

# THE SUM AND SUBSTANCE OF THE EU'S CHINA DILEMMA

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Europe and China have been major partners for a generation. According to the [Global Office of the International Comparison Program](#) at the World Bank, China and the European Union (EU) jointly account for nearly 35% of global GDP in PPP terms. Europe championed China's case for World Trade Organization (WTO) membership and China supported the 'European Project'. A single example is sufficient to demonstrate how critical China is for European prosperity. Between 1995 and 2012, Germany, Europe's economic powerhouse, enhanced its industrial value by 37%, the largest chunk of which came from supply chains not in the United States but in China.

Therefore, when on June 9, Josep Borrell Fontelles, the European Union's High Representative for Foreign Affairs and Security Policy, publicly proclaimed that "China is without doubt one of the key global players. We have to engage with China to achieve our global objectives, based on interests and values", a logical assumption might be that there is unlikely to be any change in the Europe-China relationship after the [novel coronavirus pandemic](#). Such a superficial impression is reinforced by European statements that they will not choose sides between the United States and China. Yet any such presumption bears closer examination.

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In March 2019, the [EU Commission published "A Strategic Outlook"](#), describing China as, simultaneously, a cooperative partner, an economic competitor and a systemic rival promoting alternative models of governance. This was the product of a long process of distillation during which the political and security dimensions began to jostle with the economics that had been the primary determinant of China-EU ties for two decades.

There was a growing appreciation that the balance of challenges and opportunities presented by China were shifting as its economic power and concomitant political influence grew with unprecedented scale and speed, and in ways that concerned European security. China's efforts to cultivate separate European sub-constituencies like the 16+1 Format with the Central and Eastern European States, and meetings with the Nordics and the Southern Europeans; the sailing of the PLA Navy into the Baltic Sea for joint exercises with Russia in 2017; cross-sectoral hybrid threats including information operations in European countries; Chinese behaviour in the South China Sea and Indian Ocean; and its targeted acquisition of key high-technology companies such as Kuka in Germany or key ports like Piraeus in Greece, began to raise red flags in the Chancelleries of Europe. China's economic and financial practices backed by strategic motives threatened unity and the European project itself, since it appeared to undo their efforts in terms of connectivity, regulatory frameworks and the building of a single European entity.

Thus, even before the pandemic, the "Strategic Outlook" recommended that the EU should shift towards "a more realistic, assertive and multifaceted approach" to China.

China's actions in the first half of 2020 have sharpened such contradictions. Its early handling of COVID-19, and even more importantly, the clumsy Chinese efforts to use the confusion inside Europe to their propaganda advantage, led the EU to make a rare and blunt accusation against

China on June 10, 2020: “Foreign actors and certain third countries, in particular Russia and China, have engaged in targeted influence operations and disinformation campaigns around COVID-19 in the EU, its neighbourhood and globally, seeking to undermine democratic debate and exacerbate social polarisation, and improve their own image in the COVID 19 context.” China’s aggressive actions in the South China Sea, on the Line of Actual Control with India, and in Hong Kong, among others, have also gained European eyeballs, so much so that even though China remains critical to European economic health, the EU Commission President, Ursula von der Leyen, after the virtual Summit with Chinese Premier Li Keqiang on June 22, 2020, said that Europe’s relations with China are “simultaneously one of the most strategically important and one of the most challenging that we have”. This then is the European dilemma.

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The European debate is no longer simply about market access, industrial subsidies, over-capacity in steel and hi-tech industries; stealing of IPR, and China’s assertive approach to the security, resilience and stability of digital networks. It has begun to turn towards how to balance economic co-dependency and co-prosperity with China’s strategic global intentions and efforts to seek military supremacy and its bearing on European security. In the trinity of determinants identified by the EU in March 2019 — namely [negotiating] Partner, [economic] Competitor and Systemic Rival — the last dimension is gradually becoming the dominant political narrative.

China also views Brussels as increasingly antagonistic. Yuan Peng, President of China Institutes of Contemporary International Relations, which belongs to China’s intelligence services, has opined in a stellar article on June 17, titled “The Coronavirus Pandemic and a Once-in-a-Century Change”, that “Europe’s star is fading”. Ironically, the retreat of the U.S. from global leadership is providing the Chinese with the means to take advantage, even when they no longer deem it in their strategic interests to support the “European Project”. During recent EU-China leader level meetings, the Chinese have downplayed the differences. Yuan Peng puts it thus: “The United States, Europe and Japan have common interests in curbing China, but China, Europe and Japan also have much to gain in tapping the potential of their relations.” The Chinese intention is to delay the former by dangling the economic carrot.

Also read | [China a potential winner in Britain-EU breakup](#)

None of this should lead to the inference that the EU will follow the U.S. in ‘de-coupling’ or join an ‘against-China’ camp. The European Union Chamber of Commerce in China, which recently released its Business Confidence Survey 2020, says that most European businesses are chiefly “in China, for China”. European companies still hope that China’s President Xi Jinping will use this pandemic to make fundamental reforms in the way that Deng Xiaoping and Zhu Rongji did in 1992 and 1998, respectively. European companies still regard China as the biggest potential market. Yet, the pandemic has also triggered calls for diversifying European businesses away from an overreliance on any single market. The deteriorating relationship between China and the U.S. is causing many new investors to look for alternative investment spaces. If either the Chinese fail to restore their end of the global supply chains or if the world demand cannot be revived, more companies will tend to look elsewhere.

Also read | [The COVID-19 pandemic is China’s biggest crisis since Tiananmen, says Richard McGregor](#)

This, then, is an opportune time for India-EU relations, but only if we do not waste the crisis. Political conditions are favourable especially after the withdrawal of the United Kingdom. The Europeans recognise India’s role in helping provide peace and prosperity in the Indo-Pacific. They see great potential in working together on technologies and issues of the future. But we

are not the only economic alternative for Europe in the aftermath of COVID-19. If the Broad-based Trade and Investment Agreement can be put back on track or, at the very least, if we conclude a new investment agreement, and if we are ready to join in high-technology collaboration including 5G and artificial intelligence, we may be able to align our stars. This will require imagination from our side, but Europe will also need to change its positions on trade in goods and be ready to accommodate India on services. The opportunity for India and the EU to build a partnership that is both economic and strategic is there for the taking in a post-COVID-19 strategic scenario.

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