/blog/up-front/2019/04/15/chinas-backdoor-to-europe/

forces. In April 2019, the USS Mitscher, an Arleigh-Burke-class guided-missile destroyer, as well as two warships from other NATO countries, docked at the Port of Piraeus.¹⁹⁹ As Chinese corporations are legally compelled to work with their state's intelligence services, this could open the door for Chinese port operators to spy and gather information on US and NATO warships. Many of the involved European governments and port authorities lack security protocols to counter potential intelligence operations from China.²⁰⁰ Additionally, these Chinese-controlled ports throughout the continent could also affect the operational integrity of NATO forces during times of crisis.

Even though several EU member states have signed onto the BRI, the EU has yet to issue any official or unified policy or strategy for BRI dealings. The BRI is left unmentioned in the EC's "EU-China: A Strategic Outlook" strategy document, published in March 2019. The lack of regulation, screening mechanisms, or EU-established standards heightens the risk for member states who enter BRI deals to fall into debt traps, forfeit valuable assets, or give up partial ownership of geostrategic assets to China. The lack of EU-wide regulation and standards allows member states to sign on to deals based upon their own national risk appetites and standards with no requirements to consider potential impacts upon the Union. This oversight threatens member states individually as well as the European region collectively. This shortcoming is addressed in the EU-China strategy document, which recommends a "whole-of-EU approach" to China and explicitly stresses the need for "full unity" of member states on such issues.

Cybersecurity

Cyberattacks pose a threat to European economic activities, critical infrastructure, and democratic electoral processes. According to a cyber threat landscape report by the European Union Agency for Cybersecurity (ENISA), 7.1% of all cyberattacks experienced in 2018 by EU member states emanated from China.²⁰¹ In January 2020, EC President Ursula von der Leyen

¹⁹⁹ Scimia, Emanuele. "China-Operated Ports Raise Security Fears for US, NATO: Article." *Asia Times*, Asia Times, 2 June 2019, www.asiatimes.com/2019/06/article/are-chinese-operated-ports-a-security-risk-for-us-nato/.

²⁰⁰ *Ibid.*

²⁰¹ ENISA. "ENISA Threat Landscape." ENISA. ENISA, March 20, 2019. <https://www.enisa.europa.eu/topics/threat-risk-management/threats-and-trends/enisa-threat-landscape>.

clarified that the EU has “a lot of worries” in the cyber domain and stressed the importance of standing firm against China while cooperating in other areas.²⁰²

Chinese state-sponsored hacking and cyberattacks that facilitate espionage and theft of industrial trade secrets pose a significant security threat to EU networks, individual member states, and European private companies. In recent years, EU member states have been victims of Chinese Advanced Persistent Threat (APT) hacking groups that are backed by the PRC and are part of the People’s Liberation Army (PLA). In a software and hardware attack waged by APT 10 in 2018, the EU’s network known as CORBEU was accessed and compromised via infiltration of computer systems in the Ministry of Foreign Affairs of Cyprus.²⁰³ Diplomatic cables on nuclear proliferation, arms control, and regional EU diplomacy were compromised and had been intercepted for a 3 year period without notice. The attack was waged by hacking group APT 10, also known as “Stone Panda,” an espionage group hacking on behalf of the Chinese Ministry of State Security and in connection with China’s PLA, employing near-identical hacking strategies.²⁰⁴ Despite the attack being attributed to China by cybersecurity research groups, the EU only issued a weak joint response with a vague statement that urged “actors to stop undertaking such malicious activities.” This statement did not name China or Stone Panda. The EU’s resistance to publicly attributing and denouncing malicious cyber behavior from China establishes a dangerous precedent, creating an environment in which such activities in the EU-China relationship are permissible. However, the EU made headway on cyber defense capability in May 2019, when the Union agreed to new rules that permit member states to freeze assets, restrict travel, and sanction individuals responsible for cyberattacks to “deter and respond to cyberattacks which constitute an external threat to the EU.”²⁰⁵²⁰⁶ This decision enables the EU to respond effectively to cyber aggression emanating from China.

²⁰² *Speech of President Ursula Von Der Leyen at the London School of Economics. Youtube.com.* European Commission, 2020. <https://www.youtube.com/watch?v=cZ4mPMcvnEY&feature=youtu.be&t=2668>.

²⁰³ Roberts, Jeff John, and Robert Hackett. “Chinese Hackers Stole Diplomatic Cables, Report Says. Here's How They Did It.” *Fortune*. *Fortune*, December 19, 2018. <https://fortune.com/2018/12/19/china-eu-hacking/>.

²⁰⁴ Sanger, David E., and Steven Erlanger. “Hacked European Cables Reveal a World of Anxiety About Trump, Russia and Iran.” *The New York Times*. *The New York Times*, December 19, 2018. <https://www.nytimes.com/2018/12/18/us/politics/european-diplomats-cables-hacked.html>.

²⁰⁵ *Idib.*

²⁰⁶ Drozdiak, Natalia. “EU Agrees Powers to Sanction, Freeze Assets Over Cyber-Attacks.” *Bloomberg.com*. *Bloomberg*, May 17, 2019. <https://www.bloomberg.com/news/articles/2019-05-17/eu-agrees-powers-to-sanction-freeze-assets-over-cyber-attacks>.

European technology firms competing against Chinese firms face the threat of economic espionage from Chinese hacking groups while unequipped to defend themselves effectively from the Chinese State intelligence apparatus. Swedish manufacturer SKF, Swedish telecom Ericsson, as well Finland's conglomerate Vamlet were targeted by APT 10 in a global hacking campaign dubbed "Cloud Hopper" from 2010 to 2017.²⁰⁷ This attack transcended European manufacturing, IT, automation, and energy sectors and targeted Chinese firm competitors. For example, Ericsson competes with Huawei in 5G network infrastructure.

In response to increasing cyber aggression from Russia and China, the EU has been collectively building up its cyber defenses. NATO's January resolution declares that they are increasing its tools to respond to cyberattacks.²⁰⁸ In 2017, EU member states participated in cyber focused wargames for the first time. Again, within the EU's Helsinki meetings in July and September of 2019, the EU interior and finance ministers participated in cyber wargames to prepare member states for Russian and Chinese cyber aggression.²⁰⁹ At the July meeting, scenario-based policy discussions took place. At the September meeting, EU Finance ministers discussed defending against hybrid-threats to financial markets.²¹⁰ In response to the cyber-attacks, European countries are building up their ability to defend themselves via hacking back.

Huawei

The EC describes 5G networks as "the future backbone of our societies and economies," considering 5G to be the key that will transform the EU's digital landscape.²¹¹ By 2025, global revenues for 5G are estimated to become EUR 225 billion, with Western Europe poised to be

²⁰⁷ CERT-EU. "Western Technology Firms Targeted by Chinese Threat Actors." Cert-EU, February 7, 2019. <https://media.cert.europa.eu/static/MEMO/2019/TLP-WHITE-CERT-EU-MEMO-190702-1.pdf>.

²⁰⁸ NATO. "London Declaration."

²⁰⁹ Boffey, Daniel. "EU to Run War Games to Prepare for Russian and Chinese Cyber-Attacks." The Guardian. Guardian News and Media, June 27, 2019. <https://www.theguardian.com/technology/2019/jun/27/eu-war-games-prepare-russia-china-cyber-attacks>.

²¹⁰ Millman, Rene. "EU to Hold War-Games to Prepare for Cyber-Attacks, Quarter of EU Banks Failing Customers." Cyber-security news, reviews and opinion. SC Media UK, December 3, 2019. <https://www.scmagazineuk.com/eu-hold-war-games-prepare-cyber-attacks-quarter-eu-banks-failing-customers/article/1589355>.

²¹¹ European Commission. "EU-China – A Strategic Outlook." European Commission. European Commission, March 12, 2019. <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

one of the largest markets.²¹² The EU's deployment of 5G networks is already well underway. In 2016, the European Commission adopted the *5G Action Plan for Europe*. This action plan outlined the EU's strategy to deploy 5G network infrastructure in all member states by late 2020.²¹³ The EU aims to reach the status of a "Gigabit Society" by 2025, meaning that 5G will be offered in all EU major cities, in all member states, and along all major transportation routes.²¹⁴ By the end of 2019, eight member states have functional 5G commercial services: Spain, Italy, Sweden, Germany, Estonia, Austria, Ireland, and Romania.²¹⁵ 5G networks promise to increase connection speeds, improve the reliability of connections, make download speeds five to ten times faster than they are now, lower latency, and power the creation of smart cities and AI-powered public and private technologies.²¹⁶

The promises of 5G networks come with many risks, especially expanding the attack surface for European member state networks. 5G infrastructure would penetrate all sectors, including transportation, energy, health, defense, and security. It would additionally be difficult to replace once installed. In November 2019, ENISA described the threat landscape for 5G networks, highlighting the general availability of the networks and protection of information as the primary looming threats.

In recent years, the multinational Chinese telecommunication companies most equipped to build Europe's 5G infrastructure have been identified as potential cybersecurity threats. Huawei, the world's largest telecommunications equipment producer, has a significant presence in Europe. As of 2019, Huawei held 29% of the smartphone market in both Western and Eastern Europe, trailing closely behind Samsung with 35% in Eastern Europe and Apple with 30% in

²¹² ABI Research. "ABI Research Projects 5G Worldwide Service Revenue to Reach \$247 Billion in 2025." ABI Research: for visionaries, April 12, 2016. <https://www.abiresearch.com/press/abi-research-projects-5g-worldwide-service-revenue/>.

²¹³ European Commission. "Shaping Europe's Digital Future - Policy Towards 5G." European Commission, March 8, 2020. <https://ec.europa.eu/digital-single-market/en/towards-5g>.

²¹⁴ Palo, Urve. "5G Roadmap." Manjandus - Ja Kommunikatsiooni- Ministeerium. 2017 Estonian Presidency of the Council of the European Union, 2017. https://www.mkm.ee/sites/default/files/8.a_b_aob_5g_roadmap_final.pdf.

²¹⁵ European 5G Observatory. "5G Is Really ON in Europe." European 5G Observatory, January 6, 2020. <http://5gobservatory.eu/5g-is-really-on-in-europe/>.

²¹⁶ "What Is 5G and What Will It Mean for You?" BBC News. BBC, January 28, 2020. <https://www.bbc.com/news/business-44871448>.

Western Europe.²¹⁷ Under the 2017 Chinese National Intelligence Law, Chinese organizations and citizens are compelled to “support, assist and cooperate with state intelligence work.”²¹⁸ Such a law could require Huawei to share 5G data with the Chinese government and to build in back doors for the Chinese government to access Europe’s emerging 5G network.²¹⁹ Huawei denies these allegations and has publicly stated that it would never share the data of its customers with its government. The US has raised security concerns about Huawei since 2012, banning the use of Huawei networking equipment by American companies in 2012. In 2019, President Trump escalated and issued an executive order banning Huawei Networks from the US telecommunications sector. Currently, Huawei is embroiled in a US Department of Justice lawsuit over allegations of a “decades-long” plan of economic espionage over technology trade secrets.

On January 29, 2020, the EU issued recommendations to its member states to limit conducting business with “high risk” 5G vendors, implying Huawei without explicitly mentioning it by name. The policy permits member states to evaluate the risks for their countries and to decide for themselves whether to exclude certain vendors from building the core infrastructure or not. While the EU intended to establish a “common EU approach to the security of 5G networks,” the policy also allows for individual member state approaches. This decision came despite significant pressure from the Trump Administration to issue an outright Europe-wide ban of the company. The Commission’s laissez-faire attitude towards individual member discretion may be a cybersecurity weakness in member state’s 5G networks. The lack of unity of policy towards Huawei on 5G infrastructure may translate into a loss of leverage of Europe over massive Chinese companies.

The Chinese government intervened as Germany contemplated its decision on whether or not to ban Huawei from its market. Similar pressure has been applied to France, where the Chinese embassy in France stated how the exclusion of Huawei from 5G would qualify as

²¹⁷ European Commission. “Member States Publish a Report on EU Coordinated Risk Assessment of 5G Networks Security.” European Commission. European Commission, October 9, 2019. https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6049.

²¹⁸ Kharpal, Arjun. “Huawei Says It Would Never Hand Data to China's Government. Experts Say It Wouldn't Have a Choice.” CNBC. CNBC, March 5, 2019. <https://www.cnbc.com/2019/03/05/huawei-would-have-to-give-data-to-china-government-if-asked-experts.html>.

²¹⁹ Keane, Sean. “Huawei Ban.”

“blatant discrimination” and “disguised protectionism.” In the meantime, the US also applied pressure upon Germany to issue a ban on Huawei, threatening to enact tariffs and revoke intelligence sharing should they not comply. To equip member states with a roadmap to address looming cybersecurity concerns surrounding 5G infrastructure and Huawei, ENISA published *The EU Toolbox for 5G Security* January 30 2020. This toolkit provides member states with cybersecurity standards in their implementation.

Military Security

Maritime

China’s increased military spending, technological military advancement goals, and military exercises pose yet another challenge to EU regional security. In December 2019, China ran joint military exercises with Russia and Iran in the Gulf of Oman. The intent for this exercise was to train to combat maritime piracy and terrorism, exchange tactical expertise, and supposedly to assert naval power in the Strait of Hormuz, one of the most important strategic waterways for international trade. As of 2018, Chinese SOEs control 10% of all European ports, jumping up from less than 1% in 2010. The opportunity has not been reciprocal. While Chinese SOEs have been able to purchase majority stakes of European ports, no European terminal operator has been able to do so in China.

Potential conflict in the SCS is another issue for the European Union. Greater than one third of Europe’s external trade occurs in the Indo-Pacific region, with much of this trade passing through the SCS. Additionally, Chinese actions in the SCS are in direct violation of the United Nations Convention on the Law of the Sea (UNCLOS), which all EU countries and the EU itself are party to. Since 2009, tensions have escalated between China and neighboring Southeast Asian nations in the SCS as a result of conflicting interpretations of UNCLOS. China claims the entirety of the SCS in a “nine-dash line” that overlaps other claimant’s terrestrial and maritime sovereignty. China has been constructing artificial islands in the SCS that serve as military installations. The construction of such bases allows China to strengthen its *de facto* control in the SCS, jeopardizing the overall stability of the region. In 2016, a United Nations tribunal ruled that China’s “nine-dash line” was illegitimate and that China had violated the sovereignty of the

Philippines. However, China still maintains a presence in the SCS by continuing to build artificial islands.

Following the Hague Tribunal's ruling in 2016, the EU's high representative released a statement calling for both China and the UN "to resolve the dispute in accordance with international law." EU countries with significant investment from China- especially Greece, Hungary, and Croatia- were successful in diluting the final version of the declaration. However, other countries such as France have taken a firmer stance on the SCS issue. Jean-Yves Le Drian, the former Defense Minister of France, suggested at the Singapore Shangri-La Dialogue in 2016 that France would push for the EU to conduct "regular and visible" patrols in the SCS along with the US Navy. Other maritime powers in Europe, including Italy, Spain, and the Netherlands, have expressed openness to this proposal. There are other methods for the EU to address the SCS issue, including greater multilateral cooperation with the Association of Southeast Asian Nations (ASEAN). Either way, increasing instability in the SCS is both a threat to European trade in the region as well as wide international consensus on the law of the sea.

In recent years, the EU has pursued a larger security role in the South China Sea. In August 2019, the EU strengthened its security partnership with Vietnam by entering into an agreement over cooperation in the SCS. Vietnam has recently felt the pressure of Chinese dominance and encroachment in the region. This unilateral move binds the two parties closer together in opposition to China.

Recommendations

1. Ensure the cybersecurity of 5G

The EU should pool cybersecurity resources and nation-state intelligence to verify the security of 5G infrastructure from Chinese telecommunications providers as it is built, through the creation of EU or member state-oversight committees.

2. Model the Foreign Investment Screening framework after the US's Committee on Foreign Investment in the United States (CFIUS)

CFIUS has experience and expertise that may be valuable to EU member states considering building investment monitoring systems. CFIUS has a model Treasury-led

interagency process that effectively addresses both economic and national security concerns, and the scope of CFIUS screening is not limited to certain sectors. CFIUS is well-funded, well-staffed, and has been effective at requiring companies to notify the US government about FDI, block transactions, and obstruct force sale of strategic assets. These strengths would be useful for the EU to implement itself.

3. Establish stronger intellectual property laws

EU member states must do more to negotiate stronger intellectual property law standards with China and to guarantee their enforcement, as well as combat intellectual property violations via the Internet.

4. Publicly denounce Chinese state-sponsored cyberattacks

The EU should issue some form of economic penal action to discourage China from undertaking similar activities in the future. The EC needs to initiate a formal discussion among member states to establish EU-wide, common ground rules on active defense measures, or offensive cyber operations. As “hacking back” is becoming a common response among member states to prevent and respond to cyberattacks waged against national governments and private firms, EU-wide regulation of and recommendations for this defense mechanism will harmonize the approaches taken by EU member states in terms of cyber defense. Additionally, all EU members should sign on to the *Paris Call for Peace and Security in Cyberspace*.

5. Collaborate with the US on ensuring the security of EU and US-critical sea lanes in the Indian Ocean and the South China Sea

Chapter 7: Human Rights and Environmental Issues

Alison Fliss

The EU's ability to set global precedence on issues such as human rights and the environment means their response to China in these areas could have significant ramifications. The EU and China both plan on increased bilateral engagement on human rights and the environment, as outlined in the EU-China Strategic Outlook.²²⁰ The two parties have conflicting viewpoints, especially in regard to human rights, but environmental issues leave more room for effective bilateral engagement and win-win solutions. Although not directly linked to economic pursuits, human rights and environmental issues may significantly impact the EU's economic infrastructure and investment. The EU and China have signed onto major international and bilateral policy objectives, promising responsibility for such issues and for standards to be upheld. There are immediate repercussions of environmental degradation and human rights violations, such as the serious undermining of economic ventures by incapacitating large workforce populations and degrading natural resources. Thus, it is important to understand the ways in which the EU can address human rights violations and environmental issues in its relationship with China.

Human Rights

International precedents have been set through multilateral institutions, such as the UN, in regard to addressing human rights issues. Both the EU and China have agreed to uphold a number of fundamental human rights specifically through their own constitutions as well as the UN Universal Declaration of Human Rights (UDHR). Despite these past agreements, many issues have arisen regarding China's human rights abuses, including repression of the press and the Hong Kong Special Administrative Region police force's response to anti-government protests. A major human rights issue that has garnered international attention is the oppression of the Uyghur population. Under the guise of antiterrorist security measures, the CCP violates

²²⁰ European Commission and HR/VP contribution to the European Council, "EU-China – A Strategic Outlook," March 12, 2019. <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

fundamental human rights by forcing the Uyghur population into reeducation camps. The unfolding EU response will be important in upholding international human rights standards and reconfirming the EU's position as a leader on human rights. One reason for the lack of sufficient response on the part of the EU to the Uyghur situation is the economic interests of its individual member-states. The EU is at an important crossroads: whether or not to condemn China's treatment of the Uyghur population or maintain good economic and political relations with the PRC.

International and Bilateral Human Rights Standards

European and Chinese human rights standards align in several formal treaties and legal documents. Through the EU Charter of Fundamental Rights, the EU sets standards to ensure that the rights of European citizens are upheld. China also acknowledges human rights in its constitution. For example, Article 4 explicitly states, “the people of all nationalities have the freedom to use and develop their own spoken and written languages, and to preserve or reform their own ways and customs.”²²¹ Furthermore, both the EU and China are signatories of the UDHR, which implies that both bodies are obligated to uphold human rights.²²²

The Annual Human Rights Dialogue serves as a direct bilateral communication forum between the EU and China regarding human rights. In the latest 37th round, the EU discussed the declining situation of both civil and political rights in China, raised concern over individual cases, and expressed an expectation that those in detention would be released.²²³ The EU also expressed concern over the protection of religious freedom and minorities, mainly in regard to the situations in Xinjiang and Tibet.²²⁴ China did little to address these concerns, focusing instead on accentuating its economic and social achievements, especially in regard to poverty,

²²¹ Congressional-Executive Commission on China, “2004 Amendment to the Constitution of the People's Republic of China (Chinese and English Text),” <https://www.cecc.gov/resources/legal-provisions/2004-amendment-to-the-constitution-of-the-peoples-republic-of-china>).

²²² United Nations, “Universal Declaration of Human Rights,” <https://www.un.org/en/universal-declaration-human-rights/index.html>).

²²³ European Union External Action, “The European Union and China held their 37th Human Rights Dialogue,” https://eeas.europa.eu/headquarters/headquarters-homepage_en/60545/The%20European%20Union%20and%20China%20held%20their%2037th%20Human%20Rights%20Dialogue.

²²⁴ Ibid.

employment and social achievement. The annual dialogue concluded with no substantive agreements.

The Xinjiang Crisis

The Uyghurs, a predominantly Muslim ethnic group located in Xinjiang, are being targeted by Chinese authorities. Upwards of two million Uyghurs and other Muslims have been detained in “reeducation camps” since April 2017, often with little basis for arrest. The human rights violations in these camps are profound, with escapees reporting extensive surveillance, torture, sleep deprivation, sexual assault, and forced sterilizations or abortions. Documents that were leaked reveal the scale of these reeducation camps, with the land areas of 39 camps tripling in size from April 2017 and April 2018.²²⁵

The Chinese government justifies these camps as part of an antiterrorist campaign, saying that the Uyghurs hold extremist values designed to unleash violence in China. China claims that these camps are only meant for reeducation and have two purposes, to integrate the Uyghurs into Han society, and to put an end to Islamic terrorism within China.²²⁶ By perpetuating claims of nonviolence, China denies allegations of human rights violations and justifies their actions through Islamophobia. Economically, Xinjiang’s geographic location serves as a major link in China’s BRI and is thus valuable for the Chinese government, another rationale for tamping out any dissenting opinions in the region and repressing ethnic and religious minorities.^[9]

The EU’s Response

The EU’s response to China’s violation of the Uyghurs’ rights has been lukewarm at best, mainly consisting of disapproval but no action.²²⁷ It has spoken out against these camps multiple

²²⁵ Lindsay Maizland, “China’s Repression of Uighurs in Xinjiang,” *Council of Foreign Relations*, updated November 25, 2019, <https://www.cfr.org/backgrounder/chinas-repression-uighurs-xinjiang>.

²²⁶ Ibid.

²²⁷ David Marques, “The EU, China, and human rights in Xinjiang: Time for a new approach,” *European Council on Foreign Relations*, April 2, 2019, https://www.ecfr.eu/article/commentary_the_eu_china_and_human_rights_in_xinjiang_time_for_a_new_approac.

times and has continuously restated its expectation that China must respect freedom of religion and the rights of ethnic and national minorities, in line with the UDHR.²²⁸

A main reason for the EU's tepid response is its deepening economic ties with China. Certain EU member states have blocked attempts of concrete action against the CCP to avoid losing Chinese financial support. There is already evidence of these member states undermining EU interests when in July 2016, Greece and Hungary successfully fought against making an EU official statement about a court ruling that struck down China's legal claim to the South China Sea. Later in June 2017, Greece blocked an EU statement at the UN Human Rights Council criticizing China's human rights record, which marked the first time the EU had failed to make a joint statement at the UN's top human rights body.²²⁹ The Greek foreign minister described the EU's statements surrounding free speech and an end to capital punishment as unconstructive criticism against the CCP.²³⁰ This blockage of an EU statement came after China's expansion into an important Greek port.²³¹ Hungary is a similar case, having repeatedly blocked EU humanitarian statements against China all while being a major recipient of Chinese investment.²³²

China's further engagement with European countries is cause for concern regarding the EU's weakness in taking a hard stance against China's detainment of the Uyghur population. Italy signing onto the BRI further brings into question how much support the EU will have from its member states in challenging China on issues such as human rights. Actions on the part of Greece and Hungary in denying statements on Chinese human rights violations imply the potential for similar behavior from Italy, which is deepening its economic ties to China. Although Italy has supported such statements in the past, it is likely that it will be unwilling to speak out on China in the same capacity as before. As the BRI project expands, more EU member states may sign on, viewing Chinese investment as too tempting to reject. Chinese

²²⁸ European Union External Action, "Statement by the Spokesperson on the situation in Xinjiang," October 26, 2018, https://eeas.europa.eu/headquarters/headquarters-homepage/52881/statement-spokesperson-situation-xinjiang_en.

²²⁹ Nicola Casarini, "Chinese Investment in Italy: Changing the Game in *Chinese Investment in Europe: A Country-Level Approach*", ed. John Seaman (French Institute of International Relations, 2017), 85.

²³⁰ Robin Emmott, Angeliki Koutantou, "Greece blocks EU statement on China human rights at U.N.," *Reuters*, June 18, 2017, <https://www.reuters.com/article/us-eu-un-rights-idUSKBN1990FP>.

²³¹ *Ibid.*

²³² *Ibid.*

influence is not only expanding into Europe through both the BRI and Chinese business investment. CCP involvement in Chinese firms entering Europe and further European financial dependence on Chinese investment could cripple the EU's ability to respond to China's extensive human rights violations.

Recommendations

- 1. Make an official statement calling on its powerful allies to politically pressure China to end reeducation camps**

These allies include the US, Japan, Brazil, etc. to name a few and all of which have considerable influence over the Chinese government's actions. Mobilizing all of these key players in calling on China to the Uyghur reeducation camps would be effective, due to their economic and political influence over China.

- 2. Increase pressure upon PRC officials**

This could come in the form of regulating Chinese officials sending their students to EU member state's schools or placing travel visa bans on CCP officials. Ultimately, the issue of addressing human rights abuses on the part of China cannot end in compromise. The EU must remain firm in its commitment to uphold international agreed upon human rights standards through its relationship with China.

- 3. Consider tariffs or import bans on Chinese products**

Should these methods prove ineffective, more punitive measures in the economic sector should be strongly considered. Utilizing tariffs or import bans can be an effective lever for the EU both on human rights as well as economic reciprocity. Though harsh, China might be further compelled to adjust its actions if it is economically beleaguered.

Environmental Issues

Another issue in the EU-China relationship is efforts to mitigate climate change, one of the most pressing international crises. The EU and China are both members of the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, and the

Paris Agreement. The international agreements and conventions on environmental protection establish a precedent for the EU and China to be diligent in cooperating to counteract climate change. Climate change will influence economic ties between the EU and China, especially in regard to the current carbon emission trading systems, bilateral climate change initiatives, and clean technology and energy collaboration initiatives.

Emission Trading Systems

The EU and China are involved in programs that seek to tackle climate change by trading carbon emissions quotas. These emission trading systems (ETS) give businesses a quota on their carbon emissions, but allow for those producing an excess of carbon related to their share to buy unused quotas from firms who emit less.²³³ China's carbon trading system was introduced in 2011, mainly targeting the power generation, iron, and steel production industries. The end of 2017 saw 200 million tons of carbon emissions quotas being traded, the program encompassing around 1,700 power firms.²³⁴ With the aid of this carbon trading system, China has been able to reach its 2020 climate goal three years ahead of schedule. Similarly, the EU's ETS seeks to reduce emissions in 11,000 power stations, industrial plants, and inter-European flights, pursuing a 40% emissions reduction by 2030, as outlined in the EU's 2030 Climate and Energy Framework in accordance with the Paris Agreement.²³⁵ The EU-China Emissions Trading System is a project funded by the EU with the objectives of supporting a political dialogue between both parties and providing China with support in growing its own ETS.²³⁶ The EU-China Emissions Trading System currently engages in policy dialogue, technical training, industry capacity training, and other activities, but lacks a resolute monitoring system

However, China's ETS contains major inefficiencies, offsetting the bulk of global positive benefits. A study presented during the 15th International Conference on Environmental

²³³ United Nations Climate Change, "China Meets 2020 Carbon Target Three Years Ahead of Schedule," March 28, 2019, <https://unfccc.int/news/china-meets-2020-carbon-target-three-years-ahead-of-schedule>.

²³⁴ Ibid.

²³⁵ Council of the EU, "EU Emissions Trading System reform: Council approves new rules for the period 2021 to 2030," *European Council*, February 27, 2018, <https://www.consilium.europa.eu/en/press/press-releases/2018/02/27/eu-emissions-trading-system-reform-council-approves-new-rules-for-the-period-2021-to-2030/>.

²³⁶ EU-China Emissions Trading System, "Project Introduction," <https://www.eu-chinaets.org/about-us/project-introduction>.

Science and Technology found that within the seven pilot areas, China's ETS only effectively mitigated carbon emission in Shenzhen, Hubei and Chongqing. Emission reductions malfunctioned in Guangdong, Beijing, and Tianjin, and were ineffective in Shanghai.²³⁷ The system was only effective in reducing carbon emissions in three out of seven regions, less than a 50% success rate. Although a relatively new system, China's ETS currently appears to have shortcomings and the EU is its principal donor.

Another factor that contributes to the ineffectiveness of China's ETS system is its growing appetite for coal. China has increased its coal capacity by 42.9 gigawatts in 18 months, compared to other countries reducing their capacity by 8 gigawatts in the same time period. China's ETS is also largely counteracted by its investment in new coal projects in a plethora of countries, namely South Africa, Pakistan, and Bangladesh. In total, China backs more than half of all global coal developments, essentially exporting its carbon emissions abroad.²³⁸ These rapidly expanding coal projects will clearly have costly impacts on the environment and will partially, if not fully, negate the positive effects of China's ETS. This makes its achievement in meeting its 2020 climate goals largely arbitrary, given its continuous investment in coal projects that are out of line with Paris Agreement standards and, ultimately, compounding climate change.

By funding the EU-China ETS, the EU has a responsibility to evaluate the impact of this project and ensure that it is in line with agreed upon environmental standards and goals. The ineffectiveness of China's ETS does not mean that it lacks the ability to improve. One avenue for improvement may come with pressure from the EU and continuous political dialogue. In order for both the EU and China to achieve their climate change goals, China will need to be held accountable for its holistic carbon emissions.

Clean Technology and Renewable Energies

²³⁷ Wenjun Wang, Jilian Hu, Yuejun Luo, Zhigang Luo, Daiqing Zhao, "Study on the Evaluation of ETS Abatement Effectiveness in China," *Conference on Environmental Science and Technology*, August 17, 2017,

https://cest.gnest.org/sites/default/files/presentation_file_list/cest2017_00233_poster_paper.pdf.

²³⁸ Jillian Ambrose, "China's appetite for coal power returns despite climate pledge," *The Guardian*, November 20, 2019,

<https://www.theguardian.com/world/2019/nov/20/china-appetite-for-coal-power-stations-returns-despite-climate-pledge-capacity>.

The goals between the EU and China in regard to climate change largely overlap. China aims to halve its energy intensity and usage by 2020, while the EU is trying to reduce its own energy consumption by 20% within the same time frame.²³⁹ The EU-China Partnership on Climate Change, initiated in 2005, has created an atmosphere in which bilateral collaboration on carbon reduction and clean technology development can easily occur. Two major initiatives have been set for this collaboration: the *China-EU Action on Clean Coal* and the *China-EU Action Plan on Energy Efficiency and Renewable Energies*. Both of these offer an area of collaboration that will help the EU maintain its international standards regarding climate change and also facilitate win-win solutions for both the EU and China.

Collaboration on developing clean coal resources is an important way to reduce environmental impacts and adhere to the Paris Agreement, especially given China's rising investment in new coal projects. The China-EU Near Zero Emission Coal (NZEC) aims to develop and implement carbon dioxide capturing and storage systems, which is vital for the reduction of carbon emissions.²⁴⁰ The EU and China also work closely on the *China-EU Action Plan on Energy Efficiency and Renewable Energies*, which includes promoting collaborative energy efficient policies and economic agendas through various institutions.²⁴¹ Climate change cannot be contained within a country's borders, meaning all countries' fates are linked to one another in regard to the worsening crisis. Not only is it important to foster bilateral cooperation, but also to consider how energy and technology will affect the overall health of the planet.

Environmental Standards and Economic Relations

The development of these projects has introduced a space in which the EU and China can economically collaborate in the clean technology industry. Sharing technology can integrate both economic and environmental goals. Upholding environmental standards in trade agreements and bilateral economic policies is another fusion between economics and the environment that would

²³⁹ European Commission, "EU and China Partnership on Climate Change," September 2, 2005, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_05_298.

²⁴⁰ European Commission Climate Action, "China-EU Near Zero Emission Coal," *European Union*, https://ec.europa.eu/clima/dossiers/nzec_en.

²⁴¹ Chao Zhang, "The EU-China Energy Cooperation: An Institutional Analysis," *European Institute for Asian Studies*, https://www.eias.org/wp-content/uploads/2016/03/EIAS_Briefing_Paper_EU_China_Energy_Cooperation_2017.02.pdf.

facilitate the EU's ability to stick to its climate change goals. The EU has already degraded its environmental standards through approving the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU. Although CETA boosts the EU's GDP overall, it encourages the EU to import oil from the Canadian tar sands, known for its environmental degradation. CETA also makes it easier for energy companies to sue governments when their profits are either lost or at stake due to environmental protections.^[25] It has proved obvious that economic gain comes before upholding environmental standards for the EU. If the EU wishes to remain firm in its climate change goals, trade deals like the CETA only serve to undermine its progress. China is rapidly investing in and trading with Europe, actions in which environmental standards must be present.

Actions speak louder than words when it comes to upholding environmental standards, especially when mixed with economic endeavors. The EU must show its commitment to fighting climate change by including environmental standards in economic deals with China, something that has historically not been included in trade as in the case of CETA. There will inevitably be pushback from Chinese companies, especially those utilizing new investments in the coal sector. However, upholding environmental standards will help prevent the future degradation of sectors linked to natural resources as climate change worsens production conditions and will likely save the EU costs in regard to GDP.

Collaboration in clean energy between EU and Chinese firms offers a chance for the two powers to come together in a shared vision for the future. Greater collaboration would allow for an even larger amount of knowledge sharing opportunities for clean energy technologies, as well as promote economic growth through the development of new technologies that have a capacity for longevity, which most non-renewable energy sources lack. The EU is in many ways a leader in environmental health affairs. Collaboration on win-win solutions to environmental challenges with China is an important way in which the EU can uphold its role as leader and pursue economic ventures with China in clean energy industries and investments.

Recommendations

In regard to environmental issues, the EU should:

- 1. Include a clean technology exposition during the annual EU/China Partnership on Climate Change**

This would allow for European and Chinese firms to come together in a state authorized manner to discuss and share clean technologies that are either under development or currently on the market.

- 2. Expand the EU/China Emissions Trading System to include knowledge sharing**

The EU should increase monitoring of China's ETS, as well as expand the capacity for knowledge sharing under the system to ensure that it is effective in reducing carbon emissions and follows climate change mitigation goals. This, along with technical training, would encourage more effective clean technologies to be developed and increase bilateral cooperation between the EU and China in reducing their emissions.

Conclusion

The predominant link between the EU and China lies in economics. The EU, as a monetary union, acts chiefly as a forum for economic stabilization among its members. Protecting the well-being of its members' economies is inherent to its existence. Chinese investment in one country, be it peripheral or central, affects all members. The EU must collaborate to form a unified policy towards Chinese investment which screens acquisitions in key EU industries and is cautious of expanding Chinese influence. Reciprocally, EU firms have a difficult time entering China, and must use the leverage that they have to negotiate for greater market access. In the area of economics, much could be gained from further collaboration and understanding of the two divergent governing systems of the EU and China. While cooperation is ideal, holding a firm, unified stance towards both incoming and outgoing investments with China should be the EU's top priority.

In regard to economic issues, the EU should:

1. Reach a consensus on risk awareness regarding Chinese investment across the EU
2. Develop a unified and effective pan-EU screening mechanism to protect key industries
3. Expand the concept of "investment subsidies" to forbid government subsidies from non-EU countries
4. Create an EU-China summit focused on the market access of EU firms in China
5. Establish a unified stance on EU company contract provisions
6. Emphasize the concept of competitive neutrality
7. Prioritize investment of EU member states in weaker economies before allowing foreign acquisitions

The EU must pay vigilant attention to efforts that compromise the EU's security. Submitting to Chinese pressure for fear of economic retaliation is harmful for the long-term EU-Chinese relationship because it sets a precedent for the EU to capitulate to China's will. The EU should stand firmly against FTT and violations of IP laws to protect EU firms' innovation. Through policy tools like screening and investment committees, the EU should carefully monitor

Chinese business acquisitions of key assets. EU members should be prepared to obstruct any investments suspected to strategically enhance Chinese military presence, such as those pertaining to the BRI. As an international entity without a standing army, the EU should also cooperate with its allies, such as the US, in geostrategic conflicts like the South China Sea.

In regard to security issues, the EU should:

1. Ensure the cybersecurity of 5G
2. Model the Foreign Investment Screening framework after the US's Committee on Foreign Investment in the United States (CFIUS)
3. Establish stronger intellectual property laws
4. Publicly denounce Chinese state-sponsored cyberattacks
5. Collaborate with the US on ensuring the security of EU and US-critical sea lanes in the Indian Ocean and the South China Sea

The EU continuously makes elegant and persuasive statements regarding its stance on human rights and environmental standards. However, these statements often have little to no concrete action to enforce them. The EU is a major world leader and has ample political and economic power to create the change it wants to see. It is important for the EU to take action when something is happening in the world that does not align with previously agreed upon international standards, making its response to China all the more pertinent. Although the EU needs to take a firm stance with China in regard to human rights abuses, there are more win-win outcomes when it comes to the environment.

In regard to human rights, the EU should:

1. Make an official statement calling on its powerful allies to politically pressure China to end reeducation camps
2. Increase pressure upon PRC officials
3. Consider tariffs or import bans on Chinese products

In regard to environmental issues, the EU should:

1. Include a clean technology exposition during the annual EU/China Partnership on Climate Change
2. Expand the EU/China Emissions Trading System to include knowledge sharing

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