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Editors: Sławomir Dębski • Bartosz Wiśniewski • Rafał Tarnogórski

Sebastian Płóciennik • Patrycja Sasnal • Justyna Szczudlik • Daniel Szeligowski
Jolanta Szymańska • Marcin Terlikowski • Szymon Zaręba • Tomasz Żornaczuk

Sharpening the EU's China Policy

Justyna Szczudlik

The EU is sharpening its policy towards China, with a new European Commission document describing the country as a systemic rival. Now, the EU is demanding that China introduce changes (such as opening its market), and threatening restrictions if they are not introduced within the prescribed period. This new approach is a means of developing a harder policy towards the PRC and becoming independent of U.S. pressure. At the EU-China summit (9 April), an attempt to take a stricter course resulted in moderate success. EU unanimity and the shape of its institutions after the European Parliamentary elections remain a challenge.

The EU's New Approach. A few weeks before the summit, and just before PRC Chairman Xi Jinping's visit to Italy and France, the European Commission published (12 March) *EU-China: Strategic Outlook*. For the first time in an official EC document, China was described as a systemic rival promoting an alternative model of governance, and as an economic competitor in the pursuit of technological leadership.

The text emphasises the contradictions between Chinese commitments and actions, such as its selective treatment of international law. Moreover, it highlights problems caused by the PRC, described specifically as such in a departure from the language of previous EU papers. The document presents actions that the EU may take to force China to apply the reciprocity principle. The EU, stressing the openness of its market and the same rules for all economic entities (including those from outside the bloc), demands that China expand access to its market (for example, in the field of public procurement), do more to protect intellectual property, withdraw from forced technology transfers, and halt government subsidies for Chinese companies. The EU declared its intention to accelerate negotiations of bilateral agreements on investment and geographical indications (the latter is about agricultural products and food that will be protected against imitation and misappropriation of rights). The EU also announced, among other things, accelerated work on the introduction of a new instrument to enable restrictions on third-country access to tenders, and made [recommendations for a common position on 5G](#) and full implementation of [EU investment screening](#).

Change in EU policy was also signalled by a Paris meeting between French President Emmanuel Macron (who organised the event), German Chancellor Angela Merkel, European Commission President Jean-Claude Juncker, and Xi Jinping, during the latter's visit to France. Given Merkel's participation, it is worth noting that German businesses have, since January, been pushing their government to take steps to tightening policy on China. The purpose of this non-standard initiative by Macron was to demonstrate EU unity, and to show the support of France and Germany (the bloc's most important countries, and China's largest economic partners) for a new EU policy.

One reason for stricter EU policy on China is an awareness that the PRC will not change an economic model in which China itself is the main beneficiary. Another is EU understanding of [Chinese companies' technological advantage, of which the best example is in 5G](#). If the EU withdraws permission for Chinese entities to participate in the construction of the 5G network, European development may slow down. This would be too costly for the EU, leaving it with no option (for at least 2-3 years), so now the only option is

to allow Chinese companies to take part in the rollout. U.S. pressure to exclude Chinese companies from the European market, its failure to propose any assistance in this issue, and EU concerns about the security of Chinese technology, have all resulted in accelerated European policy changes.

Outcomes of the EU-China Summit. The meeting was an opportunity for the EU to test a new approach towards China. The summit decisions are presented in a joint statement, which emphasises areas of cooperation between the EU and China in a manner that underlines divergences from U.S. policy. Examples include implementation of the Paris Agreement, the Iran Agreement, and WTO reform.

However, the EU's greatest expectations about China concerned issues on which both differ. The EU wanted China to cease illegal trade and investment practices, and to set deadlines to finalise negotiations on bilateral agreements. The statement included some issues and problems noted in the EC document, although expressed in milder form. Both sides decided to accelerate negotiations on agreements about investment (to be concluded by 2020) and geographical indicators (to be concluded by the end of this year). Consent to set deadlines should be seen as concessions by China. For the first time, China and the EU agreed that forced technology transfer should not be allowed, and committed to intensify discussions on strengthening international rules on industrial subsidies as part of WTO reform. The latter, in particular, was recognised by Juncker and European Council President Donald Tusk as a breakthrough. However, the statement does not provide for any sanctions in the event of non-compliance. Only in the case of an investment agreement is a mechanism to monitor the progress of negotiations to be established.

China's Reaction. China's reaction to EU demands was balanced. Giving priority to its dispute with the United States, China does not wish to damage relations with Europe. Chinese rhetoric focuses on two messages. The first is to emphasise that differences of opinion are normal, especially when two parties have different economic models. The second is to highlight those issues on which China and the EU have similar views. These issues are usually broad, rather than specific areas of cooperation such as international rules-based order and the UN's role, free trade, the role of the WTO, support for multilateralism, global governance reform, and opposition to protectionism. China also underscores its support for European integration, arguing that its assistance for less affluent Member States such as Portugal, Greece, Italy and Central European countries contributes to deeper relationships within Europe. The position presented by China is therefore one that offers a contrast with current U.S. policy. Indeed, the content of the EU-China joint statement and Xi's agreement to meet three European leaders in Paris should be considered as conciliatory on China's part.

Prospects. The tightening of EU policy towards China marks the next stage in a shift from engagement to caution, which has been underway since 2016, when China began to invest in EU high-tech enterprises. This shift was seen, for example, in the adoption of EU screening in 2018, and the publication of the EU connectivity strategy as a response to China's Belt and Road Initiative.

The EU change of approach is still mainly rhetorical. The coming months are likely to see further analysis in Brussels of China's implementation of announced changes. The EU will also seek to put pressure on China in two ways. First, to set up protective mechanisms such as the EC's recommendations on 5G security, which may allow the bloc to assess and minimise the risk of engaging with Chinese businesses on the telecommunications market, making it difficult for them to operate in the EU but not excluding them from the European market altogether while giving the EU control over 5G network security. Second, to establish mechanisms that allow blocking the Chinese entities from operating in Europe until there is corresponding reform in China. For example, Chinese firms may be banned from taking part in EU tenders if European companies do not have access to the public procurement market in China. However, a challenge in implementing the new policy is the need to gain the consent of all Member States and EU institutions after the European Parliamentary elections.

The new EU stance is similar to the U.S. one, in that it creates an opportunity for cooperation between these two. However, EU policy is less confrontational. The Huawei case, in which Member States are reluctant to exclude the Chinese company from the 5G market, shows that the EU is seeking solutions that protect its own interests and free it from cooperation with and pressure from the United States. Having said that, a potential reduction in U.S. involvement in Europe (in favour of expansion in the [Indo-Pacific region](#)), and confrontational U.S. policy towards the EU—on the day of the EU-China summit, U.S. President Donald Trump threatened to impose additional tariffs on the Union—are also taken into account in Brussels.

The Chinese authorities are concerned that EU policy may become "Americanised." Thus, Beijing will seek to prevent EU unity on a new approach, and to discourage closer EU cooperation with the United States, in particular by attempting to gain support in some EU Member States.

Poland has been pursuing a more cautious policy towards China for the last two years, due to the unsatisfactory results of economic cooperation and the importance of transatlantic relations. Therefore, a stronger EU approach would favour Poland by validating Polish policy and aligning it with the EU and the U.S.. It is also in Poland's interests to contribute actively to the development of EU mechanisms to ensure real reciprocity in relations with China.