Prospects

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The point of view

European Union/China: between competition and strategic rivalry

Since China joined the World Trade Organization (WTO) in 2001, western expectations that the Chinese economy would gradually be transformed into a market economy have been disappointed. The implicit agreement that private sector players would play a predominant role has not come to pass, with the upshot that the rules of the game now need to be rewritten more explicitly.

The United States was first to abandon this naive expectation. Both economic and political circles have named their enemy: China is a strategic rival. In the American view, this means multilateralism can no longer work unless there is regime change in China. The threat of the United States pulling out of the WTO is very real. Furthermore, the US face-off goes beyond economic borders alone: it is a competition for global leadership requiring an aggressive strategy. In this connection, the United States sees the Belt and Road Initiative as a strategy of political penetration and isolation, and has been very quick to oppose it.

European countries have been much slower to react. First off, they don't care about the battle for global leadership: it's a losing battle, and one that has never really got off the ground in the first place. Secondly, until very recently they considered China more of an opportunity than a risk. It is seen either as a market where you can build up trade surpluses (unfortunately only a few countries have managed to pull this) or as a generous investor in a context where the continent's excess savings are not recycled within Europe. Still others see China as representing a model of autocratic capitalism that stands as an alternative to the liberal democracy advocated by the European Union (EU), which has lost its lustre for some of its members. Even in Europe, though, the positive aura surrounding China's development has morphed into scepticism, and the EU is preparing to tackle the imbalance between opportunities and challenges.

However, it is taking a different approach from the United States. In Europe, no enemy has been named: for the time being, China is seen as a strategic competitor (and not a rival). The desire is not to go so far as imposing fundamental change on the Chinese regime, but rather to change certain of its behaviours. The WTO is not about to be wound up if China does not become a market economy; the organisation can continue to exist with different systems if the rules of the game are clarified.

The difficulty facing the EU is twofold. First, its strategy of defending multilateralism is vital to its interests and its own existence. The challenge is striking the right balance in its support of the United States in the latter's confrontation with China: it must offer enough support to secure change without running the risk of destroying the system. Second, China's "Made in China 2025" growth model is predicated on buying up technological assets. With the United States putting up more and more barriers to protect its assets, the target is now Europe.

The EU's strategy started out highly ambitious: to promote reciprocity and free competition and nudge China towards a process of reform – notably of the behaviour of public corporations – with the aim of eventually concluding a free trade agreement. As far back as November 2013, negotiations began over a bilateral investment agreement to replace the various national bilateral agreements, responsibility for which had been transferred to the EU under the Treaty of Lisbon. However, the slow pace of talks and the failure to get China to change its behaviour forced the EU to shift up a gear and adopt a more aggressive approach. On 5 March 2019, the EU28 countries voted to put in place a system to screen foreign direct investments coming into the EU and detect third country control over investors (note that Italy and the United Kingdom abstained). While this initiative will not solve all the problems – especially not those linked to unfair competition in the Chinese market and other third country markets – it will at least strengthen Europe's position in its negotiations with China.

The European Commission has also proposed ten measures covering the conditions and guarantees EU countries must obtain from China in terms of respect for fundamental rights and the rule of law, reciprocity in trade and investment, the opening up of the Chinese market, access to public sector contracts, reductions in corporate subsidies, and fair competition and vigilance on latest-generation telecommunications networks. These measures were (briefly) discussed at the last meeting of the European Council and are set to be put to the vote in June.

The real challenge for the EU will be to tease out a shared strategy. The more the EU ramps up the pressure on China, the more China will adopt a strategy of avoiding bilateral relations with EU members in areas where such relations are possible. However, the EU is not completely helpless in the face of this challenge: it can impose rules on its single market through competition policy (which hence must not be weakened) and social and environmental standards. And it must not forget to remind China of the cost of having a second strategic rival. ■

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