Critical Issues Confronting China:
China and Europe: Potential Partners or Systemic Rivals?
Philippe Le Corre, Harvard Kennedy School
April 24, 2019

To better understand the flurry of recent diplomatic activities between China and Europe, Philippe Le Corre, Senior Fellow of the Center for Business and Government at the Harvard Kennedy School, delineated a historical perspective and called for more caution at this “critical moment” of the relationship.

He recalled that France was the first European country to recognize the People’s Republic of China (PRC) in 1964 under President Charles de Gaulle. The UK never closed its embassy in Beijing due to its relationship with Hong Kong, but didn’t dispatch an ambassador to Beijing until 1972. Germany did so as well in 1972, although East Germany kept diplomatic relations with the PRC until German reunification in 1990. The European Union (EU) began its diplomatic relations with Beijing in 1985. Now more than 60 dialogues on a wide range of topics take place every year between the EU and China, including an annual bilateral summit meeting.

Le Corre acknowledged that China respected the EU early on. When the EU expanded in 2004 to include 10 new member countries, China thought it a positive change as the enlarged size of the EU’s single market would facilitate Chinese exports under EU uniform trading rules. China’s interest in European affairs took a new step in 2015, when President Xi Jinping, during a state visit, advised the UK to remain in the EU. Now the EU is China’s largest trading partner, and China is the EU’s second largest trading partner after the U.S.

Europe’s economic relations with China have much deepened since China’s accession to the World Trade Organization (WTO) in 2001. In addition to trade relations, investment relations with China have grown rapidly in recent years. China’s foreign direct investment (FDI) into the EU skyrocketed from $840 million in 2008 to almost $40 billion in 2016, covering a wide range of geographic areas and industrial sectors. Although Chinese FDI in Europe dropped some in the last two years, its acquisition of a premier German robotic company—Kuka—in 2016 woke Germany up to the fact that China is a strong competitor that could threaten its technological preeminence and national security.

Le Corre illustrated, with examples, China’s geopolitical influence in Europe that comes along with its economic prowess. A case in point was the EU’s attempt to issue a statement of
support for freedom of navigation in the aftermath of the 2016 final ruling of the United Nations Convention on the Law of the Sea (UNCLOS) Arbitration Court in The Hague on the Philippines’ case against China over the South China Sea. It was finally toned down to a more neutral voice. This was due to the refusal of three EU member countries—Greece, Hungary, and Croatia—to sign onto any joint declaration more critical of China. Portugal, being a major recipient of Chinese FDI in many sectors of its economy, was, at first, reluctant to support the EU’s requirement for certain FDI screening procedures and called them “protectionist.”

China has made inroads into Europe’s politics. In March, Italy became the first G7 country to sign a Memorandum of Understanding with China and became part of the Chinese Belt and Road Initiative (BRI). Switzerland followed in April. The Balkan countries, with the exception of Croatia, are not EU members. They are eager for Chinese investments and have few barriers for FDI. They do not require a visa for Chinese visitors. Chinese Premier Li Keqiang was just in Croatia in early April to convene the Eighth Summit Meeting for the 16+1 group, consisting of 11 EU member states and five Balkan states. When Greece, being pragmatic, joins this group, it will become 17+1. Recently, in late April, several thousand visitors from 37 countries arrived in Beijing to attend the BRI Forum, where President Xi delivered the keynote speech. In the Chinese conception of the BRI, Europe is the final destination of this ambitious project, and represents the largest consumer market for Chinese products.

Le Corre also recognized that China treats EU members differently, and creates its own circles of friends with regular contacts. From China’s point of view, northern European countries are one community; southern European countries are another; central and eastern European countries are mostly encompassed in the 16+1 group. France and the UK, being permanent members of the UN Security Council along with China, enjoy more status and beneficial relations with Beijing. Germany is recognized by China as the economic powerhouse of the EU with admirable scientific and technological prowess. As an example of China’s differential treatment, Le Corre pointed out that during President Xi’s March visit to Europe, in addition to meetings in Rome and Paris where German Chancellor Angela Merkel and EU Commission President Jean-Claude Juncker joined President Emmanuel Macron, Xi also visited Monaco, a tiny country with a population of less than 40,000 people. Why? Le Corre interpreted it as a reward for Monaco’s permission to the Chinese telecommunication company, Huawei, to build its 5G infrastructure.

Le Corre expected the EU-China relationship to remain one of the most important bilateral relations for years to come, as well as a very complex relationship due to China’s radically different political system and political history from those of Europe. These differences will continue to have an impact on economic relations. For example, about 70 percent of Chinese
FDI into the EU is from Chinese state-owned enterprises (SOEs), which enjoy favorable financing terms from Chinese state-owned banks. Brussels (headquarters of the EU) now requires EU member states to fully implement screening procedures on inbound FDIs in order to ensure national security, European workers’ rights, and environmental protection. Brussels calls for reciprocity with and a balanced approach to China. It asks China to address certain issues such as its state subsidies to SOEs and forced technology transfers. China has agreed to work with the EU to reform the WTO and open up government procurement to foreign suppliers.

Le Corre clarified that he did not invent the phrase “systemic rival” to use for China; it was the 2019 EU Strategic Outlook that explicitly branded China as a systemic rival. His assessment is that EU-China relations have entered a critical moment where the EU should exercise caution, and that China’s engagement with the EU and its economic rise should be closely examined with a long-term horizon in mind.