

A RECONFIGURATION OF SINO-EU RELATIONS UNDER NEW CIRCUMSTANCES?¹

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Abstract: *The present paper focuses on four research objectives. First, it reflects how the interactions in the US-EU-China triangle impact on the Sino-EU relations. The renewed evidence of American unilateralism represents the most recent and significant factor influencing the relationship between China and the EU. As emphasized by the Joint Communiqué adopted at the 20th EU-China summit which took place in July 2018, China and the EU are committed to multilateralism. Both sides seem ready to make more concessions now, even if the EU still remains closer to the US than to China due to the complex system of their corresponding political values and economic models. Second, the analysis underlines changes at the level of another recent determinant of Sino-EU relations, namely the 16+1 cooperation framework. Notwithstanding China's endeavours to demonstrate that 16+1 is not against the EU unity and its economic objectives, this framework is still seen as a "divisive" factor. Third, starting from the EU's objective to become a global player and from the evidence that nowadays no entity can have this status in the absence of a strong presence in the Indo-Pacific region, this research briefly emphasizes the actual system of relations in Asia-Pacific under the recent American Indo-Pacific vision. Fourth, the investigation adds a case study and points out various intensities of cooperation with China among the Central and Eastern European (CEE) countries, Hungary revealing the strongest political will to consolidate its ties with China, while Romania maintaining its "wait-and-see" attitude. Given the growing uncertainty surrounding the system of international relations and increasing protectionist trends, the paper concludes that China and the EU benefit from a unique moment, which might be conducive to a deepening of their strategic partnership.*

Keywords: - China, EU, strategic partnership, United States, unilateralism, Indo-Pacific vision, Belt and Road Initiative, 16+1

1. Introduction

Taking into account the growing uncertainty surrounding the system of international relations, increasing protectionist trends and resurgence of American unilateralism, both China and the EU have demonstrated in their Joint Communiqué adopted at the 20th EU-China summit of July 16, 2018 that they are ready to make concessions to each other. In a

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year when the two sides have celebrated 15 years since the launch of the EU-China comprehensive strategic partnership, it has been underlined the commitment towards multilateralism and rules-based international order, but also towards “synergies between China’s Belt and Road Initiative and EU’s initiatives, including the EU Investment Plan and extended Trans-European Transport Networks”. Both partners underscored during the summit the progress achieved in various bilateral dialogues such as those on foreign and security policy, economic and trade relations, finances, macroeconomics, information and communications technology, industry, space cooperation, regional policy, energy, migration but also on thorny issues such as competition and state aid, human rights, intellectual property rights.

However, the EU maintains its critical position regarding China in many aspects and in several occasions it had common positions with the United States and Japan. The present paper is structured around three main sections representing detailed answers to the following questions: (1) What do EU and China expect from each other? (2) Which is the impact of the recent interactions in the US-EU-China triangle on Sino-EU relations? (3) Which are the motivations for the EU member states’ different intensities of cooperation with China?

2. What do EU and China expect from each other?

In 2018, after 43 years of diplomatic relations and 15 years since the launch of EU-China strategic partnership, there still remain various misunderstandings, suspicions and mutual critiques in the bilateral relations. EU recognizes the strong partnership with China and the role played by this market as “the main engine of profitability for a number of EU industries and brands” (EP, 2016), however it has a long list of complaints against China, as underscored by documents such as: the 2016 *EU Strategy on China* (EC, HR, 2016), European Commission’s “Report on significant Distortions in the Economy of the People’s Republic of China for the purpose of trade defence investigations” (EC, 2017) and the “Report on the protection and enforcement of intellectual property rights in third countries” (EC, 2017) and European Parliament’s resolutions (EP, 2018, EP, 2016) (Box 1).

Box 1: EU's critiques expressed in several official documents/proposals/initiatives during 2016-2018

June 22, 2016: European Commission and the High Representative of the Union for Foreign Affairs and Security Policy, *Elements for a new EU strategy on China*;

September 2017: EU Chamber of Commerce in China – *European business in China – Position paper* (402 pages) (e.g. unfair competition, absence of a level playing field, lack of reciprocity in bilateral investment relations);

September 13, 2017: European Commission's proposed framework for *screening* FDI;

December 12, 2017: EU new anti-dumping regulation, the legal basis to evaluate the dumping actions taking into account the "significant market distortions" (EU Regulation 2017/2321 of the EP and the Council amending Regulation (EU) 2016/1036 on protection against dumped imports from countries not members of the EU and Regulation (EU) 2016/1037 on protection against subsidised imports from countries not members of the EU);

December 20, 2017: European Commission's Report on Significant Distortions in the Economy of the People's Republic of China for the purpose of trade defence investigations (465 pages);

April 18, 2018: 27 EU Ambassadors in China and their report criticizing BRI;

September 12, 2018: European Parliament's *State of EU-China relations*, Resolution, Strasbourg;

September 25, 2018: Joint Statement on Trilateral Meeting of the Trade Ministers of the US-Japan-EU (*concerns with non-market-oriented policies and practices of third countries, industrial subsidies and state-owned enterprises, forced technology transfer*) (USTR, 2018).

Source: Own representation based on official documents.

EU expects from China: a relationship based on reciprocal benefit and market access, reduction of government influence in the processes of resource allocation and decision taking in the private sector, further reform of the state-owned enterprises, cuts in industrial over-capacity, a level-playing field for business in all aspects related to bilateral trade and investment, enforcement of intellectual property rights, promotion of human rights and so on. Moreover, it is resolute to coordinate its policies towards China with those of other partners, including the United States, as mentioned also in the *EU Strategy on China*: "the EU policy-making on China should take full account of the EU's close relationships with the US and other partners".

The "trade deficit issue"² does not appear any more as a distinctive point on the list of requirements, but this is replaced by the necessity of internal reforms. It is evident that China will continue its process of opening up and reform started four decades ago but at its own pace as a more rapid one would unbalance all its relevant markets. For instance, the steel production "issue" and China's overcapacity cannot be solved immediately. China

² According to DG Trade data, the EU trade in goods deficit with China was of EUR 177 billion and the trade in services surplus of circa EUR 9 billion. However, the value of trade in services represents only 11% of the value of trade in goods.

had a share of 49.2% of the global crude steel production in 2017 (out of which, circa 90% is used internally), as compared to 10% EU and 4.8% US. Almost 50% of the production is used for buildings and infrastructure, sectors with high growth rates not only in China, but also alongside the Belt and Road (World Steel Association, 2018). Steel industry is strongly related to other upstream and downstream industries, but also to labour market and the need to reallocate jobs to workers in order to maintain internal stability and keep unemployment rate at low levels.

As regards the recent Chinese initiatives, BRI and its component 16+1³, both are seen as controversial by different EU institutions. The first one is considered as a strategy to increase China's dominance worldwide, the winners are the Chinese state-owned enterprises (Saarela, 2018) and the losers the countries becoming more indebted. Hurley *et al.* (2018) underline that 23 of the 68 countries potentially eligible for lending under the Belt and Road Initiative are *vulnerable to debt distress*, eight of them being most endangered (Pakistan, Djibouti, Maldives, Laos, Mongolia, Montenegro, Tajikistan and Kyrgyzstan). The second one, 16+1, is perceived as "being in conflict with EU law" and eroding "EU norms, values and unity" (Grieger, 2017).

Western experts recommend that "with power comes responsibility", therefore China should "agree and implement prudent lending standards". Besides it should "coordinate its handling of bad debt with Paris Club" (Financial Times, 2018). Kevin P. Gallagher, professor of global development policy at Boston University has a more nuanced opinion. First, "*China's financing promises are much more productive than the short-term capital flows that surged into the emerging markets and developing countries and is now trickling away as US interest rates rise and growth prospects plateau in the emerging world - leaving behind piles of dollar-denominated debt in the corporate and some public sectors*". Second, China should not join the Paris Club until this group reforms its policies and adopts a "*more responsible sovereign debt restructuring mechanism*", as not austerity is the solution but "*the kind of financing China has to offer*". Very few studies underscore China's relevance as regards official development assistance and other official flows, including 3.485 projects worth more than USD 273 billion it financed in 138 countries during 2000-2014 (Bluhm *et al.*, 2018).

What does China expect to obtain from the EU? Definitely a shorter list than the EU's: a long-awaited market economy status, the non-intervention by other entities in the South China Sea disputes, termination of the arms embargo and an eventual launch of a joint action against the United States at the World Trade Organisation. But the EU is not willing to do that until China accomplishes its assumed commitments.

Instead, on the 25th of September 2018, representatives of the US, EU and Japan met on the sidelines of the United Nations General Assembly and "confirmed their shared objective to address non market-oriented policies and practices of third countries that lead to severe overcapacity, create unfair competitive conditions for their workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade, including where existing rules are not effective." This demonstrates that the old triad US-Japan-EU is still powerful and active. In spite of US's withdrawal from the Paris climate deal and from the Iran nuclear deal, in spite of its

³ Platform of cooperation initiated by China in relationship with 16 CEE countries (CEE-16): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

unexpected recent actions in terms of trade rules, EU continues to consider the US its key partner.

3. The impact of the interactions in the US-EU-China triangle on Sino-EU relations

The EU has strategic partnerships with 10 countries around the world (Brazil, Canada, China, India, Japan, Mexico, Russia, South Africa, South Korea and the United States), while China has more than 50 (Zhongping, Jing, 2014). If we judge which of the EU's and China's strategic partners meet the condition of being "*key players with a central role in solving global issues*" (according to the criterion mentioned by Renard; 2012), first the US and then China are the most valuable partners for the EU, while EU, Russia and the US in this order are the most valuable for China.

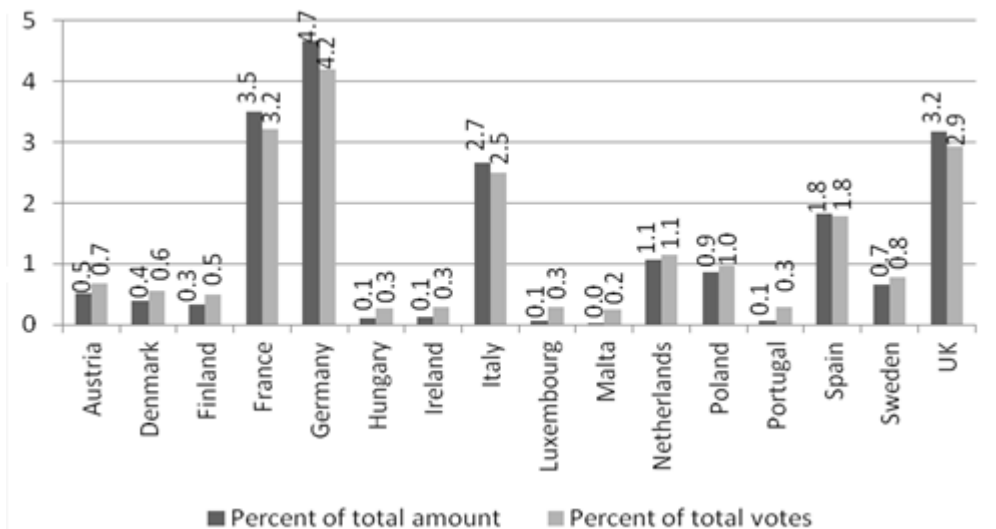
The summit of June 29, 2015, marking the 40th anniversary of EU-China diplomatic relations, was a success and marked an apex of the bilateral relations, one of the key decisions being the launch of a *Connectivity Platform*, a symbol of complementarity between the Belt and Road (BRI) and EU initiatives.

By contrast, 2016 and 2017 were "tough" years for bilateral relations because of disagreements over issues such as EU refusal to grant China the long awaited market economy status and ongoing territorial disputes in South China Sea. That was reflected by the absence of any joint declaration at the bilateral summits of 2016 and 2017. In 2018, the situation changed again. US attitude towards the existing system of international rules and EU and China's will to strengthen their role as global actors seemed to have created the premises for a strengthened partnership. Obviously negotiations, concessions and new engagements are needed on both sides but EU and China seem ready to take this step as expressed in July 2018 by the optimistic Joint Declaration in 44 points and the additional Declaration on climate change and clean energy on 16 points.

In spite of the US-Japan-EU initiative of September 2018, EU is ready for a consolidated partnership with China. Even if the Chinese Belt and Road initiative is still considered with caution and 16+1 initiative is seen as "divisive" by the European institutions (Oehler-Şincai, 2018b), EU and its member states are ready to take advantage of new opportunities.

The first argument in this regard is related to the fact that EU member states criticize China's standards and business practices, but already 16 of them are members of the Asian Infrastructure Investment Bank (AIIB) proposed by China and launched in January 2016. Their individual shares of total subscription are lower than China's (around 30%), India (8%) and Russia (7%) but their cumulative share is of 20% approximately (Chart 1). Belgium, Greece and Romania are on the list of 19 prospective members of this new multilateral development bank.

Chart 1: EU member states' total subscription and voting power at AIIB (% of total amount and total votes)

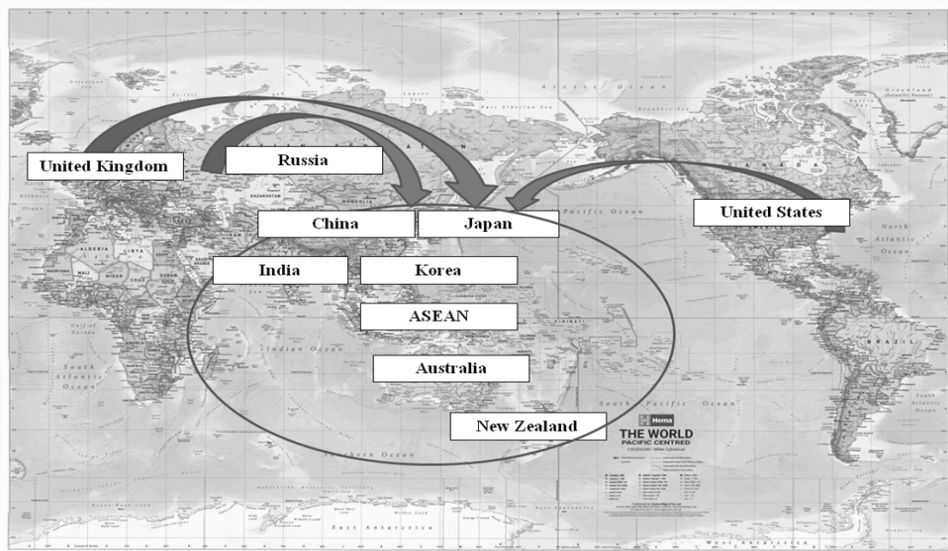


Source: Own representation based on <https://www.aiib.org/en/index.html>.

The second one is related to EU's ambitions to become a global player. Nowadays no entity can have this status if it does not have a strong presence in **Asia-Pacific**. Different EU member states have strong economic relations with countries from this region however EU does not play a relevant role in this space. The Belt and Road initiative and its strong partnership with Russia triggered deep changes in the system of relations in the region. These are motivated especially by US, UK and India's strategies and goals (Map 1).

Already since 2011-2012, United States has been trying to stimulate India to "Act East" instead of "Look East". Under Narendra Modi, India intensified its efforts to accede to the Asia-Pacific Economic Cooperation Forum but without any success. US has found a way to transform India in the centre of this region. In December 2017 it launched the National Security Strategy where it defined the Indo-Pacific region as "the most populous and economically dynamic part of the world", "from West coast of India to the western shores of the United States" (The White House, 2017a, p. 46). India is presented as "a leading global power and stronger strategic and defense partner", with which the US is intending to intensify the cooperation both bilaterally and in the quad made of US-Japan-Austria-India (The White House, 2017a, p. 46). In the US Strategy on Afghanistan and South Asia, India is called "the world's largest democracy and a key security and economic partner of the United States", President Trump inviting India to help "more with Afghanistan, especially in the area of economic assistance and development" (The White House, 2017b). In the American Indo-Pacific Economic Vision, US puts forth its democratic values, a "free" ("every nation, to be able to protect their sovereignty from coercion by other countries") and "open" ("all nations to enjoy open access to seas and airways", "peaceful resolution of territorial and maritime disputes") Indo-Pacific (Pompeo, 2018). These resonate with the objectives of territories/countries involved in disputes with China in South China Sea (Taiwan-China, Malaysia, Indonesia, Philippines and Vietnam) and also with India, eager to have strong allies in its race with China.

Map 1: Major players in Asia-Pacific



Source: Own representation based on: <https://www.mapworld.com.au/products/world-hema-political-pacific-centred-supermap>.

It is worth noting that India is ranked fifth in the hierarchy of world countries, taking into account the level of military spending in 2017, after the US, China, Saudi Arabia and Russia, with a value of \$ 63.9 billion and a share of 3.7% in the world total and besides India was the largest arms importer during 2013-2017 (SIPRI, 2018). Defense sector is among the highest priorities of the Indian government and India intends to become one of the first five producers of military equipments and platforms in the next ten years.

Therefore, with India as a key partner in the Indo-Pacific region, the US will lose nothing after giving up the “Pivot to Asia”, India has the funds and the will to take over any costs in exchange of becoming a military power.

The United Kingdom intends also to become a major player in the region with India’s help. However India is a good negotiator. Being aware of its importance in the Commonwealth and its key role for the UK in Brexit’s perspective, India is vigorously pursuing its national interests and offering nothing for free, but only considering how much it gains in terms of expanding its sphere of influence not only in the Indo-Pacific region, but also globally.

In the context of actual power shifts, this region is at the core of global changes but ties between EU and Asia remain weak. How could the EU change this status quo? By taking into account that China needs reliable partners. China’s large scale initiative BRI has generated not only positive reactions (related to its objectives of *policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds*) but it faces also “enormous challenges of geopolitical suspicion, economic uncertainty and security risks” (Cui, 2016). In only several years, BRI has forged for China solid partnerships with some countries but at the same time it increased the antagonism with rivals such as India. Taking into account the present context, China and the EU can benefit from a unique moment, which might be conducive to a deepening of their strategic partnership. If the EU as an entity becomes China’s declared partner for implementing BRI and companies from the EU countries are included on a list of international agreed

partners, the credibility of this project will increase. The actual erroneous narrative focused on “debt trap” might get the correct connotation, namely that of an engine for infrastructure development and economic growth.

4. EU member states’ different intensities of cooperation with China

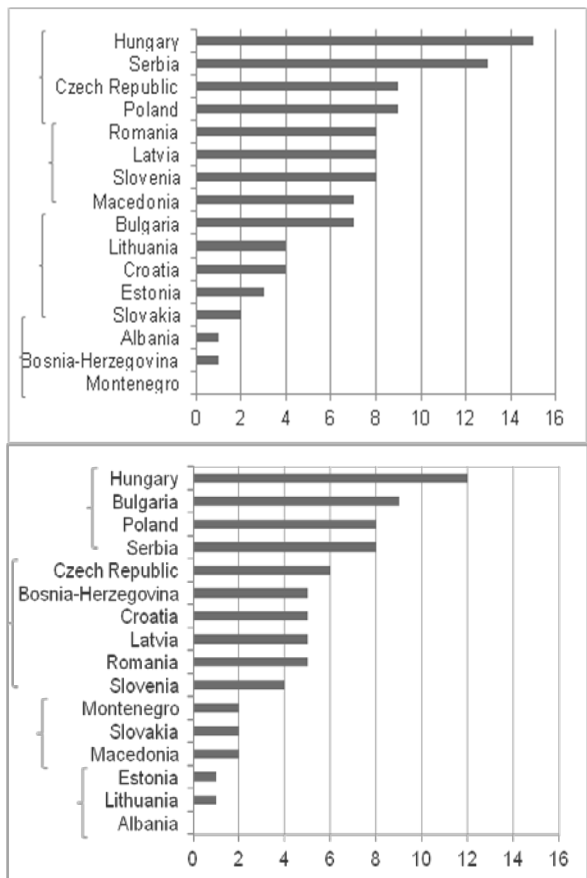
More than ten of China’s strategic partners are from the EU, namely: France, Germany, Italy and UK since 2004, Spain and Portugal since 2005, Greece since 2006, Denmark since 2008, Poland since 2011, Ireland since 2012, Czech Republic since 2016 and Hungary since 2017. In certain cases, different successive governments had contrasting attitudes towards China, either in the direction of improvement (see relations with the Czech Republic after Vaclav Havel, a declared friend of the 14th Dalai Lama) or in that of worsening (for instance the relationship between China and Romania after Victor Ponta).

The level of development achieved by China is seen in the developed countries as a threat to the already obtained advance. On the contrary, in developing countries, it is seen as a desired status (Oehler-Şincai, 2018a). In CEE, it has a more subtle nuance, as countries in this region have the ambition to leave the label of *EU economic periphery*. China has offered the CEE countries a specific framework, 16+1 as part of the BRI, complementary to the instruments created by the EU in order to diminish the gaps between different levels of development. Even if there are unfulfilled expectations in CEE as regards the number and scale of implemented projects financed by China in the region, however the actual Chinese level of development is predominantly described in positive terms.

Among the EU countries, member states from the CEE, Greece, Italy and Portugal seem more inclined to cooperate with China in the 16+1 platform than the others. There are many motivations determining the CEE countries to support this initiative, such as: (1) diversification of export markets and investment/financing sources; (2) the need to develop and upgrade infrastructure; (3) the ambition to become more visible and strengthen their position in the CEE, but also to influence EU policy according to national interests; (4) some countries’ (including Poland and Romania) intentions to diminish their dependency on Russian energy; (5) Poland’s trial to balance the power between Russia and Germany and increase its regional role; (6) besides, some of them, led by the eurosceptic Poland and Hungary, are attempting to change their status of overdependence on the EU and establish a system of more balanced relations with strong economic partners outside the EU, including China (Oehler-Şincai, 2018b).

Hungary appears as the most ambitious supporter of China in the 16+1 framework, while the others change their priorities according to new circumstances (Chart 2). It is worth noting that Hungary’s attitude towards the US is a critical one, while the actual government strongly supports cooperation with both China and Russia. On the contrary, for countries such as Poland, Romania and Baltic States, the US is considered as a key security guarantor.

Chart 2: Hierarchy of the CEE countries by number of events announced/hosted during 2013-2015 and 2016-2018 as part of the 16+1 framework



Source: Own representation based on successive 16+1 Guidelines for cooperation.

Given the criticism by the EU institutions and majority of the Western EU member states towards 16+1 and, at the same time, being aware of the importance played by strong partnerships with the developed Western countries for its own development path, China had already confirmed its readiness for trade-offs in several occasions. For instance, there are many external observers at the 16+1 high-level meetings. Moreover, on the 31st of May 2018 in Berlin China invited Germany to participate trilaterally in the 16+1 activities, underlining that China “hopes to see a more united, stable and prosperous EU”. More recently, the Sofia Guidelines for Cooperation between China and CEE dated the 7th of July 2018 underscored among others the launch of a Global Partnership and Cooperation Centre in order for China to better understand and implement the EU regulations.

The 16+1 framework needs now much more than a vision and plans, it needs both EU support and concrete projects which are successfully implemented. Budapest-Belgrade railway, **Pelješac Bridge** and the larger New Eurasian Land Bridge **will represent one day such success stories. Until then**, 16+1, EU institutions, Western EU member states and also industry representatives can gather to debate concrete projects. Which are the investment needs of these countries? Which amount can be supported by the EU? What can complement China? Furthermore there are needed concrete projects for the

implementation of the Connectivity Platform surpassing the area of transportation, with specific goals, budgets and deadlines and taking into account also the EU strategic interests. The Three Seas Initiative, Via Carpathia and participation in EU regional initiatives such as the Danube Strategy are good examples of contribution to the development of the Trans-European Transport Network. However China should be aware that most of the EU countries are still eagerer to cooperate with the US than with itself.

5. Conclusions

China's initiatives such as Belt and Road and 16+1 must be understood beyond the narrative related to its own gains in terms of influence. In order to accelerate reforms at home, it needs reliable partners and the EU is among the most significant ones. But from another perspective, a strong, open and trustworthy partnership between EU and China can be also for the EU a way to achieve the long-awaited status of global player. EU cannot obtain it in the shadow of other global players, but only as an equal-footed partner, even if keeping its own rules, such as level-playing field and reciprocity. America's Indo-Pacific Economic Vision does not offer the EU the chance to enhance its role in that region, but the Chinese Belt and Road Initiative represents for the EU a gateway to its looked-for global status.

The argumentation build around the three major research objectives of this paper can offer in the end the answer at the question whether the opportunities forged by new international circumstances (especially the "Trump factor") weight more in balance than the EU's and China's unaccomplished demands to each other. Nevertheless as long as the United States continues to be the most relevant strategic partner for the EU, the answer remains an indisputable "no".

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