The EU’s current policy toward China needs to be updated to reflect the country’s continued authoritarian turn and to better secure European interests. China is no longer, as it still claims, a developing country; it has a clear plan for a strong global leadership role. It impacts the EU and its member states in many areas, from trade to technology to military matters. Reflecting that reality, there are important ways in which EU policy can be improved.

On economic relations, the EU has moved toward demanding reciprocity but it needs enforcement on China’s subsidies and technology transfers. On technology and the issue of 5G, a standard that will become the backbone of the EU’s digital economy and democracy, a joint European approach is needed to avoid dependence on authoritarian China. More broadly, the EU’s policy needs a health check in many areas, including science cooperation that can benefit China’s military advancement and surveillance repression at home; academic, media and cultural relations where China can affect freedoms in the EU; and Chinese interference in European politics. For the EU, it is no longer only a question of trying to promote human rights in China, but of defending its values at home. And, ultimately, a stronger EU policy depends on the difficult task of getting buy-in by all member states.

The current debate in Europe about possible backdoor espionage and network dominance by the Chinese telecom company Huawei in the continent’s next generation of data networks should serve as the spark for a broader debate about the EU’s policy toward China. Currently, this is predicated on expansion of trade and engagement as well as some minor ritual sound bites on human rights. The assumption in Europe behind that policy was that China would gradually experience liberalization, but the opposite has happened. Under President and Communist Party Secretary-General Xi Jinping, China has become more authoritarian. He can now serve for life with little to no restraint on his exercise of power. This stands in stark opposition to the EU’s vision of freedom, democracy, and open societies. Simultaneously, the reach of China’s power is now global, impacting the EU on issues ranging from technology standards to development aid and military matters.

This is the new reality that will face the next European leaders who will take office later this year in the European Parliament and in the European Commission. A serious health check is therefore needed for a values-and-interest-driven EU policy toward China. The review note issued by the EU on 12 March does take a step in the direction of such a new policy, talking about China as a “competitor.” Still, it needs backing from member states based on a more realistic assessment of how China and its authoritarian system impact the EU, and how to mitigate that. Consequently, this brief concludes with specific recommendations to further sharpen the EU’s China policy.

Trade, Investment and Technology

China joined the World Trade Organization (WTO) in 2001, which has helped its economy grow tremendously. It is the EU’s biggest source of imports and its second-largest export market. But the EU’s general openness to China’s trade has not been reciprocated. The country’s forced technology transfers, lack of protection of intellectual property rights, and massive state subsidies to companies are rightfully at the top of the EU’s complaint list. Meanwhile, the United States under President Donald Trump is pursuing a bilateral trade deal covering similar topics with China. In addition, Trump has a singular focus on the U.S. trade deficit with the country. The EU should make sure it is not left out in the event of such a deal, and its stance should be about more than reducing its trade deficit with China.

The EU’s approach is not and should not be about stunting China’s growth and prosperity. It would be in China’s own economic interest to make changes to its economy—reducing state subsidies could unleash a new growth spurt. To a large degree it is the current state control of companies that is putting the brakes on the economy. If China used negotiations with the United States and the EU to undertake reforms and a further opening of the economy, it could prosper. However, China sticks to its status as a developing country in international fora although it is now the world’s second-largest economy. The EU has moved toward a clearer demand to China for reciprocity in economic relations but the United States’ trade showdown with the country underscores that it could also play harder to secure its goals. The best approach would be for this to take place inside the WTO, but China is a master of hollow multilateralism and drowning such initiatives in working groups. The EU should therefore be shrewd enough to promote its interest in the most efficient way possible elsewhere, including on the EU-China investment treaty currently under negotiation. Crafting such a stronger negotiation position for the EU necessitates that member states back that up. Internal division and preemptive obedience to China has often hindered that.

The arrest in Canada of Huawei’s Chief Financial Officer Meng Wanzhou and the demand by the United States that she be extradited for breach of U.S. sanctions publicly lays out the U.S. government national-security worries about the company. Such concerns have spread to the United States’ close partners in the Five Eyes intelligence network. The EU and its member states must decide whether they find Huawei’s public assurances that the company’s networks do not pose a security risk, satisfactory.

So far, the most common response has been stalling, as Germany, which will be pivotal for European decision-making, is doing. The United Kingdom, despite being part of the Five Eyes, is also buying time with a review of its policy, which so far has been welcoming of Huawei. Others have already thrown in their lot with the company, like Portugal with a Huawei-run 5G network to launch this year, as one of the first countries to introduce the new standard commercially. At the other end of the spectrum, in Poland the authorities have arrested a Huawei employee on espionage charges and called for a broader debate in NATO or EU on cybersecurity and China. To date, Poland has been the lynchpin in the 16+1 format, which China has used to carve out a friendly Eastern European grouping inside the EU. The combination of an actual espionage case and the United States’ priority on the Huawei issue might compel Poland to reassess the value of Chinese investments as well as of the 16+1 format. The Czech Republic demonstrates how difficult the question is. The government’s cyber unit issued a warning on Huawei but President Milos Zeman, whose presidential administration uses Huawei as a provider, is publicly dismissive of the official warning.

There is legitimate reason for concern about Huawei or other Chinese companies like ZTE moving into critical infrastructure in European democracies. Legislation in China has been tightened and Chinese companies are obliged to cooperate with the intelligence services. The country remains an authoritarian, one-party state with little transparency into its inner workings. That means the suspicion will linger about any Chinese company that is involved in European critical infrastructure. During the last decade, European countries, except perhaps Germany, learned the hard way that Russian gas was more than just Russian gas. The EU should not repeat the same strategic mistake with China and telecommunication, which in the next generation will be the building block for the “internet of things,” powering everything from personal pacemakers to public infrastructure. The recently exposed hack of European internal diplomatic telegrams, allegedly by Chinese hackers, further underlines the timeliness of these discussions.³ On March 12, the European Parliament passed a so-called ‘Huawei’ resolution and a supporting German member said that if “Trojan horses end up in critical infrastructure due to Chinese technology, all alarm bells should ring.”⁴

Acquisitions in Europe by Chinese state-run companies formed the backdrop to the EU introducing strengthened investment screening, although the legislation can mainly be said to be a first step toward coordination between the union level and the member states. When such legislation was introduced in 2017, European Commission President Jean-Claude Juncker stated, “It is a political responsibility to know what is going on in our own backyard so we can protect our collective security.”⁵ Chinese state-owned companies have increased their investments in European countries, including notably in 13 maritime ports, with the most emblematic being COSCO’s takeover of the port in Piraeus in Greece.

These investments fit into a larger strategic tapestry, and they are part of enacting official policy on creating gateways for the Maritime Silk Road as part of the Belt and Road initiative. There is suspicion that large investments of this kind could entail broader political influence in Europe. For example, such economic considerations could have played a role in Greece blocking an EU human rights statement on China in 2017.

In 2013, Hungary, Serbia, and China signed a trilateral project for building a new railway line between Budapest and Belgrade, financed by the Export-Import Bank of China. Construction has begun in Serbia but is stalled in Hungary. In 2017, the European Commission was investigating whether public tender rules had been kept. Subsequently, Hungary put the project out on a quick public tender. This episode shows the capacity that China’s investments have for sowing division inside the EU. While Hungary uses the project as part of its strategy of being a nuisance for Brussels, the European Commission has handled this file with a soft touch, supposedly due to an overload of difficult decisions around Hungary’s broader backsliding on democracy.

The EU has taken the right step on investment screening with the current legislation on the books, but the rules can only be a first step and more should be done, including on state-owned companies and enforcement of denials for investment, as has been advocated.⁶ Further steps should be taken to protect European strategic security.

China, according to its official doctrines, aims to replace Western companies and to make itself a leader in emerging technologies from artificial intelligence to quantum computing in accordance with its Made in China 2025 plan. The problem is both its mass-scale industrial policy and that its

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methods not only include research collaboration with Western institutions and strategic takeovers but also cyber-attacks and forced technology transfer. The recent signals from Germany’s business community and government on protecting European industrial strongholds have been sparked by this industrial-policy competition from China. They highlight that Germany might be moving away from its classical free-trade position when it comes to how to deal with China.

Additionally, the discussion over the merger of European train producers, Siemens and Alstom—which was supported by the German and French governments but rebutted by an EU Commission review by Commissioner for Competition Margrethe Vestager due to serious “competition issues”—was initiated with a view to creating a European champion to compete with China’s state-run high-speed train producers. This debacle also puts into question whether the next European Commission could alter competition and state-aid rules to consider global competition, including from China. Such a change could also include screening takeovers and mergers and acquisitions for foreign state aid like the European Commission currently does for mergers and acquisitions inside the EU.

**Connectivity and the Belt and Road Initiative**

China’s Belt and Road Initiative (BRI) started as an infrastructure initiative but has become a foreign policy narrative to expand its presence and influence abroad, allegedly backed with more than $1 trillion. It helps fill a gap as there is a demand for infrastructure in Asia and beyond, but it is important that international standards, public tenders, and legal mechanisms for preventing corruption are not undermined, which there have been examples of. The initiative should be a two-way street and not a one-way to Beijing, as French President Emmanuel Macron said during a visit to China in 2018. The investments of Chinese companies in European ports show their readiness to expand the BRI to Europe. Many European countries are attracted to the possibility of such infrastructure investments. For example, a large backdrop for the 16+1 cooperation was attracting Chinese investments. The Serbia-Hungary railroad is also described as part of the Silk Road, a component of the BRI. Italy’s government has also been entertaining the idea of an official sign-up to the BRI in connection with Xi’s visit to the country in March. Pressure from the United States and the EU to abstain from joining seems to have given the Italian government second thoughts, but this shows the constant allure for member states of cutting their own deals with China.

In its Connecting Europe and Asia Strategy, released last September, the EU proposed a broader definition of connectivity that goes beyond the Chinese focus on infrastructure. Accordingly, the EU sets its own standards with open tenders and environmentally sound projects. Indirectly, it juxtaposes its approach to China’s “debt diplomacy.” The strategy also focuses on energy connections (based on the EU’s experiences with imported gas from Russia) and on digital infrastructure where Chinese companies have rapidly expanded in the EU.

The success of the EU strategy will largely depend on adequate financing, private-sector interest and cooperation with like-minded partners—and the speed with which it can be implemented. The EU’s

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effort shows independent capacity but might not be sufficient on its own to transform China’s BRI into a two-way street. The strategy mentions that the EU “will proactively seek to identify synergies between our and our partners’ connectivity strategies.” There seems to be increasing transatlantic bandwidth for coordinating on how to address China’s infrastructure challenge. For policymakers in the United States (and in Japan, for that matter) the EU strategy is an opportunity to engage European allies on these issues. The ambition should be to connect the EU’s strategy with the Free and Open Indo-Pacific approach espoused by the United States, Japan, and India. There should be ample common ground to work on providing alternatives to or cooperating with Chinese initiatives on a more equal footing and from a position of strength when it comes to internationally established norms and standards.

Military and Defense Affairs

China has repeatedly promised the rest of the world that its rise would be purely peaceful—a touted slogan under former President Hu Jintao. It highlights its increasing contributions to UN peacekeeping and anti-piracy operations. These are substantial contributions to multilateralism, but China’s military modernization is about much more than just providing “blue helmets.” For example, it conducted more ballistic missile tests last year than the rest of the world combined. At the 2019 Munich Security Conference, Chinese officials said it opposed joining any successor regime to the Intermediate-Range Nuclear Forces Treaty, after Chancellor Angela Merkel of Germany had proposed a global regime including its participation.9 This demonstrates the limits to the adherence to multilateralism that China professes in public international forums.

In the South China Sea, China is not just claiming all disputed islands but also the whole of the sea, in clear contradiction of international maritime law. Vietnam, the Philippines, and Malaysia are consistently bullied into acceptance of its claims. In 2018, during a French naval mission upholding the right of freedom of navigation in the South China Sea, one high-ranking French official noted that China has built what corresponds to the whole French navy over just the previous four years.10 If this massive expansion, which is startling its smaller neighbors, remains dedicated to a peaceful rise, China should explain how its military rise keeps benefiting the multilateral order and stability in the Indo-Pacific.

France is a European leader on these questions. President Macron has spoken about the increased Chinese presence in the Indo-Pacific region as a “game changer” and about the need to defend and uphold freedom of navigation and the United Nations Convention on the Law of the Sea. The EU, which is founded on the principles of multilateralism and international law, should address that challenge and insist unequivocally on the primacy of international maritime law and on peaceful negotiations and solutions to contested claims.

Additionally, the EU should be much more focused on China’s long-term military aims, which are opaque, even though Europeans perceive Russia as the more imminent short-term challenge. According to a senior European defense official, “We know; the real elephant in the room is China.”11 But there is so far no institutional format for Europeans in NATO or EU to discuss this. Having one would also provide a tighter connection to U.S. defense policy, which sees Asia as the theater of great-power rivalry of the 21st century.

Although the EU has a long-standing embargo on selling arms to the country, China has explored many other ways of obtaining military-relevant knowledge from European countries. One study showed that the


11 Conversation with the author.
Chinese military has sent thousands of scientists on exchanges and study tours to universities, including in the United Kingdom, Germany, and other EU member states. They are supposedly extracting know-how in key dual-use technologies that benefit China's military modernization, including integration of technology.

**Human Rights and Values**

The human rights situation in China has continuously deteriorated in the last decade. The regime argues that it has lifted millions out of poverty, but this does not obscure the fact that respect for their individual rights has not followed. This is demonstrated by the revelations about detention camps in the restive and minority-populated region of Xinjiang. The EU has not been sufficiently aware of the repression on a mass scale that is happening in the area because China limits access and independent reporting. The Communist Party regime does not tolerate dissent or organizations that do not fall under its control, which is why freedom of religion, for example, remains so curtailed. Its next step is the nationwide implementation of a “social credit system” based on ubiquitous surveillance of citizens and scant respect for individual rights.

China has also shown increasingly the capability and willingness to interfere in democracies abroad. For example, Australia and New Zealand have seen increased interference through the operations of the Communist Party’s United Front with elite capture of business executives and politicians through political party financing and the takeover of Chinese diaspora news channels. The party under Xi has put enormous resources into influence abroad, estimated at $10 billion a year. He has elevated and expanded the United Front’s activities, described as “magic weapon” that relies on coopting Chinese diaspora communities and building relationships with Western enablers to make “the foreign serve the party.” The Communist Party’s goal is to quell dissenting and negative voices at home and abroad, and to influence civil society and governments abroad. China also interfered in Taiwan’s elections last November, including via social media. Taiwan is the origin of the United Front activities and case-study cooperation with Taiwan should be expanded. The EU and its member states should, among other initiatives against external political interference, carefully examine their political party and campaign finance rules as well as how Chinese state funding flows into European think tanks, universities and civil society. On the social media business-networking platform LinkedIn, Chinese front companies have elevated spying and influence-seeking to new heights, particularly in Germany. In conclusion, Europeans need to worry about more than Russia lurking on social media.

For the EU and Western democracies, it is no longer only a question of trying to promote human rights in China, but of defending their values at home. In the last decade, the EU and its member states have failed in this regard. First, when China succeeded in dictating to European leaders that they could not meet the Dalai Lama, a Nobel Peace Prize recipient, on home ground. And second, when Norway was subjected to a “deep freeze” by China for years after the dissident Liu Xiaobo was also awarded the Nobel Peace Prize. The EU and its members, and other democracies worldwide did not speak up for Norway, which in the end issued a semi-apology to mend relations with China. The current test is China’s broad-based

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hostage diplomacy with Canadian citizens detained in the country, apparently in retaliation for the arrest of Huawei’s chief financial officer in Canada. European countries such as Germany have added their voice to the concerns over China’s targeting of Canada and its citizens, but a united EU should take a more forceful stance on this. Such cases are the new arena of value challenges for democratic countries when it comes to China.

Additionally, Chinese nefarious standards of internal surveillance are already travelling beyond its borders as Chinese tech giants go global. While China has closed off its population behind the Great Firewall of censorship and foreign social media platforms such as Facebook and Twitter are not publicly available in the country, nothing stops the spread abroad of its censorship and surveillance standards that are built into its social media platforms, such as WeChat. What is more, European tech companies are also a part of that infrastructure as sub-suppliers of such surveillance technology to China.

Media, Confucius Institutes, and University Cooperation

European countries should be vigilant of Chinese state-driven involvement in the media, academic and cultural spheres, which is expanding across the continent, and treat them for what they are—part of the Communist Party propaganda apparatus.

The U.S. Department of Justice has recently demanded that all Chinese state-controlled media such as Xinhua and CTGN register as foreign agents, which this author recommended in an earlier report. The EU should consider taking a similar step. When Chinese journalists register in European countries, they expect to be and are treated as independent journalists, which they are not. For example, CTGN journalists in China have helped state security by screening forced confessions of prisoners, including of British and Swedish nationals. As a propaganda and influence tool of the regime, China Daily uses advertising money to get its messages out in respected European newspapers, where only discreet notices inform readers that this is not ordinary journalistic content. This advertising money flow builds a gradual parasitic reliance on Chinese state funding in European newspapers.

Similar money flows and donations are troubling for think tanks and universities; for example, through the plethora of Chinese state-controlled Confucius Institutes, which in the best cases deliver needed language training but in the worst ones become academic malware, silencing freedom of thought on Chinese issues at their host institutions. The issue is not with Chinese state funding per se but with the opaque contractual relationships European universities enter to receive it. Similar European state-financed organizations such as Germany’s Goethe Institutes or France’s Alliance Française do no embed themselves in universities abroad; there is no reason why Confucius Institutes should.

Recommendations

A senior official in Poland stated, after the Huawei arrest there, that “with Russia we always know where we stand, but with China we have less experience.” It is high time for a health check on EU’s engagement policy with China, whose rise is the largest geopolitical challenge of the 21st century. The new leadership in the EU that will take office this year must rise to that challenge. That means that the EU’s China policy must undergo a needed course correction. The following recommendations are suggestions for how to enact such changes.


17 Ben Ellery, “Chilling forced confessions shown on British television: Victims are paraded in handcuffs for show trials beamed into millions of UK homes by China’s English language news channel,” Daily Mail, December 8, 2018.

Trade, Investment, and Technology

The EU should push for structural reform in China, including a reduction in subsidies to state-controlled companies, and it should toughen its line on China’s technology-transfers system and lack of protection of intellectual property rights, in collaboration with partners and especially the United States and Japan.

The EU and its member states should agree on a joint and future-proof approach to 5G and critical telecoms infrastructure to reduce their dependence on authoritarian regimes and their companies. On top of national laws and regulations, this could be done at the EU level through a broadening of the scope of the Cybersecurity Act and the EU cyber regulator, ENISA, on telecoms and critical infrastructure.19

The European Commission should propose changes to EU internal competition and state-aid rules so that they cover state aid in investments and mergers and acquisitions from outside the EU, such as by China’s state-owned companies.

The EU’s investment screening should be tightened with expanded enforcement and tighter coordination on dealing with foreign state-owned enterprises with like-minded democratic countries.

Belt and Road Connectivity

Through its connectivity strategy, the EU should expand internationally established norms and standards, and cooperate with like-minded partners such as Japan, the United States and the members of the Association of Southeast Asian Nations. The EU’s connectivity strategy should be prioritized to provide alternatives to the BRI.

The European Commission should vigorously maintain EU standards, public procurement rules and investigate cases where public-tender rules have been transgressed, such as that of the Belgrade-Budapest railway connection.

Military and Defense Affairs

Major EU/NATO members should enhance their political and military ties to democratic partners in Asia, from Japan to India and Australia. With due observance of the EU’s One China policy, outreach to Taiwan should also be included for example on China’s United Front activities. This could lead to more regular discussions of Asian military at the EU and NATO, and link with U.S. military planning about the region.

In the South China Sea, the EU should stand up unequivocally for freedom of navigation, the international Law of the Sea, and peaceful negotiation. France’s regular military patrols in the region should receive EU endorsement and member-state participation.

The EU, alongside NATO, should demand more transparency from China on its military modernization and how this serves the goals of a peaceful and multilateral order in the Indo-Pacific and beyond.

Human Rights and Values

The EU should continue to speak up for human rights and individual freedom in China. Regarding the situation in Xinjiang, targeted sanctions on officials and companies involved in running the camps there should be considered. The EU should work with Islamic countries so that they increasingly speak up, as Turkey did, on the curtailment of freedom of religion for Xinjiang’s Muslims.

The EU should conduct a health check on China’s United Front activities across the continent, including regarding campaign finance and donations to think tanks. This could be inspired by legal counter-measures taken by Australia.

European companies should stop selling IT and software that are used for surveillance in China. To secure that, the EU should strengthen its dual-use

export restrictions to include technology that has surveillance or military end use.

Media, Confucius Institutes and University Cooperation

The EU and its member states should tighten rules on Chinese state-run media outlets and consider a system to register them to distinguish them from independent journalistic outlets. Individual Chinese journalists involved in human rights abuses such as televised confessions inside China should be denied professional visas by EU countries.

A code of conduct should be established by independent newspapers to decline paid news inserts by Chinese state-controlled media.

As a minimum, a code of conduct among universities for transparency around Confucius Institute contracts should be enacted. Even better, Confucius Institutes should be separated from European universities. Ultimately, independent training should be financed and provided to European students of Chinese language and culture.

The EU should establish a transparency register of foreign donations from authoritarian countries to think tanks and universities.
The views expressed in GMF publications and commentary are the views of the author alone.

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