

**CHINA AND THE STRATEGIC TASKS FOR  
THE NETHERLANDS IN EUROPE**

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P.O.Box 20061  
2500 EB The Hague  
The Netherlands  
telephone + 31 70 348 5108/6060  
e-mail [aiv@minbuza.nl](mailto:aiv@minbuza.nl)  
[www.aiv-advice.nl](http://www.aiv-advice.nl)

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## Foreword

On 9 October 2018, the Advisory Council on International Affairs (AIV) received a request from the Minister of Foreign Affairs for an advisory report on the relationship between the EU and China, and especially the importance for the Netherlands of an effective, united European approach to China.

In its request for advice (attached here as annexe 1), the government asked four subsidiary questions:

1. What policy areas are affected by the lack of unity in Europe's approach to China and how is this manifested? Can the AIV identify the underlying reasons for this as far as the EU is concerned, and what role China plays in this?
2. Can the AIV indicate the political and economic consequences for the Netherlands in the absence of an effective, united European approach?
3. Can the AIV indicate ways (relevant to the Netherlands) in which a European approach to China could be made more effective and unified? How could the Netherlands contribute to this process?
4. What are the Netherlands' specific interests and position in this regard? To what extent can and should we promote Dutch interests through the EU, or should this be done in other ways?

Answering these questions requires first addressing a broader issue, namely the strategic arena in which the relationship between the EU and China is shaped and the kind of player China essentially is. The challenge that China poses for the Netherlands and the other EU member states, individually and together, can only be fully understood against this background.

This report therefore starts by examining China's significance as a new actor in the changing geopolitical order, focusing on its own specific characteristics (chapter I) and the dynamics this generates in the three-way relationship between Europe, China and the US (chapter II). The AIV then investigates the lack of unity in Europe regarding China from two perspectives. First, from the vantage point of the individual member states and their specific historical, political and economic relations with China (chapter III), portraits of their relations with the People's Republic provide an insight into the motives behind their positions. Second we look at policy areas where there are a number of salient issues, such as human rights, 5G or investment screening, and what is at stake for the Netherlands in these areas (chapter IV). These two perspectives – member states' motives and the political dynamics and/or institutional options relating to a specific issue – provide an insight into strategies that may be able to reduce the dissension on China within the EU. Lastly, on the basis of this analysis of bilateral relations and specific issues, the AIV systematically lays out possible solutions and ways to strengthen European unity and capacity to act, both institutionally and substantively. The AIV then sets out its conclusions and ten recommendations (chapter V).

Three general comments serve to place this advisory report in context. First, the political context: in May 2018, through a motion by MP Bente Becker and others, the House of Representatives asked the government to draw up a

'China strategy' for the Netherlands.<sup>1</sup> This led to the request from the Minister of Foreign Affairs to the AIV last autumn to produce an advisory report on the European dimensions of the Netherlands' China policy. On 15 May 2019 the government published a policy document on China entitled 'The Netherlands and China: A New Balance'.<sup>2</sup> Announcing its publication, the Minister of Foreign Affairs had an important message: 'Without Europe, we cannot deal with China'.<sup>3</sup> The AIV would like to situate this report, which was published in Dutch about a month after the policy document on China, explicitly on the terrain that the government seeks to explore in a European framework in the coming years in order to better promote the Netherlands' interests and values. How can the European Union support the Netherlands and other member states in their relations with China to be (in the government's words) 'open where possible' and 'protective [of our way of life] where necessary'? The AIV hopes that this report will help politicians and policymakers in the Netherlands make strategic choices about China and give the broader public a greater insight into the situation.

Second, a comment on methodology: dividing the world from a Dutch and/or European viewpoint into separate policy areas, in relation to the government's first question, may be conceivable and useful, but is also part of the problem. As China links the economy and strategy, trade and geopolitics, such a fragmented approach immediately places us at a disadvantage. The Americans, too, see everything as interconnected, more and more explicitly.<sup>4</sup> By placing all our choices in separate policy areas, Europe is making itself invisible as a geostrategic actor, whereas playing a geostrategic role is one of our key tasks. The strategic choices that the rise of China is forcing us to make, the difficult dilemmas it is presenting us with – between prosperity and security, between export growth and our commitment to human rights – can only be made and resolved with a comprehensive outlook. The not unlikely scenario of a direct confrontation between the US and China also calls for such an outlook, partly to address a number of crucial questions. Does China primarily offer opportunities or pose a threat? And if, in a country like the Netherlands, the answer to this question varies in different policy areas, who makes this judgment, in which forum, at national level and in the EU? To address these questions, the AIV makes recommendations in this report of both a substantive and institutional nature.

Lastly, a note on the timing of this report. Current developments and events have been included up to 15 June 2019. In some of the areas discussed, such as the trade war between China and the US and the situation in Hong

1 Parliamentary Papers 33 694, no. 16.

2 Parliamentary Papers 35 207, no. 1.

3 See Alonso, S., 'Stef Blok: zonder de EU kunnen we China niet aan', NRC, 15 May 2019 (in Dutch).

4 See 'Einde handelsoorlog VS en China nu mogelijk echt in zicht', *Financieel Dagblad*, 6 May 2019 (in Dutch). This news report makes a direct link between two US navy ships patrolling in the South China Sea in the vicinity of the Spratly Islands and the trade talks between China and the US, which were due to resume at the start of May. China claims the largest part of the area near the Spratly Islands (see IV.10).

Kong, things are changing rapidly. This does not, however, affect the AIV's advice. In line with the request for advice, the AIV seeks to support the government and parliament in making specific, practical, immediate decisions: for example, on whether to do business with Huawei and how to cope with EU member states that obstruct EU statements on human rights. At the same time, with this report the AIV seeks to help orient participants in the debate in finding answers for the Netherlands to China-related questions that have not yet been formulated but will probably face us in one way or another in the near or not too distant future.

### *Background and procedure*

This report was prepared by the AIV's European Integration Committee (CEI), consisting of Professor L.J. (Luuk) van Middelaar (chair), M. (Monika) Sie Dhian Ho (vice-chair), D.J. (Dirk Jan) van den Berg, M. (Marnix) Krop, Professor C.W.A.M. (Kees) van Paridon, C.G. (Carlo) Trojan and M.C.B. (Mirella) Visser. Two external members, F.P. (Frans-Paul) van der Putten and M. (Maaïke) Okano-Heijmans, joined the committee in preparing this report.

The executive secretary was A.R. (André) Westerink, supported by trainees V. (Vera) Prins and M.A. (Jodie) in 't Groen. The civil service liaison officer from the Ministry of Foreign Affairs was T.M. (Marjan) Schippers.

In addition to a literature study and an examination of source material, the report is based on the committee's interviews with a large number of experts, not only in the Netherlands but also in Brussels, Beijing and Washington. The people consulted are listed in annexe II. The AIV is very grateful to them for their contributions.

The AIV adopted this advisory report on 23 June 2019.



# I China joins the world order: a new player, a new game

## **Introduction: from convergence to recognising differences**

The starting point of a strategy on China in 2019 must be that liberal democracy has not turned out to be the end of history. Despite the expectation voiced by Francis Fukuyama in his famous essay 'The End of History?' that ideological differences would disappear worldwide, civilisations with fundamental differences have proved enduring.<sup>5</sup> China provides the most striking evidence that Fukuyama was mistaken. With this as a point of departure, a fundamental conceptual and political change of direction is needed. For a long time, it was believed in the US and Europe that the economic reforms and opening that China initiated under Deng Xiaoping from 1978-79 onwards would automatically lead to political reform and democratisation along Western lines. There was a widespread belief that even if it had not yet happened, it would in time. Even moments of political repression, such as the response to the protests in Tiananmen Square in 1989, could be explained as temporary setbacks in an overall narrative of modernisation, globalisation and convergence, and of China's integration in the international structures set up and developed under American leadership after 1945. The admittance of China to the World Trade Organization (WTO) in 2001 was a milestone in this Western convergence story. Despite its impressive economic growth, the emergence of a Chinese middle class and the enormous opportunities (past and present) for European and American companies on the Chinese market, that underlying expectation has not been met. Economic liberalisation has ground to a halt and there are no signs at all of political liberalisation. In recent years, the Chinese Communist Party (CCP) has tightened its grip on the economy and on private companies. President Xi Jinping, who took office in 2012, has more power domestically than any of his predecessors since Mao and Deng. And unlike Deng, who advocated restraint on the world stage, Xi does not shrink from making that power felt beyond China's borders.

China's re-emergence as a global great power is forcing Europe to look at itself and its place in the world. The country's rapid rise is presenting the established order – of which Europe and the Netherlands are a part – with a challenge of unprecedented scale and depth. China is the first non-Western country with both the power and the desire to change the existing world order. That distinguishes the People's Republic from, for example, Russia, which does not have that degree of power, or a constitutional democracy like India. It calls for better knowledge of China as a strategic actor, adaptation to the new rules of the game, and strategic reconsideration of both the Netherlands' and Europe's priorities, capacities and role in the world.

The AIV seeks to contribute to this process of general strategic rethinking, which the Netherlands is also undergoing. To that end, the first two chapters of this report offer a number of main strategic lines of thought, with a focus on China's distinguishing characteristics (chapter I) and the changing triangular geopolitical relations between Europe, China and the US (chapter II). Only in this way can the government's questions on the lack of unity within Europe be answered (chapters III and IV) and the requested perspective for action be provided (chapter V, with the conclusions and recommendations).

5 See Fukuyama, F., 'The End of History?', in *The National Interest*, Summer 1989.

China, a country with a population of 1.4 billion, largely goes its own way and is only susceptible to external pressure to a limited degree. The European Union as a whole (a bloc with 500 million inhabitants) often comes up against a wall in its dealings with China. This is even more often the case with the Netherlands, with only 17 million people. China's new-found self-confidence takes some getting used to for societies like ours, which understandably see themselves as the centre of the world and the measure of all things, a belief that had hardly been challenged since 1800. A fundamentally different form of civilisation, a different power, is emerging. Ignoring China is not an option, because of the strength of our mutual economic ties and the political influence China has far beyond its own region, extending even into our own societies. We encounter China in all international forums and even at home, sometimes as a rival or competitor, sometimes as an indispensable partner. In schematic terms, China is not going to Westernise along South Korean lines, but neither can it be placed outside the existing order, like North Korea.

Where convergence is impossible and confrontation undesirable, the relationship acquires the nature of an encounter, a meeting of two systems, two civilisations, two players. It is the underlying objective of this AIV report to shape this encounter in a way that best promotes our own interests and values.

### **1.1 China as a strategic player**

China distinguishes itself as a strategic player in the international order through three fundamental characteristics.

#### *1. Long-term thinking*

In China's political culture, it is more common than in Europe to think in terms of decades rather than years. When European leaders say in Beijing that it is difficult for the West to become accustomed to being challenged after three centuries of hegemony, their Chinese partners reply by saying 'in the 17 centuries before that, we had the biggest economy'.<sup>6</sup> President Xi Jinping wants to make China not only an economic, but also a technological and scientific global power by 2049, the centenary of the seizure of power by the Communist Party – and from China's perspective, why not?

This long-term thinking has its roots in China's specific history, language and political system. The current Communist leadership is, for example, inspired by Confucianism, which was long systematically suppressed (most severely during the Cultural Revolution of 1966-76), because it recognises the potency of this school of thought in Chinese civilisation.

China is also directing its long-term perspective towards the future. It sees the potential of new technologies like artificial intelligence, cyber technology and big data as the keys to economic and political power in the remainder of the twenty-first century. The Chinese state is investing heavily in all of these areas and expects to reap the benefits not in two or three years, but in twenty or thirty.

#### *2. Integrated vision*

In Chinese decision-making, the political, economic and security dimensions are automatically seen as an integrated whole. The system has a great capacity to transcend policy compartmentalisation and set strategic priorities.

<sup>6</sup> See Angela Merkel's speech at the Munich security conference, 16 February 2019.

In the domestic economy, this manifests itself in a form of dirigiste and mercantilist state capitalism. The distinction between state and private companies is vague, with the former gaining ground in recent years. As China does not participate in the international circulation of capital, the central government can decide to undertake large-scale initiatives in industrial policy initiatives or infrastructural investments without having to pay the bill in hard currency: investments are guaranteed by credit from China's own central bank. This has disadvantages in terms of sustainability and economic efficiency (because price incentives do not play a central role), but it does give the country enormous strategic elbow room.

The Belt and Road Initiative (BRI) is a good example of a foreign policy initiative in which it is unclear where the economic aspects end and political or military considerations start; and, as far as Beijing is concerned, that does not matter. The BRI is both a 'grand strategy' and an open-ended, fluid network initiative offering opportunities and challenges. Beijing has no objection if it weakens existing multilateral structures.

This lack of compartmentalisation could lead to the conclusion: 'for China everything is political' or 'for China everything is economic', and such statements are sometimes made in discussions. But it is more useful to say that Europe, too, should see the economic relationship with China from the perspective of security policy, and vice versa. For China's political leaders these are not separate silos but two horizontal layers, each with its own logic. The political layer consists mainly of state players and their interactions with each other; the economic layer provides the context, with globalisation as the driving force to which all players have to relate. As Zhou Enlai said to Henry Kissinger, 'the helmsman must ride with the waves or he will be submerged with the tide'.<sup>7</sup>

### 3. *Centralism*

The Chinese Communist Party is more powerful than the state. Xi Jinping is first and foremost general secretary of the Party, then supreme commander of the Chinese armed forces, and only then president – the role he plays on the world stage. The Party controls the state apparatus, the armed forces and state-owned companies. It also has considerable influence on private companies, through Party cells. Besides 70% of Chinese private companies, 70% of foreign companies active in China also have Party cells.<sup>8</sup> Individual freedoms and freedom of the press are very restricted, especially on sensitive political issues; there are no independent trade unions or civil society organisations. The digital global domination that the country is competing with the US to achieve offers phenomenal opportunities to monitor people's activities and lives within China, and potentially beyond its borders.

These three fundamental characteristics give China the ability to disrupt and restructure the existing international order. Its long-term perspective gives it self-confidence, while its integrated vision and centralism give it the power to take decisions and be proactive. The country's population and the size of its economy mean that everything it does impacts on the other players in the international arena, in a loop of action and reaction that America and Europe still often do not, or do not wish to, take sufficiently into account.

7 Kissinger, H., *On China*, Penguin: London 2011, p. 265.

8 See Tai, C., 'China's Private Sector is under Siege', *The Diplomat*, 22 December 2018.

As a strategic actor China combines two approaches. Firstly, it participates as a partner in and makes use of the existing system. As its actions within the UN, the WTO, the IMF, the World Bank and the G20 illustrate, it tries to influence and change international organisations from within. Due to the less than constructive attitude of the US in these forums in recent years, there are but few to counteract China's influence. Secondly, China is establishing parallel or competing international institutions and is developing fluid networks with similar objectives, thus positioning itself partly outside the existing multilateral institutions. Good examples are the Asian Infrastructure Investment Bank (AIIB), which is active in the same field as the Washington-based World Bank, groups of countries like the Shanghai Cooperation Organisation,<sup>9</sup> and the now less utilised BRICS group (Brazil, Russia, India, China and South Africa). The highest-profile network is the Belt and Road Initiative (BRI), aimed at establishing new Silk Roads and intercontinental connectivity, which also looks like a parallel organisation to the Paris-based Organisation for Economic Co-operation and Development (OECD). The BRI is connected to regional networks like the 17+1 platform, focused on Eastern and Southern Europe, and the Forum on China-Africa Cooperation (FOCAC). With FOCAC China is emphasising the importance of working closely with Africa, partly to assure its access to crucial raw materials and, in the longer term, an overseas market. In all of these cases, its overall objective to ensure the game is played so as to serve Chinese interests, in accordance with Chinese concepts and approaches.

These three fundamental characteristics of China present Europe and thus the Netherlands with a major strategic challenge.

Firstly, China's long-term thinking calls for us to develop our own long-term narrative, within which we can and must make strategic choices, and to strengthen our capacity to act in the short term. That means adopting a more strategic perspective on Europe's place in the world, within which our relationship with China is partly determined by our relations with America, Russia, India, Africa, the Middle East and Central Asia (see chapter II).

Secondly, as an integrated player that connects and transcends policy areas, China should spur the European Union and its individual member states to strengthen its capacity to break with compartmentalisation and, for example, link the security and economic dimensions. Recent cases in point (which we will return to later in this report) include Huawei/5G and Alstom-Siemens. The AIV notes that this necessity has already been acknowledged in both Brussels and The Hague but that there is still considerable room for improvement (see chapters IV and V).

Thirdly, Europe should *not* follow China's example and replicate the Chinese model of a centralised, authoritarian player with a single narrative for the whole country. Rather, we should be aware that there are now two competing normative models. This rivalry will grow more intense in the coming period and will force Europe and the Netherlands to make choices. In this rivalry, the American and Chinese models are now clearly defined. Will we

9 Comprising China, Russia, four Central-Asian countries and, since 2017, India and Pakistan.

allow ourselves to be forced into a position where we have to choose between them?<sup>10</sup> Or do Europeans realise that we have a community of shared destiny – certainly different from the Chinese version, but also from the American – a European way of life that is worth protecting and developing further? This will require Europe to make up in other ways for our lack of central spokespersons (see chapter V).

## **1.2 Convergence after all?**

Two major unknowns in these strategic considerations are to what extent China's economic rise will continue in coming decades and whether the authoritarian state will be able to maintain its grip on a population which, thanks to globalisation, is increasingly familiar with the openness of Western societies.

Western and Chinese economists agree on a number of fundamental economic weaknesses in the People's Republic. Firstly, there is the low level of domestic consumption and thus the need to export, and the rapid ageing of the population. Moreover, there are major disequilibriums in the balance of payments, and the national debt is rising much more quickly than the capacity to pay it off. Besides these structural weaknesses, there are the risks of escalation of the trade war with the US under President Trump. This situation is producing different forecasts. The expectation of growth levelling out is widely shared. In the most pessimistic scenario (for China) the country could be on the brink of a major economic crisis. Earlier, prolonged success is no guarantee for the future. Acute economic crisis, like that experienced by the US in the Great Depression of the 1930s, or a long period of stagnation, as Japan has suffered since 1991, are among the possibilities.<sup>11</sup> The extent of debate among China's political leaders on these economic weaknesses should also not be underestimated. There are factions calling for a change of course, which sometimes use the pressure from the US and Europe to support their arguments. How this will all play out remains uncertain.

As far as political evolution is concerned, there are American and other experts who believe that, although there are no signs of it happening yet, in the longer term the Chinese middle class could still demand more and greater economic freedoms than the regime currently permits.<sup>12</sup> The promise of global economic and political convergence towards the free market and democracy would then be realised after all. That could occur on economic grounds if the regime were once again to recognise (as under Deng) that the innovative power that a global power requires presupposes a degree of freedom of thought

10 A striking survey by the Pew Research Center shows how old anchors have come adrift: people throughout Europe – not only on the eastern flank, the 17+1 countries, but also in the core northwestern countries – increasingly see American power and influence as a threat (Trump is a major factor, but many people already had concerns about George W. Bush's Middle East policy). According to the survey, people in France and Germany expressed greater confidence in Putin's and Xi's handling of world affairs than in Trump's. See Wike, R. et al., '2. Faith in the U.S. President Remains Low', *Pew Research Center*, 1 October 2018.

11 See the many publications by American economist Michael Pettis, who has been based in Beijing since 2002, including: Pettis, M., 'Japan's Past has Lessons for Beijing', *Carnegie Endowment for International Peace/South China Morning Post*, 18 October 2010.

12 For more on this issue see, for example, Ekman, A., 'China's Emerging Middle Class: What Political Impact?', *IFRI Center for Asian Studies*, June 2015.

and research that goes beyond what the regime is now willing to allow. Such an opening would, however, represent a break with the trend initiated under Xi Jinping since 2012 of a China that is increasingly authoritarian, more focused on control and with greater influence for the Party. Nevertheless, a development in the opposite direction – whether enforced by pressure from the Chinese people or from elements within the political leadership – cannot be ruled out.

This report does not examine either of these scenarios of economic crisis/stagnation or political liberalisation in greater detail. Although the former is certainly probable to some extent, it is not advisable to speculate on China's vulnerability. It would show a greater sense of responsibility if the Netherlands and Europe were to take account of, and therefore prepare for, a situation in which the Chinese economy continues to grow broadly and deeply (as it has done consistently since the economic opening of 1978-79), and the CCP remains in power for the foreseeable future and structures the political system according to its own, authoritarian principles (as it has done since Mao seized power in 1949). That is the default scenario.

## II Europe between China and the US

### Introduction

In response to China's prominent return to the global stage, the Dutch government is pressing for closer European cooperation. Relations between China and Europe cannot, however, be seen in isolation from the wider geopolitical arena. Firstly, European states – most of which are US allies through their membership of NATO – are in practice involved in the rivalry between the US and China. Now that the relationship between these two major world powers is rapidly deteriorating, both Beijing and Washington are making specific demands on Europe, which restrict our freedom to act. Secondly, Europe has a relationship with Russia, our neighbour and a major nuclear power. Europe's currently less than cordial relations with Moscow increase our dependence on Washington in security policy and impact on our relationship with Beijing. Thirdly, there are regions – such as Africa, the Middle East and Central Asia – where both Europe and China have an interest, through geographical proximity or their strategic location.<sup>13</sup> In these regions, Europe and China have a shared interest in stability, economic development and open communications, while also sometimes competing economically or politically, for example for raw materials from Africa. Fourthly, our strategic relationship with China demands greater European attention to India. The world's largest democracy, India is expected to overtake China in terms of population within the next decade. With Africa also growing rapidly, India occupies a strategic geographical position, especially with respect to the east of the continent, a development that will make the Indian Ocean a crucial economic hub in the coming decades.

Although the AIV is aware of the dynamic relations between all these geopolitical actors, we will focus in the detailed analysis below on the three-way relationship between the US, Europe and China (with one eye on Russia). The strategic rivalry between the US and China is currently facing Europe with fundamental, urgent questions regarding its relations with China. European countries share many of America's concerns about China's economic and political evolution under Xi Jinping. We also share core political values like democracy, the rule of law and human rights, and are linked to the US through our security policy. Nevertheless, in some areas Europe will and must take some strategic distance from Washington, for example because our interests do not run completely parallel to Washington's for geographical reasons or because of our different industrial base. There is also serious concern in the EU about how the Trump administration is disrupting the international multilateral system. In the AIV's opinion, this calls for careful positioning: certainly not 'equidistant' from Washington and Beijing – as our democratic system alone puts us closer to the US – but also not automatically following every move the Americans make in their rivalry with China.

Both China and the US are making increasingly explicit demands on European countries, in many cases with one eye on their global rival. The remainder of this chapter therefore looks first at how China views Europe, then at how the US sees Europe specifically in

<sup>13</sup> For a recent overview of China's relations with the Horn of Africa, see the special issue of the *Horn of Africa Bulletin* 31 no. 1 (March-April 2019). On the Red Sea as a crucial sea route for the Chinese-American rivalry as well as for Europe, see York, G., 'Why the Chinese and U.S. Armies are Fortifying Djibouti', Eritrea Hub, 8 June 2019.

light of our relationship with China, and finally at what this demands of Europe in terms of strategic awareness. How the EU and its member states position themselves, as a critical-minded ally, an opponent or an independent player, is important to both great powers. A geostrategic question that Washington and Beijing see as crucial should also be taken very seriously in Brussels, Berlin, Paris, Rome, Madrid, Warsaw, London and The Hague.

## **II.1 China's view of Europe**

One of China's major strategic objectives since 1978 has been to benefit economically from globalisation and minimise its potential destabilising effects. China's political leaders believe that this strategy will make the country stronger economically and therefore better able to withstand both domestic instability and external geopolitical threats. Political power in China is concentrated in the CCP. The Party controls the state, the armed forces, the judiciary, the media and much of industry. China's leaders owe their high-ranking positions to their ability to defend and strengthen the power of the Party. The mainstay of the Party's legitimacy is its claim that it can prevent China ever again being the spoils in competition between the great powers, as it was from 1840 to 1949.

In the nineteenth century Western European states posed the greatest geopolitical threat to China, but since then the country's view of Europe has changed dramatically. During the Cold War, China's leaders saw Europe as the main arena for the geopolitical rivalry between the US and the Soviet Union. European countries had their sovereignty restricted and were part of the power base of the two superpowers. Today China sees the international order as divided into two groups of states: economically more developed countries, with the US as the main actor, and less developed countries, with China as lead actor.<sup>14</sup> The EU and its member states are the largest sub-category in the first group and are therefore an important power base for the US, which China sees as posing the greatest geopolitical threat. From China's perspective, there is an important distinction in Europe between the economically weaker Eastern countries, which have a shared history with China as Communist states, and the economically advanced Western countries, which are of great importance to China as a source of technology.

The EU's greatest geopolitical importance for China is as a pillar supporting the power of the US and is therefore directly relevant to the balance of power between the two great powers. As China's biggest trading partner, the EU is also crucial for the country's economic growth, which is largely export-based. European companies also have a key role in determining the Chinese economy's capacity for further development. Many European businesses have technology, employees, brand names and market positions in their own or third countries or positions in supply chains that make them attractive to Chinese companies as potential partners or candidates for takeovers. As geopolitical rivalry makes the US less accessible to China as a market and for investment, the EU's importance increases even further.

The cultural dimension also plays a role in how China sees Europe. President Xi Jinping consistently refers to the country's relationship with the US as one between two major powers. When speaking of Europe, however, he avoids the use of the term 'power', preferring to emphasise that the relationship between China and Europe is one between two 'great civilisations'. Xi sees China as the world's oldest surviving civilisation, which

<sup>14</sup> See Van der Putten, F.P., 'Great Power Relations: The Rules of Engagement', in Pejsova, E. and Bund, J., *Chinese Futures: Horizon 2025*, European Union Institute for Security Studies, 35, July 2017.



to a large extent represents 'the East'. He has called Europe the birthplace of Western civilisation.<sup>15</sup> In Xi's view, as two great civilizations, Europe and China should work together to build a world in which all countries are equal, whatever their political and economic systems. Within Europe, China sees Greece as an 'ancient civilisation', a legacy it shares with China and countries like India and Egypt.<sup>16</sup> In China's view, throughout their long history, these ancient civilisations have accumulated extensive experience in a wide variety of areas and are therefore – like China – especially well placed to put forward solutions to the world's problems.

The year 2005 was a turning point in China's view of Europe. From the 1990s and especially after Europe had been critical of America's invasion of Iraq in 2003, China expected the EU to emerge as a more or less autonomous geopolitical actor. In 2004, led by France and Germany, the Union made moves towards lifting the arms embargo on China that had been imposed after the violent repression of the Tiananmen protests in 1989. The proposal evoked strong pressure from the US and, when the EU took it off the agenda in 2005, China's leaders concluded that the EU would not be playing a geopolitical role independently of the US for the time being. That led to China focusing its diplomatic efforts less on the Union as a whole and more on individual EU member states, especially on Germany and, to a lesser extent, on the UK and France. But even these larger member states were seen more as trading partners than as leading players in global geopolitics.

The onset of the financial crisis in 2008 and, after 2011, the EU's inability to combat sharply intensifying regional instability along its own external borders strengthened China's perception of an EU that was becoming weaker both economically and politically. An expression of this attitude towards Europe was China's role in setting up the 16+1 platform in 2012, as follow-up to a meeting in Budapest in 2011. This involved working directly with the countries of Central and Eastern Europe as though the EU did not exist. Since 2003 the Chinese government has periodically published a policy document on its relations with the EU, with new editions being issued in 2014 and 2018. Alongside speeches by China's leaders, this document is an important way for the Chinese government to communicate with the EU. It outlines China's conditions for good diplomatic and economic relations with the EU and its member states.<sup>17</sup> In the 2003 edition, these conditions – which primarily stipulate that the EU not intervene in what China considers its domestic affairs – were carefully formulated as Chinese wishes.<sup>18</sup> The only explicit demand was that the EU lift the arms embargo. In later editions the tone became considerably sharper and wishes were formulated as demands ('the EU should...'). In 2015 there were five explicit demands, rising to eight in 2018. They relate to Taiwan, Hong Kong and Macao, Tibet, Xinjiang, the arms embargo, the export of high-tech products, human rights and the role of the Western media. The more China's influence grows, the more these demands acquire the character of red lines. Anyone who violates them cannot exclude the possibility of economic and sometimes diplomatic reprisals.

15 See Speech by President Xi Jinping at the College of Europe in Bruges, 1 April 2014.

16 See Jianfeng, Z., 'Dialogue of Civilizations Launched in Beijing to Replace the Platitude of 'Clash of Civilizations' through Exchanges and Communication', CCTV, 19 November 2018.

17 See Van der Putten, F.P., 'China's randvoorwaarden', *Internationale Spectator*, 66:5, May 2012, pp. 229-230.

18 See China's Policy Paper on the European Union, December 2018.

## II.2 America's view of Europe in light of relations with China

In the past two years, America's China policy has changed course radically. Washington has broken with the politics of engagement that was the core of its policy since 1972. In February of that year US President Richard Nixon made his famous visit to Mao Zedong, bringing two decades of mutual ideological condemnation to an end. The two countries had a shared interest in combating the Soviet Union's ambitions to global power. Since then, Washington's approach to China had been characterised by the slogan 'Engage where we can, confront where we must'. For the past two years, however, insiders note, that slogan has been reversed, to 'Confront where we can, engage where we must'. Authoritative observers have not seen such a sudden turnaround in one of the core pillars of America's foreign policy for many decades.<sup>19</sup> Furthermore, the new standpoint is broadly supported in Congress by not only Republicans but also Democrats.

Two underlying factors help explain this change of course. Firstly, as mentioned above in the introduction, the premise has been reconsidered that China's growing prosperity and integration in the world order would eventually make it converge economically and politically with the West. Now the Americans see in China a combination of massive economic growth without the economic and political reforms the US favours, and the rapid rise of what they call a 'revisionist power'.

Secondly, since 2016, influential voices in the business world have been sounding the alarm about China using its integration into the global economy to become a market leader in high-tech industry. They complain that Chinese companies and the CCP play the game by different rules and are threatening to become invincible in the sector. American businesses originally expected a form of specialisation in the global economy, with the US focusing on the higher levels of the value chain and China on mass production. With its 'Made in China 2025' ambitions, however, Beijing outlined a different scenario, underpinned through globalisation by China's access to Western markets and high-tech knowledge. State support for Chinese companies through long-term strategic industrial and innovation policy, sluggish progress in opening Chinese markets to trade and Western investment, and reports of industrial espionage and theft of intellectual property have shifted the balance of thinking in the American business world.

While in recent decades the commercial interests of American businesses, legitimised by the assumption of convergence, persuaded the more reticent security and human rights circles in the US to move forward with increasing economic openness towards China, the change of course by the US Chamber of Commerce – almost simultaneously with a similar reversal by the European Chamber of Commerce in China – clearly had a great impact on the American position.<sup>20</sup> The new calls by these formerly most prominent cheerleaders of Chinese integration in the global economy now resonate forcefully in the US Congress, as witnessed by the title of Senator Marco Rubio's report for the US Senate Committee

19 See President of the Council on Foreign Relations Richard Haass at a meeting on the future of US-China relations on 19 February 2019.

20 See U.S. Chamber of Commerce, 'Made in 2025. Global Ambitions Built on Local Protections', 2017, and European Chamber of Commerce in China, 'China Manufacturing 2025: Putting Industrial Policy Ahead of Market Forces', 2017.

on Small Business & Entrepreneurship, *Made in China 2025 and the Future of American Industry*.<sup>21</sup>

In the meantime, Xi's geopolitical assertiveness has not escaped the notice of the wider US public, as the Chinese leader openly and with some degree of credibility states his aim of eventually (by 2049?) making China again the world's leading power. In pursuing this aim, China is in unprecedented fashion challenging US global leadership, a role the US has claimed since 1945, practically without challenge since 1989/1991 and the fall of the Soviet Union. That touches a sensitive nerve for Americans in a way that we Europeans no longer feel after being ousted from the global throne some 70 years ago. The December 2017 National Security Strategy and the notorious speech on China by US Vice President Mike Pence in October 2018 were written against the background of this rivalry between the two great powers.<sup>22</sup>

Lastly, add to this the revolt of voters in the US and parts of Western Europe against economic globalisation and especially the relocation of labour from old industrial areas to other parts of the world. This dissatisfaction has given rise to the slogan 'cheating China'. It is this electoral reaction that brought Donald Trump to power in 2016.

All of these circumstances may explain the speed with which a new Washington consensus could be forged on confrontation with China. It is, in short, a combination of concerns in the business world about China's infringement of America's business model, in security circles about the geostrategic risks of Chinese investment in strategic sectors, in human rights circles about Beijing's authoritarian domestic tendencies and technical feats in the field of surveillance, together with those of the broader American electorate about loss of jobs. Put all this together and the elements of a new American geopolitical narrative, supported by both Republicans and Democrats, are in place for the struggle against China as the next 'evil empire'.

Is this just a hiccup or a definitive turning point? Just as with the speculations that Xi's China is heading for an economic crisis or will fall prey to internal political tensions (see I.2), there is a hope – certainly in Europe – that after Donald Trump's disruptive four-year term ends in 2020, there will be a return to familiar transatlantic business as usual. The AIV believes that this is far from certain. The current president is of course partly responsible for the deterioration in US-European relations (and especially between America and Germany), but at the same time his election was a symptom of underlying trends and can be seen as an electoral breakthrough for an isolationist undercurrent among American voters that had never completely disappeared even after 1945. As a result of demographic shifts in the US, the American electorate also feels less related and connected to Europe. Although, just as with China, the future is of course unknown, the AIV would consider it a token of political level-headedness to at least take account of the possibility that the current American line regarding China and Europe will continue after 2020 or 2024.

21 See Rubio, M. et al., 'Made in China 2025 and the Future of American Industry', US Senate Committee on Small Business & Entrepreneurship, 27 February 2019.

22 See President of the United States. 'National Security Strategy of the United States of America', December 2017 and Vice President Pence. 'Remarks by Vice President Pence on the Administration's Policy toward China', 4 October 2018.

The question of immediate interest for this report is: in what situation could this turnaround in American policy place Europe in the near future?

If the Trump administration is breaking with the line initiated by Nixon in 1972, are we then in some sense returning to the situation before that, i.e. in the years from 1949 to 1972? How did that work in practice back then and how could it apply now? After the Communists took power in China in 1949, the US asked its European allies to work together on three fronts: diplomatically (resisting the accession of Communist China to the UN and pursuing a clear policy on Taiwan), economically (an embargo against China that was more severe than that against the Soviet bloc) and militarily (the deployment of European troops in the Korean War).<sup>23</sup> It was easier for the Americans to ask Europe for this support because they had only recently liberated Western Europe from the Nazis, were protecting them against the Soviet Union and were providing Marshall Aid to finance reconstruction.

What does the US ask of us today in response to China? Although the government-wide China strategy promised to Congress has not yet been issued,<sup>24</sup> the dozens of official documents focusing on China and statements by American politicians and diplomats contain a number of clear 'shoulds' regarding what the US expects of Europe. First and foremost, the Europeans – together with the Americans – should see that it is time to demand that China reciprocates Western moves by opening up its markets, and should draw conclusions if China fails to do so. A second American demand is to exclude Chinese telecom giant Huawei in the rollout of the 5G network to prevent strategic dependence and vulnerability. Washington is also asking Western European countries not to sign memorandums of understanding (MoUs) relating to the Belt and Road Initiative (BRI), as this would legitimise Xi's claim to global leadership (for some countries of Eastern and Southern Europe, it is already too late). Insiders are also anticipating possible transatlantic cooperation on other major aspects of America's China strategy.<sup>25</sup> One example is taking initial steps to coordinate procedures for screening foreign investments. Other instruments available to the US include a rollout of extraterritorial sanctions against individual companies (comparable to those used against Iran) and an expansion of the export control regime, again with extraterritorial jurisdiction (see IV.5).

Generally speaking, the US feels that Europeans have been able to live comfortably (by selling goods and services to the Chinese that allow them to challenge the US militarily) and cheaply (under the American security umbrella) for long enough. President Obama's 'pivot to Asia', including the decision to station 60% of American air and naval forces in Asia, already implied that Europe would have to take more responsibility for security in its own wider region, including the Middle East and North Africa. Under President Trump this withdrawal from hotspots around Europe, including Syria and Afghanistan, is speeding up. America's demands regarding defence expenditure and China are a geopolitical wake-up call for Europeans.

23 According to American figures, 36,940 American lives were lost in the Korean War, while Britain lost 1,078, France 262, Greece 192, the Netherlands 122 and Belgium 99.

24 National Defense Authorization Act, section 1261.

25 There was some disappointment in the US administration in response to the failure of the Joint Communication of the European Commission and the High Representative 'EU-China – A Strategic Outlook' to explore options for transatlantic cooperation on China.

### II.3 Europe's strategic task: four central questions

The task that China's rise sets for us is to make Europe as geopolitically independent as possible.<sup>26</sup> The AIV believes that this is compatible with both the acceptance of continuing American military leadership and the aim of making Europe a geopolitical actor in its own right. There is no need to choose between the two, even if that were possible, since the recommended direction to be taken from the point where the Netherlands now stands in relation to China and America is the same.

Earlier in this chapter, we referred to an 'encounter' with China, a meeting with a country that will not become the same as the Netherlands and yet cannot be ignored. Proceeding with and standing the test of this encounter requires more strategic awareness from all European countries, individually and together. Four distinct questions must be asked in this process.

Firstly, is each country willing and able to determine what it wishes to protect during this encounter with China, in terms of security, values, cultural tradition or whatever else? Many countries – and certainly the Netherlands – have for several decades been accustomed to consider globalisation and economic opening as an opportunity for growth, employment, internationalisation of higher education, etc. The rise of China presents us with new dilemmas and choices in this respect, between openness and protection. It also calls for new political structures where these dilemmas can be discussed and solved. If the Netherlands and Europe do not decide for themselves what we wish to achieve in our encounter with China and what we wish to protect (red lines), China will do that for us. This awareness is the starting point of any strategic reorientation.

Secondly, to what extent do individual member states already feel the geopolitical tension between the US and China, and how far are they willing and able to adopt their own individual positions between the two powers and maintain a certain margin of manoeuvre? This relates to awareness not only of what is at stake (as in the previous paragraph), but also of the geopolitical playing field.

Thirdly, to what extent are individual member states prepared to play the Europe card in promoting their own interests and values? To what extent do they see a European 'we' within which is it acceptable to make compromises or, from time to time, to be outvoted for the sake of a higher, common good?

Fourthly, to what extent is a strategic awareness developing of the leverage we still have in our dealings with China? That leverage lies in our market and our technology (even though here we are in danger of falling behind both the US and China), in our geopolitical situation and in our partnerships with China's neighbours. China also values Europe's strength as a classical civilisation, which has a tempering effect on other, large but 'younger' and sometimes 'irrational' players. That means we have a definite capacity to act and do not have to acquiesce passively in developments relating to China, as we have perhaps done for too long. Given the speed of these developments, the sooner we realise that, the better.

26 In this report, 'Europe' refers to the European Union as the member states taken together. In the framework of security policy, 'Europe' usually means the countries of the European continent (including the UK, even after Brexit). When Washington talks about its 'European allies', it is referring to the European members of NATO. The various groups largely overlap (only five of the 28 EU member states are not members of NATO).

Awareness of this necessity and urgency is now penetrating more widely. Besides the Netherlands, where the government published a policy document on China in May 2019, a number of other member states are reviewing their positions. In principle, the will exists among European governments and populations to prepare ourselves better, individually and jointly, for China's economic and geopolitical rise.

# III Bilateral relations with China

## Introduction

A study of the disagreement within the European Union on China must start with the bilateral ties and strategic relationships between individual member states and this Asian global political and economic power. Conflicts in a number of policy areas – ten of which, from Huawei to the South China Sea, are discussed in the following chapter – can be understood only from this strategic vantage point. Moreover – of particular importance to the aim of this report – arriving at a common strategic understanding is the only way to overcome the lack of consensus between EU countries on various issues relating to China. After all, Europe's strategic task (see II.3) in respect of China must first and foremost be addressed in the national states. The four strategic questions that concluded the previous chapter have to be answered in those national arenas. That is where they first arose, historically, and that is where the strategic debate will be conducted, if anywhere. In many cases the diplomatic relations between individual member states and China date back to the Chinese empire and are clearly older than the relationship between the European Coal and Steel Community (ECSC, the forerunner of the EU established in 1951) and China. Nevertheless, in the course of time the member states, including the Netherlands, have discovered that the Union offers an indispensable forum for their China policies.

This chapter focuses on the bilateral relationships between ten EU member states and China. The AIV discusses the member states of greatest importance for China (including the UK), the ones whose relationships with China are the most unusual, and those that are most significant to the Netherlands, to give insight into the range of experiences with China within the Union. The Netherlands is included in the list and not examined separately. The various countries are not discussed in alphabetical order or by size of population or trade flows; instead they are ranked politically, on the basis of an initial, rough estimate of the strategic importance that China attaches to each of the relationships. Germany heads this list, while Belgium comes tenth.<sup>27</sup> Separate sections are devoted to the bilateral relationship between China and the EU proper and to regional initiatives, including the 17+1 consultations between Central, Eastern and Southeastern European countries and China. The chapter closes with a short analysis of faultlines and coalitions.

### III.1 Ten member states

#### Germany

German-Chinese relations have traditionally been predominantly economic. Despite a short period of German colonial involvement (1898-1914) in parts of China, geopolitical issues have remained of limited importance. From 1933 to 1937 the German government provided China with significant technological and military support. That partnership ended with the outbreak of the Sino-Japanese War and with Nazi Germany's choice to ally with Japan against the Soviet Union. Post-war West Germany, reliant on the US and from 1955 a member of NATO, focused its foreign policy on economics. The German Democratic Republic (GDR) succeeded in establishing and maintaining bilateral relations with China,

<sup>27</sup> This is a rough indication that says nothing about individual cases. That would require studying all aspects of all EU member states' relations with China, which is beyond the scope of this report.

despite the powerful influence of the Soviet Union.<sup>28</sup>

Since China's accession to the WTO in 2001, and especially following the onset of the financial crisis in 2008 when reduced spending and investment caused a sharp fall in German exports to America and Europe, trade relations between China and the Federal Republic have become very close. Germany is China's fifth largest trading partner and its largest in the EU, while since 2016 China has been Germany's biggest trading partner. Although Germany had a trade deficit of €12.3 billion with China in 2018, the People's Republic was still the third largest export market for German products, with cars and medicines topping the list.<sup>29</sup> Germany's dependence on access to the Chinese market is even more striking given the share of Germany's GNP (40-50%) made up of the export of goods and services. Until a few years ago, Germany's policy on China therefore focused to a large extent on promoting exports and protecting the interests of German companies there.<sup>30</sup> In 2018 German exports to China by far outstripped those of all other EU member states, amounting to €93.7 billion.<sup>31</sup> By way of comparison, the next three member states (the UK, France and Italy) all exported less than a quarter of that amount (€23.4 billion, €20.9 billion and €13.2 billion respectively). That explains Germany's substantial 44% share of the EU's total exports to China.<sup>32</sup> In 2017 China's exports to Germany totalled €75.5 billion, some 4% of total Chinese exports in that year.<sup>33</sup>

A turning point in bilateral relations between the two countries came in 2016, due to a turnaround in the balance of direct investment. German companies have been investing in China since the 19th century, but China made hardly any direct investments in Germany until about 2011. As Chinese investment in Germany rose sharply, German investment in China fell. In 2015, for the first time in its history, China's outward investment exceeded inward investment. In that year, China issued a policy strategy (Made in China 2025) aimed at making it the world leader in the most advanced sectors of industry, including ICT, artificial intelligence, robotics and space travel. The strategy made clear that China aims to become a major competitor in some of the same industries in which German exports are concentrated. Against this background, the record €4.66 billion takeover of German technology giant Kuka by the Chinese company Midea in July 2016 attracted a great deal of public and political attention.<sup>34</sup> The Augsburg-based company, which makes robots for the production of cars and other products, had a high public profile. During a

28 See Chen, Z.Z., 'Beyond Moscow: East German-Chinese Relations during the Cold War', *Wilson Center*, 1 December 2014.

29 See Destatis, Statistisches Bundesamt (2018), 'Die Volksrepublik China ist erneut Deutschlands wichtigster Handelspartner'.

30 See Huotari, M. et al., *Mapping Europe-China Relations: A Bottom-Up Approach*, report from the European Think-tank Network on China (ETNC), October 2015, p. 32.

31 See Eurostat, 'China-EU: International Trade in Goods Statistics', March 2019.

32 Ibid.

33 See CIA, *World Factbook* (2019).

34 See Seaman, J. et al., *Chinese Investment in Europe: A Country-Level Approach*, report from the European Think-tank Network on China, (ETNC), December 2017, p. 65.



state visit to Germany by US President Barack Obama only months before the takeover, German newspapers carried a picture of a robot pouring a *Weissbier* for Chancellor Angela Merkel and her American guest. The 'Kuka shock' was reinforced by a series of other Chinese investments and attempts to take over German companies, including Aixtron (a producer of machinery for the semiconductor industry – the takeover was blocked), OSRAM Ledvance (a lighting manufacturer, taken over by MLS), Deutsche Bank (in which HNA acquired a 9.9% stake) and Daimler (in which Geely acquired a 9.7% interest).

After the takeover of Kuka, the German government revised its traditional open approach to foreign investment. Its capacity to prevent undesirable investments was scaled up, for example by sharpening the definition of sectors falling under 'public order and security', increasing staff numbers, imposing new requirements for registering investments and extending the period for screening proposed investments.<sup>35</sup> At the same time Germany advocated changes at EU level. The ad hoc coalition with France and Italy formed in 2016 in the debate on whether China should be accorded market economy status was developed further.<sup>36</sup> In February and July 2017, on Germany's initiative, the three countries' economic affairs ministries sent letters to the European Commission requesting EU-wide coordination of foreign investment screening.<sup>37</sup> The German economic affairs minister repeated this request to Commission President Jean-Claude Juncker personally in August 2017. Shortly afterwards, the Commission published a proposal for a coordination mechanism. After a relatively quick process, it was adopted by the Council and the European Parliament in 2019 (see also IV.3).

Germany also sets the tone in European perceptions of China. Since 2016 Germany no longer sees China only as a trade and investment partner but also as upholding a rival political and economic system. In a speech to the annual Munich Security Conference in 2018, foreign minister Sigmar Gabriel said that 'China is developing a comprehensive systemic alternative to the Western model that, in contrast to our own, is not founded on freedom, democracy and individual human rights'.<sup>38</sup> At the start of 2019, the Federation of German Industries (BDI) published a report calling China a 'systemic competitor' and advocating a European industry policy and a leading role for Germany. The BDI, too, referred to both economics and politics. Shortly afterwards, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy called China a 'systemic rival' of the EU.<sup>39</sup>

Germany's, and subsequently Europe's, change of course since 2016 has not yet provoked a strong response from China. Beijing has expressed its concerns about the worsening

35 Idem, p. 67.

36 Idem, p. 66.

37 Ibid.

38 See Speech by German Foreign Minister Sigmar Gabriel at the Munich Security Conference and Poggeti, L. and Shi-Kupfer, K., 'Germany's Promotion of Liberal Values vis-à-vis China: Adapting to New Realities in Political Relations' in Rühlig, T.N. et al., *Political Values in Europe-China Relations*, report from the European Think-tank Network on China (ETNC), December 2018, p. 40.

39 See Joint Communication to the European Parliament, the European Council and the Council, 'EU-China: A Strategic Outlook', 12 March 2019, JOIN(2019) 5 final.

investment climate in the EU, but economic and diplomatic ties between Germany and China remain close. German Chancellor Angela Merkel visits the People's Republic every year, and since 2011 there has been an annual meeting chaired by the chancellor and the Chinese prime minister in which a large number of cabinet ministers from both countries take part. Germany's human rights policy is firm but relies primarily on quiet diplomacy and has not led in recent years to serious tensions in the bilateral relationship. The last time that occurred was after a meeting between Merkel and the Dalai Lama in 2007.

The fact that Germany's change of course was not primarily driven by a desire to support US geopolitical policy against China is important to Beijing. Despite their shared concerns about market access and state support for Chinese companies, Germany and the US do not work together closely on trade. America's policy on direct investment is stricter than Germany's, and there are tensions between the two countries on China's involvement in 5G (see III.5). The far-reaching economic 'decoupling' that the US seems to be headed towards is not an option for Germany. The German government has moved towards a more strategic and critical policy on China, both bilaterally and through the EU, but seems to act largely independently of the US.

Germany currently favours a strong European standpoint on China. After the shock of the Kuka takeover in 2016, the country sounded the alarm in the rest of the EU regarding China's technological and strategic ambitions. It realised that, even as Europe's economically strongest state, it is not strong enough to take on China alone. Two notable examples illustrate the initiatives Germany is taking for greater coordination. After Italy became the first large Western EU member state to sign a memorandum of understanding (MoU) with China on the Belt and Road Initiative (BRI), Berlin announced through economic affairs minister Peter Altmaier that it would coordinate all BRI-related moves with Paris, London and Madrid to reduce the negative effects of a lack of consensus.<sup>40</sup> Secondly, Chancellor Merkel recently announced that she would like to recast the German-Chinese summit in the autumn of 2020 as an EU-China summit, to be held in Germany, with all EU heads of government and both EU presidents present. With this innovative proposal, Germany is taking control of the situation and displaying a strong desire for a united European front.

### **United Kingdom**

Of all European countries, the United Kingdom has the oldest and perhaps most emotionally charged relationship with China. In the Opium Wars of 1840-1842 and 1857-1860, Britain made its military superiority over the Chinese empire felt and blasted the closed local economy open with cannon fire to boost opium exports from British India – a brutal form of 'offensive' trade policy.<sup>41</sup> Other countries including France, Prussia, Russia, the US and Japan followed in Britain's footsteps, forcing concessions that, from China's perspective, initiated a century of humiliation. In 1841 the UK acquired the island trading post of Hong Kong, which remained a Crown colony until it was handed over to

40 See Daly, T., 'Europe Wants to Deal with China as a Group: German Minister', *Reuters*, 26 April 2019.

41 An offensive trade policy focuses on opening up foreign markets, while a defensive policy protects products on the domestic market against dumping, subsidised imports and dramatic changes in trade flows when they are considered damaging to the economy.

the People's Republic in 1997.<sup>42</sup> Although the UK lost its empire in the years after 1945 and had to surrender its role as a global maritime power to the US, it continues to have a presence in Asia and the Pacific due to its economic and political interests. The British monarch remains the head of state of Australia and New Zealand, perhaps the Western countries that are most exposed to China's influence, through their membership of the Commonwealth of Nations.

In its relationship with China, the UK primarily seeks economic opportunities. That approach will probably be strengthened by the UK's planned departure from the EU, which will cost the country its easy access to its closest and largest market. Britain is still upholding its traditionally strong stance on human rights for the time being. Although a loyal NATO ally, London does not shy from making its own economic and political decisions on China, which may conflict with those of the US. In 2015, for example, it snubbed the US by becoming the first EU member state to take part in the Asian Infrastructure Investment Bank, initiated by China and seen in Washington as a rival to the World Bank. In 2019, despite strong pressure from the US, Britain decided not to exclude Chinese telecom giant Huawei completely from the rollout of the G5 network (see IV.4).

Bilateral economic relations are good, with substantial trade and investment in both directions. The associated political partnership took shape through the UK-China Economic and Financial Dialogue. The partnership has not, however, been the great success that London had hoped for. This is partly due to the fact that Germany, rather than the UK, is China's biggest trading partner in the EU. Germany will lose one of its nearest rivals for this position after Brexit.

Bilateral trade grew rapidly in the 2005-2010 period. That growth slowed down after the financial crisis, despite intensive efforts by the Conservative-Liberal coalition government of David Cameron and Nick Clegg, with Chancellor of the Exchequer George Osborne taking the lead (notably in ensuring Britain's participation in AIIB). In 2018, UK exports to China totalled €23.4 billion, against imports worth €53.3 billion, resulting in a trade deficit of some €30 billion.<sup>43</sup> Britain's main export products are cars, oil and oil products, and pharmaceuticals; imports are primarily telecom, clothing and electronics. Services are predominantly travel-related, in both directions.<sup>44</sup> Almost half of Chinese investment in the UK was in real estate and therefore did not compete with manufacturing. That is one reason why Britain's rhetoric has not shifted as much as that of Germany or the US. The influential business elite in the City of London want to embrace without restrictions the opportunities that economic globalisation (including China's BRI variant) has to offer finance and insurance companies.

Brexit is bringing uncertainty, and this is also affecting Britain's relations with China. Directly after becoming prime minister following the referendum in 2016, Theresa May

42 *East and West: China, Power, and the Future of Asia* (Oxford: Pan Macmillan, 1998), the memoirs of the last British governor of Hong Kong, Chris Patten, is worth reading. This Conservative politician subsequently became a European Commissioner for the UK, responsible for the EU's external policy (1999-2004).

43 See Eurostat, 'China-EU: International Trade in Goods Statistics', March 2019.

44 In 2017 almost 600,000 British nationals visited the Chinese mainland (not including Hong Kong and Macau). See British government 'Foreign Travel Advice on China'.

announced a strategic pause and a change of course in her government's policy on China. Among other measures, she wanted to review China's most prominent investment on British territory, a stake for a French-Chinese consortium in the Hinkley Point nuclear power station. In doing so, she gave a clear signal that her government would not automatically push forward with globalisation in the old way. (By contrast, her predecessor David Cameron had become chairman of a Chinese BRI investment fund worth \$1 billion.<sup>45</sup>) Nevertheless, the British government has remained reluctant to support EU anti-dumping or other particularly defensive trade measures. In bilateral meetings with President Xi at the G20, May did not raise the issue of Chinese overproduction. As far as free access to the South China Sea was concerned, defence minister Michael Fallon made it strikingly clear in the autumn of 2017 that the British navy 'had no plans to sail through disputed islands'; Britain's involvement was limited to sending helicopters on French ships.<sup>46</sup> In the autumn of 2018 Fallon's successor Gavin Williamson (who has since stepped down) did want the navy to conduct assertive patrols in Asia, but China promptly responded by cancelling a visit by British Chancellor of the Exchequer Philip Hammond. This emphasised the new relations between the two countries and forced the UK to make a choice.

As part of a general strategic re-orientation post-Brexit, the British parliament has called on the government to draw up a new China strategy before the end of 2020.<sup>47</sup> Whether this will provide the country with a new strategic course on China and what role will be given to cooperation with former European partners is still very uncertain in the current situation. Given the political and economic pressure generated by Brexit, a more opportunist British approach to China in the near future cannot be ruled out.

### **France**

France's colonial role in China's past, alongside the British, has not been forgotten. Particularly notable moments include the Franco-British looting of the Chinese emperor's Summer Palace in 1860, the Sino-French War of 1884-85 and the suppression of the Boxer Rebellion by eight Western nations in 1900. After the Second World War, under President Charles de Gaulle, France acquired a privileged diplomatic relationship with Communist China after it resisted American pressure and became the first major NATO member state to initiate full diplomatic ties with the People's Republic in 1964, including an exchange of ambassadors. Despite a number of difficult periods (after the sale of frigates to Taiwan in 1991 and President Sarkozy's hosting the Dalai Lama in 2008) relations have remained close, with constant high-level contacts.

Together with the UK, France is the only European country with a naval presence in the South China Sea, emphasising the importance it attaches to free passage. Combined with its status as a permanent member of the UN Security Council – after Brexit, as the only EU member state – France has a strong diplomatic position in relation to China by EU standards. Paris deliberately maintains close relations with other countries in the Asia-

45 Cameron's predecessor Gordon Brown (Labour) also became chief advisor of a China-CEE fund linked to the 17+1 initiative. See Benner, T. et al., 'Authoritarian Advance: Responding to China's Growing Political Influence in Europe', Global Public Policy Institute & MERICS, February 2018, p. 20.

46 See Godement, F. and Vasselier, A., 'China at the Gates: A New Power Audit of EU-China Relations', European Council on Foreign Relations, December 2017.

47 See British Parliament, Foreign Affairs Select Committee, 'The Making of UK Strategy towards China', 4 April 2019.

Pacific region, including Japan, India and Australia. It also keeps a close eye on the effects of China's establishing parallel international organisations, seeing the BRI as a rival to the Paris-based OECD (see IV.6). For China, besides its membership of the EU and the Security Council, France's role in Africa is a major focus of attention. It responded positively to France's (initially unilateral) military intervention in Mali at the start of 2012.

Chinese investments in France focus primarily on real estate, agriculture and tourism; they often remain below the notification threshold of 10% for foreign investments. China's 30% interest in the exploration and production division of the Engie energy group in 2011 was a substantial investment, while the purchase of a 49.9% interest in Toulouse airport by Chinese investors in 2015 also attracted attention. France was not among the top three countries in China's wave of investments after 2016, but was one of the first member states to ask the European Commission for coordinated screening, an issue about which it has traditionally been sensitive. French exports to China (€20.9 billion in 2018) focus on aeronautics, IT, agriculture, cosmetics and health; imports in the same year were €29.4 billion, mainly products like textiles with low added value; France's balance of trade deficit with China last year was thus €8.5 billion.<sup>48</sup>

France is the preferred destination for Chinese tourists and has the largest population of Chinese origin in Europe, estimated at around 600,000. As in the UK, China actively lobbies national and regional politicians in France with the support of a former prime minister. There are also a number of active bilateral foundations. The country has no fewer than 17 Confucius Institutes, second in Europe only to the UK, with 29.

France has traditionally been a driving force in positioning the EU as a power bloc on the global stage. As early as the 1960s and 1970s it saw the EU as a tool to gain greater independence from the US; the earliest French initiatives for a European currency, after the collapse of the Bretton Woods system in 1971, were driven by the ambition to break the dominance of the American dollar in the global monetary system. France's original desire, championed by De Gaulle, to use Europe as a lever for its own positions and interests has since been tempered by the awareness that the country cannot drag the Union where it wants on its own with 28 countries in its wake and needs to accept compromises in the EU. To emphasise how deeply his China policy is embedded in the EU, President Macron invited German Chancellor Merkel and Commission President Juncker to join his recent meeting with Xi Jinping at the Elysée Palace on 26 March 2019.

In the debate on a new European industrial policy, Paris is in the protectionist, interventionist camp: it calls for strict screening of foreign direct investment, massive investment in artificial intelligence, and European industrial champions. (This is why Brussels' decision to block the Alstom-Siemens merger in early 2019 led to great frustration in Paris; see IV.2).

Although France has a less activist approach to human rights than Germany, the UK or the Netherlands, Paris usually does support firm statements; any fluctuation on this issue tends to depend on who is president and foreign minister at the time. On climate, as host of the summit resulting in the Paris Agreement in 2015, France seeks to share global leadership with China. In the international arena, as an active NATO member state with significant military capability, it sometimes works closely with the US on operations, as in

48 See Eurostat. 'China-EU: International Trade in Goods Statistics', March 2019.

Syria starting in 2014. At the same time, it prefers to keep sufficient distance to make its own geopolitical choices, as it did on Iraq in 2003.

Generally speaking, Paris has a strongly developed awareness of the strategic dimension of its relationship with China and of what it considers to be shortcomings or naivety in the EU's approach to date. The country's pyramidal governance structure, with the president at the top, facilitates internal coordination and enhances France's capacity to act in crises. For both these reasons, France sees the European Council of heads of government as the logical body for taking joint EU action. France knows that economic and trade policy can only take shape at European level and therefore seeks to agree a joint strategy with Germany. If cooperation gets bogged down among the 28, France will – as in the past in other policy areas (like the euro and Schengen) – not shy away from limited initiatives involving a smaller group of member states. In its foreign policy, too, France does not put all its eggs in the EU basket, as is clear from President Macron's aim of continuing to involve the UK in initiatives even after Brexit, possibly in a European 'Security Council'.

### **Italy**

The first encounters between Italians and Chinese date back to the Middle Ages, when merchants like the Venetian Marco Polo (1254-1324) visited the Chinese empire. At that time, Venice and Genoa dominated the trade networks in the eastern Mediterranean. Their ships linked up with caravans bringing goods along the Silk Road, which extended over land from the Far East to the Levant. Against this historical background, modern-day Italy profiles itself as the end point of China's 'new Silk Road'. It will give China access to Italy's ports on the Mediterranean – Genoa, Trieste and Palermo in particular – and from there in time over land to Europe's core industrial areas.<sup>49</sup> After Italian Prime Minister Paolo Gentiloni was the only G7 leader to take part in the Belt and Road Forum in Beijing in 2017, the government of Giuseppe Conte went a step further in March 2019 by becoming the first G7 country to sign a BRI MoU during a three-day state visit to Italy by Xi Jinping (for further analysis, see IV.7).<sup>50</sup>

In its relationship with China, Italy aims mainly at promoting its economic interests by increasing its access to Chinese markets and attracting investment from the People's Republic. Its bilateral trade with China is substantially lower than Germany's (exports totalled €13.2 billion and imports €30.8 billion in 2018);<sup>51</sup> Italy also lacks the key strategic leverage of the UK or France. Since 2014, nonetheless, Chinese interest in Italy has risen considerably. The takeover of tyre manufacturer Pirelli by state-owned ChemChina in 2015 briefly placed Italy at the top of the list of EU destinations for Chinese investment. China's interest in Italy lies mainly in high-tech applications, quality brands and logistical bases like the ports mentioned above. China is Italy's eighth largest export market. Italy's strengths lie in machinery and other industrial products and in fashion and luxury products. Its rich historical heritage make tourism and cultural exchanges a major part of its ties with China. A few years ago a quarter of all Schengen visas for Chinese

49 For more on this see, for example, Casarini, N., 'Rome-Beijing: Changing the Game; Italy's Embrace of China's Connectivity Project, Implications for the EU and the US', *IAI Papers* 19/05, March 2019.

50 The MoU was signed by Deputy Prime Minister Luigi Di Maio and, on the Chinese side, by the chairman of the National Development and Reform Commission, He Lifeng.

51 See Eurostat, 'China-EU: International Trade in Goods Statistics', March 2019.

nationals were issued by the Italian consulates in Beijing, Shanghai and Guangzhou.<sup>52</sup> Italy also has one of the largest Chinese communities in Europe, numbering around 300,000 people.<sup>53</sup>

At European level, Rome worked with Berlin and Paris in 2016-17 to develop coordinated screening of strategic investments (see above under Germany and IV.3). The populist government of the Five Star Movement and Lega, in power since the summer of 2018, has retained the economic focus of Italy's policy on China but takes less notice of its EU partners. These partners saw Italy's signing of the BRI MoU as an insult, especially as it was announced on the eve of the European Council of March 2019, meant specifically to showcase Europe's unity in face of China.

There is some tension within the Italian government regarding China; Deputy Prime Minister Luigi Di Maio (Five Star Movement) is seen as pro-China, while Lega takes a more critical stance. This partly reflects long-standing complaints from Italian small and medium-sized enterprises about competition from cheap Chinese textiles,<sup>54</sup> and partly from the desire of Deputy Prime Minister Matteo Salvini (Lega) to maintain close relations with US President Donald Trump. This did not however stand in the way of the government signing the MoU with China. The current government's stance is also raising questions and causing debate in Italy: is the country still a loyal European and Atlantic ally, or is it to become a key link between East and West along the new Silk Road? Or can it combine the two roles?

Italy has shown its willingness on several occasions to lift the arms embargo on China that the US wishes to keep in place.<sup>55</sup> The BRI agreement is also a sign from Rome that it does not intend to blindly follow Washington's warnings against any form of engagement with China. Italy's keenness to work with China has been evident since the early 2000s, when it argued strongly in favour of Italian-Chinese cooperation on the sensitive area of space and satellite technology. It is perhaps no accident that this space partnership at EU level was initiated under Italian Commission President Romano Prodi (1999-2004) and further shaped by his compatriot Antonio Tajani, European Commissioner for Industry in 2009-14.<sup>56</sup> The prestige project in this partnership is the European navigation satellite Galileo, in which Beijing invested €230 million in 2003<sup>57</sup> – named after Italian scientist Galileo Galilei (1564-1642).

52 See Casarini, N. and Sanfilippo, M., 'Italy and China: Investing in Each Other', in Huotari, M. et al., *Mapping Europe-China Relations: A Bottom-up Approach*, report from the European Think-tank Network on China (ETNC), October 2015, p. 47.

53 See Frese, M., 'Italy Takes China's New Silk Road to the Heart of Europe', *EU Observer*, 22 March 2019.

54 See Cronin, D., 'Bra Wars and the EU's China Syndrome', *Politico*, 12 April 2014.

55 See Casarini, N. and Sanfilippo, M., 'Italy and China: Investing in Each Other', op.cit., October 2015, p. 47.

56 Ibid.

57 See Carstens, K., 'Galileo Satellite to Get EUR 230m from China', *Politico*, 12 April 2014.

## **Poland**

Poland is the most important country for China in Central and Eastern Europe, as a major regional power and logistic hub for the BRI. In 2011 Warsaw confidently took the initiative to set up the forum that would become the 17+1 platform, although it has since had to temper its high expectations of its relationship with China.

During the Cold War, relations between Poland and China were close.<sup>58</sup> Like other Communist countries Poland was quick to recognise the new regime in 1949. In periods of tension within the Communist bloc between Moscow and Beijing, Warsaw invariably leaned towards the Kremlin, unlike for example the leaders of Yugoslavia, Romania or Albania.

Since 2008 the Polish-Chinese partnership has resumed. After the financial crisis Poland hoped to reap the economic benefits of closer ties with China. Official relations were stepped up. Mutual trade grew by some 8% per year between 2012 and 2017,<sup>59</sup> and tourism and student exchanges expanded substantially. At the end of 2015, the two countries signed an MoU on BRI cooperation (see IV.7), followed in 2016 by a strategic partnership.<sup>60</sup> Regular ministerial consultations now take place, in addition to the meetings of the 17+1 platform.

Since 2017, however, Poland has been somewhat disappointed with the results and the relationship has cooled off. On the one hand, the economic expectations of the bilateral partnership within the BRI and the 17+1 platform have not been met. China's greenfield investments, which were to have generated jobs, have also fallen below expectations. Chinese loans are not attractive to Polish investors as they have access to European loans at more favourable terms from, for example, the European Investment Bank (EIB). In addition, Poland has seen that China is not able or willing to make investments that meet the EU's quality standards, which it is attached to. On the other hand, practically all China-EU rail traffic passes through Poland and the country is the envisioned end point of the corridor that China is building from Greece to the north; this growing rail traffic attracts logistical activities.

Warsaw's more critical attitude is a response to China's increasingly assertive foreign policy, in all its dimensions. Poland is concerned about what is happening in neighbouring countries in terms of trade and investment, such as takeovers of German high-tech companies, investments in the Balkans and overly close ties between Chinese entrepreneurs and Czech politicians.<sup>61</sup> In addition, especially since the nationalist, anti-Kremlin Law and Justice party (PiS) came to power in 2015, the Polish government has viewed with suspicion China's rapprochement with Russia in the area of security. In the midst of these growing tensions, the Polish security service arrested a Chinese Huawei sales director and a Polish

58 These contacts built on relations between the two world wars between the young Polish republic, which gained independence in 1918, and the only slightly older Chinese republic, established in 1911 just before the departure of the last emperor.

59 See Jie, S., 'Chinese Ambassador Details Deepening Ties with Poland', *Global Times*, 25 December 2018.

60 Both countries see the other as long-term, stable partners; *ibid.* See also 'Poland and China Sign Strategic Partnership Declaration', 21 June 2016.

61 For more on these close ties see e.g. the critical report Allen-Ebrahimian, B. and Tamkin, E., 'Prague Opened the Door to Chinese Influence; Now it May Need to Change Course', *Foreign Policy*, 16 March 2018.



counterespionage officer in January of this year on suspicion of espionage. The Chinese embassy responded to this incident by saying that Poland was acting on US orders.

For Poland, its relationship with China is part of a complex geopolitical balancing act. Politically and militarily, the country seeks to line up with allies in the EU and the US as a defence against Russia while, to promote its economic growth, it also aims to establish closer relations with China. These different considerations sometimes lead to tensions within the government. The foreign ministry, for example, emphasises the opportunities that China presents, while the ministries of infrastructure and maritime affairs point more often to the threats. Within the three-way geostrategic relationship between the US, China and Europe, the current governing party stands firmly behind Washington, partly because of the military threat from Russia, against which Europe has insufficient defences, and partly because of an ideological affinity with President Trump. The PiS government hopes for a permanent American military base in the country. The political opposition in Poland might seek a different balance between America and Europe but, because of the Russia factor and the opposition's more pro-European outlook, would be unlikely to seek geopolitical rapprochement with China. In that sense, irrespective of the results of the parliamentary elections in autumn 2019, Poland's policy on China can be expected to continue in the same vein.

### **Hungary**

Hungary is currently China's 'best friend' in the EU and an important link in China's new Silk Road. It was one of the twelve 'guests of honour' at the China International Import Expo in Shanghai in 2018. Only three EU countries were granted this status, the other two being Germany and the UK.<sup>62</sup> Three years earlier, Hungary was the first country to sign an MoU on China's Belt and Road Initiative (see IV.7), and in 2012 it hosted the first summit of the 16+1 platform.

The close relations between the two countries date from the Cold War. After Mao Zedong announced the foundation of the People's Republic of China on 1 October 1949, the Hungarian People's Republic recognised it immediately. Budapest supported the PRC's claims on Tibet and Taiwan and the Chinese seat at the UN. Some poems from the literary canon of Hungary, China's 'brother' nation, are still a compulsory part of the curriculum in Chinese primary schools. The Hungarians, too, have retained a positive image of China from the Cold War years.<sup>63</sup> In the 1980s, as a relatively liberal Eastern bloc country, Hungary felt an affinity with the increasingly open China of Deng Xiaoping.

After the democratic revolutions of 1989 in Budapest and elsewhere in Central Europe – at a moment when the democratic movement in Beijing was brought to a halt – the relationship between the two countries became cooler for some years. The Hungarian leadership focused its efforts on gaining NATO and EU membership. Strong anti-Communism, for many politically active people the result of intense personal experience, was expressed in criticism of China's violations of human rights and freedoms. During his first term as prime minister (1998-2002) Viktor Orbán received the Dalai Lama in his office. In 1999 Hungary was one of the first countries to initiate a bilateral dialogue with China on human rights.

62 See 'Hungary Guest of Honor at first Chinese International Import Expo', *About Hungary*, 23 October 2018.

63 See Huotari et al., *Mapping Europe-China Relations, A Bottom-Up Approach*, report from the European Think-tank Network on China (ETNC), October 2015, p. 44.

In the past ten years, however, the tide has turned. The financial crisis of 2008 struck Hungary early and hard. In its economic distress, the country saw China, with its bilateral trade and investments, as a saviour. Hungary has adopted a transactional and pragmatic approach in the interest of economic gain, and is doing so with even greater conviction as Prime Minister Orbán (who has been in power again since 2010) has developed an ideological affinity with the politically and economically illiberal China.<sup>64</sup>

Hungary's economic expectations have however been disappointed. Chinese investments have primarily been made by large multinationals like Huawei, ZTE and the Bank of China and have created fewer jobs than hoped. The high-speed rail line between Budapest and Belgrade, a prestigious infrastructure project that is part of China's Silk Road plans, has been a painful fiasco. While the Serbian part of the project has started, the Hungarian part has hardly got off the ground because of a lack of transparency and violations of EU rules on public procurement.<sup>65</sup> As an EU candidate country Serbia has been less affected, illustrating the protection EU rules offer.

For Prime Minister Orbán, Hungary's ties with China also have political significance as a source of leverage in the EU. In recent years, the Hungarian government has put its own interests before those of the Union as a whole on a number of occasions. The main areas of contention are human rights and the BRI.<sup>66</sup> While the EU seeks to promote respect for human rights worldwide, Orbán is profiling himself as an adherent of the principles of national sovereignty and non-intervention.<sup>67</sup> Hungary systematically refuses to sign statements criticising China's human rights record. At the first BRI summit in Beijing in 2017, Hungary was the only EU member state to sign the final communiqué, although the EU as a whole had refused to do so. In 2018 Hungary was again the only exception when the ambassadors of 27 of the 28 EU states signed an unofficial document criticising the BRI for its disruptive effect on free trade and for giving preferential treatment to Chinese companies.<sup>68</sup>

From the EU's perspective Hungary is 'lost' as an ally in relations with China, at least for the time being. The country's China policy goes beyond the bounds of what is permissible within the framework of the EU and forces the other member states to devise ways to bypass one member's veto on specific issues (see also IV.10 on human rights). At the same time, for economic reasons, Hungary attaches importance to membership of the single market – Germany is a much bigger economic partner for it than China – and of the Schengen area. That gives the EU27 leverage that they are not yet taking enough

64 See Matura, T., 'Absent Political Values in a Pragmatic Hungarian China Policy', in Rühlig et al.. *Political Values in Europe-China relations*, report from the European Think-tank Network on China (ETNC), December 2018, p. 47.

65 After much delay, Hungary and China signed an agreement on the construction of the line, specifying which companies would do the work.

66 See Matura, T., 'Absent Political Values in a Pragmatic Hungarian China Policy', op. cit.

67 Viktor Orbán said in an interview this spring with *La Stampa* (2 May 2019), 'For me foreign policy is an instrument which can be used to increase others' interest in my country, which can gain friends for us, and which can make important states interested in Hungary's success.'

68 See Prasad, R., 'EU Ambassadors Condemn China's Belt and Road Initiative', *The Diplomat*, 21 April 2018.

advantage of. This leverage could at least be used to stop other member states from following Hungary's example.

### **The Netherlands**

Relations between the Netherlands and China date back to the days of the Dutch East India Company (VOC). While the Dutch Republic opened a trading post in Japan in 1609 (and was from 1639 the only European country permitted a presence in the country) it was unable to establish a footing in China,<sup>69</sup> unlike the UK (in Hong Kong) and Portugal (in Macau). The Netherlands and China first established direct diplomatic relations in 1863. In this period, the Netherlands mainly sought access to the Chinese market while China was primarily concerned with acquiring consular protection for Chinese contract workers in the Dutch East Indies.<sup>70</sup>

In 1950, shortly after the Communists seized power in China, the Netherlands (like the UK) recognised the regime of Mao Zedong to better protect its national interests in its former colony of Indonesia.<sup>71</sup> This caused great irritation in Washington, which pursued a policy of economic and diplomatic boycott of the People's Republic until 1972. Other sources of tension with or relating to China were arms deliveries to Taiwan (1980-1984) and human rights (1989 and 1997).<sup>72</sup>

In recent years there have been a number of high-level meetings between the Netherlands and China, both between President Xi Jinping and Prime Minister Mark Rutte, and between President Xi and King Willem-Alexander. In 2014 the Netherlands was the first European country that Xi visited after becoming president.<sup>73</sup> The Netherlands is an attractive partner for China economically (in areas like agriculture, water management, petrochemicals and logistics) and because of its active role in the EU and other international organisations.<sup>74</sup> With the UK's departure from the EU, China sees the Netherlands as a major advocate of open markets within the Union, which can counteract a European protectionism that would be to China's disadvantage.

69 From 1624 to 1662 the VOC ruled Taiwan as a colony. (At the time the island was not part of the Chinese empire.) See Andrade, T., *How Taiwan Became Chinese: Dutch, Spanish, and Han Colonization in the Seventeenth Century*, New York: Columbia University Press, 2018.

70 Van der Putten, F.P., 'Small Powers and Imperialism: The Netherlands in China, 1886-1905', *Itinerario* 20 (1) (1996), p. 115-131.

71 This recognition did not extend to the exchange of ambassadors (see sections on Sweden and France below). Also see Bos, M., 'Nederland en de erkenning van de Volksrepubliek China', *Historische Nieuwsblad* 3/2008, and the Chinese account.

72 See Van der Putten, F.P., 'Human Rights Promotion and the Changing Role of Political Values in Netherlands-China Relations', in Rühlig et al., *Political Values in Europe-China relations*, report from the European Think-tank Network on China (ETNC), December 2018.

73 Immediately afterwards he visited Germany, France, Belgium and the EU institutions.

74 See Van der Putten, F.P., 'Netherlands-China Relations: Aiming for Openness and Pragmatism', in Huotari, M. et al., *Mapping Europe-China Relations: A Bottom-up Approach*, report from the European Think-tank Network on China (ETNC), October 2015, pp. 52-53.

The Netherlands' role as a logistics centre makes the two countries important trading partners. The main Dutch exports to China are machinery, oil and oil products, foodstuffs and agricultural products. A quarter of the containers unloaded in the port of Rotterdam come from China.<sup>75</sup> Most of them are in transit, as is clear from the broader context of the three-way relationship between the Netherlands, Germany and China. China is the Netherlands' sixth largest trading partner,<sup>76</sup> while the Netherlands is China's eighth largest and the second in the EU after Germany.<sup>77</sup> At the same time the Netherlands is Germany's second largest trading partner after China, and Germany is the Netherlands' biggest.<sup>78</sup> In other words: China is of great importance for the Netherlands' trade relations with Germany, and trade relations between China and Germany are crucial for the Netherlands' foreign trade. The Netherlands is, however, less important to Germany and China than the bilateral figures suggest, as its role relates mainly to goods in transit.<sup>79</sup>

In the 19th and 20th centuries, large numbers of ethnic Chinese lived under Dutch colonial rule in Suriname and the Dutch East Indies. A significant part of the Chinese community in the Netherlands has its origins in the former Dutch colonies. In the past half-century, many Chinese people have taken up residence in the Netherlands, first via Hong Kong and now directly from China. In 2011 an estimated 100,000 individuals of Chinese origin were living in the Netherlands, including those whose parents or grandparents originally came from China.<sup>80</sup> There are currently three Confucius Institutes in the Netherlands, in Leiden (where it will close on 31 August 2019), Groningen and Maastricht.<sup>81</sup>

The Netherlands' policy on China is currently in a phase of reorientation. While the relationship between the two countries was until recently seen almost exclusively from a commercial perspective, there is a growing awareness among politicians and in the wider society that security as well as economic interests are at stake and that this can lead to dilemmas. This situation is putting the Netherlands' self-image as an economically and culturally open country to the test, in the area of trade and beyond. For example, Chinese PhD students and researchers were until recently welcomed with open arms at Dutch universities, but today there is a growing awareness – against the background of Beijing's patient and resolute efforts to become a global technological power – that they often take a great of knowledge back home with them (see also IV.5). The policy document

75 See Port of Rotterdam, 'China goed voor 25% geloste containers', 9 September 2015.

76 See Statistics Netherlands (CBS), 'Trends in Nederland: Cijfers – Internationale Handel', 2018.

77 See World's Top Exports, 'China's Top Import Partners', 5 August 2019.

78 See German-Dutch Chamber of Commerce, 'Nederland na China grootste handelspartner van Duitsland', 21 February 2018.

79 This explains why the Netherlands was the largest importer of Chinese products in the EU in 2018 (€86.3 billion), while Germany imported products worth €75.5 billion from China. The Netherlands is also the fifth largest exporter to China in the EU, after Germany, the UK, France and Italy (€11.1 billion in 2018). See Eurostat, 'China-EU: International Trade in Goods Statistics', March 2019.

80 See Linder, F. et al., 'Chinezen in Nederland in het eerste decennium van de 21e eeuw', *Bevolkingstrends*, 4th quarter 2011, p. 28.

81 See Huygen, M., 'Leiden stopt met Confucius instituut', *NRC*, 21 February 2019.

'The Netherlands and China: A New Balance', published in May 2019, shows how the Netherlands, like other EU member states, is exploring how and where decisions on our relationship with China can now be made. In 2019 a ministerial committee on economy and security was set up to enable ministers to discuss the issue of China in a joint forum.<sup>82</sup> However, the China policy document still does not offer much of a perspective for action on the strategic dilemmas the Netherlands will face as a result of the geopolitical rivalry between the US and China. While it expresses our loyalty as allies to Washington in a general sense, choices relating to America's 'red lines' (on 5G, for example) are avoided or discussed elsewhere.

As far as Europe is concerned, the Dutch government acknowledges explicitly that we cannot promote our own interests and values without the EU.<sup>83</sup> The Netherlands plays an active role in intra-EU coordination on China. However, we have traditionally been critical of restrictions on the free market and of transferring national competences in the area of justice. For a long time, The Hague was also reticent about Europe adopting a geopolitical course more independent of the US. In these areas, the EU as a whole is currently in a state of flux; the rise of China clearly plays a role here, as do Europe's changed relationship with Russia and growing US isolationism. Reflection on the strategic dilemmas that this will entail for The Hague, especially in the relationship between the Atlantic alliance and the European Union, is only in its early stages.

### **Greece**

Greece's policy on China is largely based on economic considerations and has until now been primarily reactive. It is unclear whether the Greek government has a long-term strategy in mind. It has however taken a step towards greater internal coordination by designating the deputy minister for economic affairs to coordinate policy on China.

Since the 1990s the shipping industry has been at the heart of economic cooperation between the two countries. Greece has the largest merchant fleet in the world, and many Greek shipowners have their ships built in China and then rent them out to Chinese shipping companies. Since 2008, this foundation has been broadened through investments by the state-owned Chinese company COSCO Shipping Lines in the port of Piraeus. COSCO is the world's largest shipping company and has an interest in several European ports. Thanks to COSCO's involvement, Piraeus – with a turnover of 5 million TEU in cargo traffic per year<sup>84</sup> – has grown to become the second largest port in the Mediterranean (after Valencia, Spain, where COSCO also plays a major role).<sup>85</sup> COSCO's economic impact in terms of jobs and port-related activity is limited for the time being, though it intends to invest €580 million in modernising the port over the next several years. Piraeus is exceptional as the only European seaport where a Chinese company has not only invested in the container terminal but also obtained a majority of shares in

82 This committee has a similar status to a cabinet subcommittee and as such its meetings are prepared by a group of civil servants.

83 See Alonso, S., 'Stef Blok: zonder de EU kunnen we China niet aan', *NRC*, 15 May 2019.

84 TEU stands for Twenty Foot Equivalent Unit, the most common unit of measurement used for container transport on ships and lorries: 20 feet long, 8 feet wide and 8 feet 6 inches high.

85 See 'Piraeus Second Largest Port in the Mediterranean', *Shipping Herald*, 8 January 2019.

the port authority.<sup>86</sup> Consequently, since 2016, operational management of all the port's component parts has been in the hands of the COSCO subsidiary COSCO Shipping Ports Limited, a state company in Shanghai whose chairman of the board is appointed by the Communist Party and the Chinese government.

The second largest direct Chinese investment in Greece is the 24% interest acquired in 2017 by the State Grid Corporation of China in the Independent Power Transmission Operator (ADMIE), the company managing the Greek electricity network.<sup>87</sup> State Grid, the world's largest electricity company, has also made major investments in other Southern European countries. Besides these direct investments China is of great importance to the Greek tourist sector. COSCO's ambition to make Piraeus the main cruise port in the Mediterranean will only strengthen Greece's position as a destination for even larger numbers of Chinese tourists.

Like Hungary, Greece is often seen as undermining consensus in the EU regarding China. Critics attribute this to COSCO's strong position in Piraeus. Specifically, Greece has twice taken a dissenting pro-China stance within the EU. In 2016, together with Hungary and Croatia, Greece prevented the EU from supporting a judgment by a tribunal set up by the International Tribunal for the Law of the Sea under the Permanent Court of Arbitration (see also IV.10) on maritime disputes in the South China Sea that was unfavourable to China. Secondly, in 2017, an EU resolution on human rights in China could not be introduced in the UN Human Rights Council because Greece refused to support it. It is reasonable to assume that Greece's economic interests with respect to China played a role in both cases. Because the Greek government does not consider China an economic or security threat, it feels relatively little pressure to support joint EU action against the People's Republic.

It would be wrong to conclude from these examples, however, that Greece systematically gives preference to its relationship with China above that with the EU. Knowing that the EU is by far a more important economic partner than China (despite the damage to the relationship between Athens and Brussels caused by the financial crisis), Greece uses its ties with China as leverage in its negotiations with the EU on reforming the Greek economy. It also depends on the EU in containing migration flows from the Middle East. In addition NATO, and therefore the US, is of great importance to Greece; NATO is the main stabilising factor in its relations with Turkey. The US has a major military base on Crete, visible evidence of the US and NATO's long-term security relationship with Greece.

Notably, the Chinese investments in both Piraeus and ADMIE were made possible by the privatisation programme imposed on Greece to pay off its debts to the IMF and the EU member states. COSCO, which signed a cooperation agreement with Greece in 2008, would have been active in Piraeus without the privatisation programme, but it would not have acquired control of the port. The takeover of the port also means that COSCO has become more dependent on Greece for part of its activities. It can thus reasonably be assumed that the company will continue to focus on Piraeus as its main logistics centre in the eastern Mediterranean.

86 See Van der Putten, F. P., Hong, T., and de Blécourt, J., 'The Motives behind COSCO's Investment in the Port of Piraeus', in: Ferchen, M. et al., eds, *Assessing China's Influence in Europe through Investments in Technology and Infrastructure: Four Cases*, Leiden: LeidenAsiaCentre, December 2018, p. 20.

87 See Tonchev, P. and Davarinou, P., 'Chinese Investment in Greece and the Big Picture of Sino-Greek Relations', *IJER*, Athens, December 2017, p. 18.

## Sweden

While Hungary has been China's 'best friend' within the EU in recent years, Sweden currently has a tenuous relationship with the People's Republic than any other member state. The two countries started trading with each other in the 17th century, and relations were stable for a long time. The Swedish East India Company, founded in 1731, focused mainly on China. Neutral in the Cold War, Sweden was the first Western country to recognise the People's Republic of China diplomatically, in January 1950.<sup>88</sup> Like its European partners, Sweden has substantial economic interests in China, which is for example a market for Swedish cars. While its neighbours Denmark and Norway clashed with China around 2010 (on Tibet and the Nobel Peace Prize respectively), Sweden conducted a cautious human rights policy and avoided such conflicts.<sup>89</sup>

Since 2015, however, relations between the two countries have entered a period of turbulence. In that year a Swedish national of Chinese origin, Gui Minhai, disappeared from his holiday home in Thailand. Some months later, he appeared on Chinese television, where he made a confession. It emerged that he was being held captive in a Chinese prison. Gui was part owner of a bookshop in Hong Kong that sold works about Chinese politicians. Many of the books were banned in China and, around the same time, four other people involved in the bookshop disappeared and proved to have been imprisoned. The disappearance and arrest of Gui, who has still not been released, attracted a great deal of public attention in Sweden.

In 2018 a prominent businessman, Jacob Wallenberg, warned about the possible security risks of Chinese investments.<sup>90</sup> China has been a large-scale investor in Sweden since the takeover of Volvo Group by the private Chinese company Geely in 2010. The investment, seen in Sweden as a successful economic partnership, increased China's visibility as an economic power. It also places the worldwide competition between telecom giants Ericsson and Huawei in sharper relief. Shortly after Wallenberg's warning, the country's biggest opposition party, the Moderate Party, called for Sweden's China policy to be tightened up.<sup>91</sup> The government has not yet made a decision on Huawei's involvement in Sweden's 5G network.

In the meantime, China has been stepping up the pressure. An incident in September 2018, when several Chinese tourists were removed from a hotel lobby by Swedish police, led the Chinese embassy to issue a warning to Chinese nationals travelling to Sweden and to demand an apology from Swedish police (who refused). The embassy stated that the police had severely endangered the tourists' lives and had violated their basic human rights. The negative travel advice has since been extended three times. In the past year, separately from the tourist incident, the Chinese embassy has often been strongly critical of Sweden, mostly through statements by the ambassador in the Swedish media. At the end of 2018 the king of Sweden cancelled a visit to China at the last minute, possibly in

88 See The Common Program of the People's Republic of China, 1949-1954.

89 See Bohman, V. and Michalski, A., 'The Prudent Proponent : Sweden's Normative China policy', in Rühlig et al., *Political Values in Europe-China Relations*, report from the European Think-tank Network on China (ETNC), December 2018, p. 84.

90 Ibid.

91 Ibid.

connection with the negotiations on the release of Gui Minhai.<sup>92</sup> In April 2019 the State Administration for Market Regulation (SAMR), China's competition authority, raided the Ericsson office in Beijing as part of an investigation of a possible violation by the Swedish company. Formally there is no connection between the raid and the diplomatic tensions between the two countries or Huawei's international position. The incident can, however, be seen as a message from the Chinese that Ericsson's position on the Chinese market depends on international political factors.

From the outset, the Swedish government could count in its attempts to secure Gui Minhai's release on the EU's support, as expressed by spokespeople of the European External Action Service (EEAS) and High Representative for Foreign Affairs and Security Policy Federica Mogherini.<sup>93</sup> In addition EU representatives have addressed the issue in the EU-China Human Rights Dialogue and the UN Human Rights Council. In late 2016 the European Parliament passed a resolution demanding Gui's release,<sup>94</sup> and in 2018 36 MEPs signed a joint letter to Xi Jinping again insisting that he be released.<sup>95</sup> Germany is providing similar support, possibly because Gui's wife is a German national. The Swedish government greatly values this support from the EU and member states like Germany.

Militarily neutral since 1814, Sweden is one of the five EU member states that is not a member of NATO. Because of the threat from Russia, however, particularly since 2014, a debate has begun on possible accession to the alliance. So far Sweden has experienced no direct political or diplomatic consequences of the tensions between the US and China.

### **Belgium**

Belgium does not have a particularly distinctive relationship with China, but as it is one of the Netherlands' neighbouring countries it is interesting to examine its ties with the People's Republic. In colonial times Belgium focused more on Africa and the Congo than on Asia. It did acquire a concession in Tianjin, which it held from 1902 to 1931, and Belgian missionaries were active in China from the middle of the 19th century. After the Second World War and Mao's seizure of power, Belgium followed the US line on China, not establishing diplomatic relations until 1971.

Today, as a small trading nation, Belgium primarily seeks economic opportunities in China; its main exports are chemicals, machinery and equipment.<sup>96</sup> Market access is essential for Belgium. The major seaports of Antwerp and Zeebrugge – Rotterdam's direct competitors – make the country a major link in transport flows between Europe and the Far East. Belgium follows a pragmatic course on human rights, and is restrained in its criticisms of Beijing.

92 See Jiangtao, S. and Elmer, K., 'China Renews Warning against Travelling to Sweden amid Ongoing Diplomatic Row', *South China Morning Post*, 23 December 2018.

93 Ibid. and EEAS, 'Statement by the Spokesperson on the Recent Conviction of Chinese Human Rights Lawyer Wang Quanzhang', 28 January 2019.

94 See European Parliament, 'Joint Motion for a Resolution on the Case of Gui Minhai, Jailed Publisher in China', 2016/2990 (RSP).

95 See Adaktusson, L. et al., 'Letter from MEPs to China's President Xi Jinping Calling for the Release of Swedish Citizen Gui Minhai', 22 February 2018.

96 See Belgisch Agentschap inzake buitenlandse handel, 'Bilateraal handelsfactsheet', 2018.



Interest in China has grown rapidly in Belgium in recent years, due to Chinese investment in the country. Much as Germany experienced its 'Kuka moment' in 2016 (see above), Belgian public awareness rose sharply that same year after an attempt by the Chinese State Grid to acquire a 14% stake in Eandis, a large Flemish gas and electricity distribution network operator. After unexpectedly widespread social protest, the city of Antwerp blocked the deal. Later, however, Chinese companies acquired shares in Belgian banks and state company COSCO bought the sea container terminal at Zeebrugge.<sup>97</sup> In line with recent EU initiatives, in Belgium legislation has entered into force that requires all investments to be screened for their impact on strategic security interests. On the Walloon side, striking developments included the establishment of the China Belgium Technology Center in Louvain-la-Neuve, the first Chinese science and technology park in Europe, and of a distribution centre for e-commerce company Alibaba in Liège, for which the Netherlands had also initially been a candidate.<sup>98</sup> In October 2018, as part of the BRI, a direct rail link was opened between Liège and Zhengzhou. Hundreds of Volvo cars a week are now carried by rail from China to Zeebrugge. Volvo, owned by the Chinese company Geely since 2010, also has a factory in Ghent. Huawei recently opened an information centre on cybersecurity in Brussels, most probably because of the city's status as the informal capital of the EU.<sup>99</sup>

As a confirmed proponent and driver of EU integration, Belgium supports European initiatives on China as a general rule. Like the Netherlands, as a small and open trading nation it has much to gain from the single market and a common trade policy. Lying as it does between France and Germany, with its sensitively balanced constitutional structure of regions and communities and the symbolic and economic importance of Brussels as the seat of key EU institutions, Belgium also sees the European Union – more than the Netherlands does – as providing geopolitical protection and safeguards for its federal state. Partly because of this position in Europe, Belgium – an active and loyal member of NATO since its founding in 1949 – sometimes takes somewhat more distance from the US than the Netherlands and, at times of heightened transatlantic tensions (such as during the Iraq War in 2003), moves closer to France and Germany. It can be expected to take this position in coming economic and geopolitical debates initiated in response to China's rise (e.g. on industrial policy and Huawei).

97 COSCO paid €35 million for 76% of the shares in December 2017, after earlier acquiring a 24% interest.

98 For a critical evaluation of the economic benefits and political price of the distribution centre in Liège, see De Greef, A., 'Wat halen we binnen? Alibaba, made in China België', *De Standaard*, 23 March 2019. When Alibaba Executive Chairman Jack Ma was trying to entice the Netherlands to host the distribution centre and Liège was no longer in the picture, the Belgian government signed an MoU with the company about the Electronic World Trade Platform (eWTP). This was an initiative by Ma, introduced by the Chinese government at the G20 in Hangzhou in 2016, to relax international rules on e-commerce and break down digital barriers. (As the WTO is also working on this issue, a private initiative by the world's largest internet provider was met with mild bewilderment.) Belgium is only the third country after Malaysia and Rwanda, and the first European country, to participate in the eWTP, a success that did not pass unnoticed in the Chinese media. This case shows again China's skill in strategically linking economic and geopolitical goals.

99 See Stamper, L., 'Huawei Opens Cyber Security Center in Brussels amid U.S. Spying Accusations', *Fortune*, 5 March 2019.

### III.2 The European Union

Some six months after Communist revolutionary Mao Zedong had established a 'new China' on 1 October 1949, a project was launched involving six Western European countries that, though modest in form and content, had the ambition to lay new foundations for inter-state relations in Europe after two world wars. The six – France, West Germany, Italy and the Benelux countries – started with a 'community' for coal and steel. After the outbreak of the Korean War in the summer of 1950, the six governments proposed a treaty setting up a European army along the same lines.<sup>100</sup> When this plan broke down in 1954, they returned to their original economic course, establishing the European Economic Community (EEC) in 1957. The EEC comprised a common market, at first for agricultural and industrial products, and had a shared external tariff and therefore a common trade policy. The latter was the reason the UK decided not to join.

The young EEC thus took the international stage as a purely economic actor and entered into negotiations in the 1960s with the UK, the US and Japan on trade tariffs and other economic issues. Yet in several capitals, including Paris and Bonn, there was a long-term ambition, shared by the new EEC institutions in Brussels, to conduct a common foreign policy. The first cautious steps in this direction were taken in 1970-73, a period when the US under President Richard Nixon was pursuing détente with the People's Republic of China. These two developments enabled the EEC and China to establish official relations in 1975.

Leading Chinese political figures in the 1970s hoped that Europe could grow to become an autonomous power independent of the US, and thus temper global tensions between America and the Soviet Union.<sup>101</sup> The UK joined the EEC in 1973, together with Ireland and Denmark. The presence of this major regional power made common foreign policy action by the now nine EEC member states as 'Europe' more credible on paper, though it proved more difficult in practice. The end of the Cold War in 1989 was a new turning point. Besides a monetary union, the member states – now grown to twelve – decided to establish a common foreign and security policy and a common justice and migration policy. To achieve that, they renewed the Community, establishing the European Union in the 1992 Treaty of Maastricht. At the same time, the former Communist countries of Central and Eastern Europe were offered the prospect of EU membership. Consequently, in the 1990s, the EU paid considerable attention to the introduction of the euro and eastward enlargement of the Union, and less to a common foreign policy. A divided Union looked on helplessly during the wars in former Yugoslavia (1991-99). The hope of European geopolitical unity was revived in the early 2000s, in Beijing as elsewhere, in the context of America's unipolar power and Europe's constitutional ambitions. In 2003 a 'strategic partnership' was established between the EU and China. Shortly afterwards, however, China's expectations were disappointed, with 2005 as a pivotal year (see II.1). Nevertheless, a number of foreign policy initiatives did later come to fruition. From 2009, China participated in the anti-piracy mission off the coast of Somalia initiated by the EU

100 Four of the six countries, including the Netherlands, ratified the treaty establishing the European Defence Community. However, the French National Assembly voted it down in 1954 after a polarising public debate.

101 For several eyewitness accounts, see the memoirs of French diplomat Claude Martin: Martin, C., *La diplomatie n'est pas un dîner de gala: mémoires d'un ambassadeur, Paris-Pékin-Berlin*, Paris: Editions de l'Aube, 2018.

and both the EU and China remain parties to the 2015 Iran agreement, even now that the US has renounced it. This shows how the two partners can work together diplomatically at the UN and in other international forums.

Nevertheless the economy and trade remain the core of the bilateral relationship between the EU proper and the People's Republic. In 1975 the EEC took over responsibility for trade relations with China from the individual member states, which had until then concluded bilateral trade agreements.<sup>102</sup> The first trade agreement between the EEC and China was signed in 1978. When China decided to open up economically in 1978-79 under Deng Xiaoping, it partly relied on Western European countries for imports of agricultural and industrial equipment. That created incentives to deepen the relationship with the EEC. In this first period of relations, the EEC was primarily a donor of development aid to China, an area in which it had a shared responsibility.<sup>103</sup> Cooperation between the European Commission and other EU institutions like the European External Action Service (EEAS) established in 2009 and Chinese ministries now extends to other areas of policy, including tourism, space exploration and climate. The extent to which EU representatives speak on behalf of all member states in meetings varies according to policy area (see chapter IV for a more detailed analysis).

The diplomatic relationship between the EU and China takes shape in various forums. There is an annual summit between the presidents of the European Council and Commission and the Chinese president and/or premier. At these summits, which are prepared in minute detail on both sides, the main lines of policy are set out and specific points are sometimes negotiated.<sup>104</sup> There are also regular ministerial meetings and more than 60 sectoral dialogues, divided into three pillars: 'political', 'economic and sectoral' and 'people-to-people'.<sup>105</sup> Besides these bilateral consultations, China and the EU meet each other in multilateral forums. At the World Bank, the IMF, the WTO and the G20, one or more individual EU member states are often present alongside the EU as such (generally represented by the Commission). The heads of government of the four biggest EU member states take part in G20 meetings, as well as the presidents of the European Commission and Council.<sup>106</sup> In some cases, only EU member states and not the Union are represented in an organisation or network, as in the Asian Development Bank (ADB), the Asian

102 See EU/China Joint Committee, 18 November 1987.

103 From 2014, the European Commission shifted away from development cooperation in its relations with 'emerging countries'. See 'Europese Unie stop ontwikkelingshulp aan groeilanden', *De Volkskrant*, 7 December 2011.

104 The most recent EU-China summit took place in Brussels in April 2019. At this summit, China undertook to cooperate on the necessary reform of the World Trade Organization and to help tighten up the WTO rules on state support for Chinese companies. It was also decided to reach agreements this year on the protection of 'geographical indication products', which will help give products from Europe like Parma ham and Gouda cheese a more distinct profile on the Chinese market. This agreement came unexpectedly, partly due to increasing tensions between the US and China on trade.

105 See European Commission, Factsheet: 'EU China Relations', 9 April 2019 and 'EU-China Dialogue Architecture', 2015.

106 The four represented EU member states are Germany, France, the UK and Italy. Spain also attends as a 'permanent guest'.

Infrastructure Investment Bank, the BRI framework and the 17+1 platform (discussed in detail below).<sup>107</sup> Lastly, the biennial Asia-Europe Meeting (ASEM) brings together the leaders of 53 Asian and European countries.

With a view to the recommendations made by the AIV in chapter V, a short examination of the internal interplay between EU institutions is useful. In the Foreign Affairs Council, chaired by the High Representative, the 28 foreign ministers discuss crises and conflicts around the world. These include hotspots like Afghanistan, Iran, North Korea and Somalia, many of which are also addressed by China in its foreign policy. However, the Foreign Affairs Council lacks the substantive scope and decision-making power to connect these issues with the economic and social dilemmas with which China confronts the EU member states. The European Commission, by contrast, is strong on economic and trade-related issues, in which it speaks for the EU. As the body responsible for managing the EU budget, it also has a weighty independent position in the bilateral relationship with China. The Commission is, however, weak in the area of foreign and security policy in the classical sense. The European Council of heads of government is in principle the right forum for setting the strategic course of the EU as a whole. The European Council members are each expected to link economic and security policy in their own countries, and in principle have the authority to take decisions that set policy directions. In addition, the Commission president is a member of the European Council, and the High Representative attends when foreign policy is being discussed. In this way, the European Council can make a link between Brussels and national political arenas. It is, however, crisis-driven and insufficiently able to look ahead, partly due to its rapidly changing composition.<sup>108</sup> (The European summit of March 2019, where China had a prominent place on the agenda for the first time in some years, was for example notably overshadowed by a Brexit episode.)<sup>109</sup> As co-legislator, the European Parliament decides on economic legislation and, since 2009, also has to approve trade and other international agreements, like the Transatlantic Trade and Investment Partnership (TTIP). It has little control over foreign policy in the classical sense, however. The Parliament has traditionally been vocal and critical on human rights, defending democracy, political freedoms, artists, intellectual and activists, and ethnic and sexual minorities.<sup>110</sup>

In sum, it is clear that there is as yet no authoritative European forum where the relationship between the EU and China is systematically discussed at strategic level. There is a similar need at EU level as in the member states, where new decision-making forums or processes are being created to deal with the challenges China poses. Examples in The Hague include the 5G taskforce and the newly formed ministerial committee for economy and security. The AIV will return to this issue in greater detail in its recommendations later in this report.

107 For an overview of European representation in international institutions and networks, see table in Okano-Heijmans, M. and Lanting, D., 'Europe's Response to China's Activism: Balancing Hope and Fear in the New Age of Global Economic Governance', Clingendael Report, October 2015, p. 19.

108 For an overview of how the European Council works and interacts with other EU institutions, see Van Middelaar, L., *Improvisatie and oppositie: de nieuwe politiek van Europa*, Groningen: Historische Uitgeverij, 2019, pp. 192-217.

109 See European Council Conclusions, 22 March 2019.

110 See European Parliament resolution of 16 December 2015 on EU-China relations.

In the absence of permanent structures, initiatives come from individual actors, perhaps because they feel pressure from the business community or public opinion. The German chancellor, the French president and the Dutch prime minister, for example, insisted on holding an EU summit on China. Like a number of European governments, Brussels is also attempting now to approach China more strategically. The Juncker Commission is definitely showing greater initiative, spurred on by the capitals and perhaps because its negotiators also feel pressure from other economic blocs in multilateral trade talks.

In June 2016 the Commission and the High Representative published a Communication to the Parliament and the Council with 'elements for a new EU strategy on China'.<sup>111</sup> This communication, which replaced the 2006 strategy, was shortly afterwards approved by the Council and is now the official basis of the EU's China policy.<sup>112</sup> Its basic principle is that, besides the joint European-Chinese framework (the EU-China 2020 Strategic Agenda for Cooperation),<sup>113</sup> the EU should also define its own interests. Core points include a stronger emphasis on reciprocity in the trade relationship and on regulated 'connectivity' in transport, digital networks and 'people-to-people' exchange.

In early 2019, given the rapid developments in China and the changed situation in the US, a need was felt for an update, partly in preparation for the EU-China summit on 9 April and the European Council meeting preceding it in March. Under severe time pressure, the Commission and the High Representative produced a 'Strategic Outlook'.<sup>114</sup> This noteworthy document – which did not go unnoticed in Beijing – identifies three roles that China plays for Europe and the European Union: partner, competitor and 'systemic rival'.<sup>115</sup> China is a partner is achieving global goals like the international climate agreement or maintaining the nuclear non-proliferation regime. For such issues (access to clean drinking water will be another prominent issue in the future), robust international forums are in both China's and Europe's interests. China is a competitor primarily in economic and technological terms. Chinese and European companies compete for market shares throughout the world. Negotiations at political level define the arena within which this competition is played out. China and Europe are also fighting for technological leadership, and there is competition in the area of transport links. In the autumn of 2018 the EU launched its Connectivity Strategy in response to China's Belt and Road Initiative (BRI), with the aim of improving Europe's transport links and networks with China.<sup>116</sup> Lastly, the EU and China are systemic rivals in the sense that they embody different political models; the Union attaches great importance to basic individual rights and democratic institutions.

111 See Joint Communication to the European Parliament and the Council: Elements for a New EU Strategy on China, 22 June 2016, JOIN(2016) 30 final.

112 See *Ibid.* and European Council Conclusions, 18 July 2016.

113 See EEAS, 'EU-China 2020 Strategic Agenda for Cooperation', 2013.

114 See European Commission and HR/VP contribution to the European Council, 'EU-China: A Strategic Outlook', 12 March 2019, JOIN(2019) 5 final.

115 The document also calls China a 'negotiating partner'; this is included here under 'competitor'.

116 See Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, 'Connecting Europe and Asia: Building Blocks for an EU Strategy', 19 August 2018.

The difficult nature of the relationship for both parties lies in the synchronicity of the three roles. By distinguishing these three roles, the EU is attempting to give rivalry a place in the relationship so that cooperation in other respects remains both possible and credible. This contrasts with America's China policy, where the discourse of cooperation is succumbing to rivalry. The EU has a specific challenge in translating its wishes and demands in respect of China more strategically into 'red lines' and leverage (see chapter V).

### **III.3 Regional initiatives**

Besides purely bilateral and official EU relations, the 28 member states are also engaged in regional partnerships with China. The most prominent of these is the 17+1 platform involving China and 17 European countries. As the government notes in its request for advice to the AIV, this platform is a cause for concern. As an intermediate form of cooperation between purely bilateral ties and relations with the EU, it can undermine the EU's unity. In the AIV's opinion, it does not do this primarily as a rival to the EU, but more in giving the member states the opportunity to strengthen their bilateral ties with China. That is also how China sees it. In line with the Chinese diplomatic tradition since the imperial era of maintaining relations with other, especially weaker, countries on a one-to-one basis, it sees the 17+1 meetings as a form of 'serial bilateralism'.

Eleven EU countries have been members of the platform since it was set up in 2012: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia – all former Eastern bloc countries that have joined the Union since 2004.<sup>117</sup> Another five non-EU states have also been members from the beginning: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. All five are Western Balkan countries with a 'European vocation', and actual or potential EU candidate countries with prospects of membership. All of these 16 countries were to the east of the Iron Curtain before 1989 and therefore had ties with China in the Communist period. At the platform's eighth summit in April 2019 Greece, which borders on Bulgaria and North Macedonia, joined as the 17th member.

There is an annual summit between the 17 heads of government and the Chinese prime minister. The meetings' closing documents strongly emphasise 'win-win' relationships, mutual friendship, and compatibility with the overall China-EU partnership. The European Union, represented by the EEAS, attends as an observer, along with Austria, Switzerland, Belarus and the European Bank for Reconstruction and Development (EBRD).<sup>118</sup> This group of countries is interesting for China because of their strategic geographical position for the Belt and Road Initiative (see chapter IV for more details), their well-educated and yet cheap labour forces and their open trade and investment environment. At the same time, China's economic relations with the countries of Northern and Western Europe are much more important. Moreover, some EU states, including Poland, proved to have overly high expectations of their ties with China: the economic benefits are lagging behind what they had hoped for. The platform is mainly interesting for European countries in guaranteeing an annual bilateral conversation with China's political leaders, which they can use to make individual deals. Certainly the smaller countries among the 17 would

<sup>117</sup> To be precise, Croatia became the 28th member state of the EU in 2013; before that it participated in what was then the 16+1 platform as an EU candidate country.

<sup>118</sup> See Grieger, G., 'Briefing: China, the 16+1 Format and the EU', European Parliamentary Research Service, September 2018.

not be able to obtain such highly valued, frequent quality time on their own. The situation is different for countries like Poland, Romania and Greece. For these reasons the AIV does not see the 17+1 platform as a direct competitor for the EU, but it is a vehicle for increasing China's influence in Europe.

That makes it even more important not to see the 17 countries as a homogenous group. There are clear gradations in their enthusiasm for the platform. A number of them – including Hungary, the Czech Republic, Romania and the Western Balkan countries, with Serbia at the forefront – are very active and would welcome further Chinese initiatives. Others, including the Baltic States, Slovakia and Poland, are more passive. Poland's disappointment has already been mentioned, while Estonia would prefer to leave the platform altogether.<sup>119</sup> Romania (despite being active) and Bulgaria also regret the fact that the platform has hardly secured any new projects for them, but they blame this mainly on strict EU regulations. For this reason China chooses the easier path of working more closely with the five non-EU member states in the group.

China has not only sought regional cooperation with the countries of Eastern and Southeastern Europe, by the way. Since 2013 it has hinted at setting up a forum with a group of six southern EU member states: Italy, Spain, Portugal, Greece, Malta and Cyprus. Themes discussed at the two meetings held so far included agriculture (in 2013 in Rome, at ministerial level) and maritime cooperation (in 2015 in Xiamen, at civil service level).<sup>120</sup> There have been no follow-up meetings, however, and it seems that China is content with maintaining purely bilateral cooperation with the six countries individually (see IV.8 for details of China's interest in Mediterranean ports). Greece's defection from this China-Mediterranean forum to join the 17+1 platform is a clear sign that it is failing to get off the ground.

Lastly, initial steps have been taken towards regional cooperation between China and five 'northern' European countries: the three EU member states Denmark, Finland and Sweden and their neighbours Iceland and Norway. These Nordic countries already have a formal partnership. In February 2016 the five foreign ministers, meeting as the Nordic Council of Ministers, decided to explore the options for working with China in a 5+1 sub-regional format.<sup>121</sup> The only tangible result has been a meeting of the presidents of the six national parliaments. These countries, too, have relatively small populations and an interest in establishing a common framework to attract more attention from China as an economic partner. Currently, however, bilateral political tensions (see above, for example, under Sweden, and previously Norway) stand in the way of closer ties. The fact that the battle for technological dominance between the US and China is focused around the rollout of 5G networks – in which, besides two Chinese companies (Huawei and ZTE), the Swedish company Ericsson and its Finnish counterpart Nokia are major players –

119 Bogdan J. Goralcyk, 'Poland on the Route of the Chinese Silk Road: A Chance for Development or Just a Challenge?', in *New Structural Policy in an Open Market Economy*, edited by Justin Yifu Lin and Alojzy Z. Nowak, Warsaw, 2018, p. 221.

120 See Ekman, A., 'La Chine and Méditerranée: une présence émergente', *IFRI Center for Asian Studies*, February 2018, pp. 9-11.

121 See 'Sino-Nordic Relations: Opportunities and the Way Ahead', Institute for Security and Development Policy (Stockholm), November 2016, p. 6.

increases the pressure.<sup>122</sup> The AIV does not therefore expect the China-Nordic forum to reach full maturity.

### **III.4 Intermediate conclusion: faultlines and coalitions**

EU member states' bilateral relations with China provide insight into their motives and interests in deciding whether or not to adopt joint EU standpoints on specific issues and act together as a Union. The ten portraits above offer a first snapshot of the geographical, economic, security-related and ideological affinities and similarities between the member states in their relationships with China. We have also seen that regional initiatives that China has developed or tried to initiate with groups of countries from Eastern, Southeastern, Mediterranean and Northern Europe have been viewed and used by both sides primarily as serial bilateralism. There are therefore essentially 28 individual relationships with China, plus one between China and the EU as a whole.

In chapter V the AIV will examine the conclusions to be drawn from these country analyses, in light of Europe's strategic task and its position between China and the US (discussed in chapters I and II), and focus on the possibilities for overcoming the lack of internal consensus. Before doing that, we will look not only at the bilateral relationships with China but also at a number of salient policy issues (in chapter IV). For now, we restrict ourselves to an intermediate conclusion. In the AIV's opinion, the above analysis of bilateral relationships enables us to distinguish four groups of EU countries: the large member states, the smaller Northwestern European countries, Eastern and Southern Europe and, lastly, Hungary.

Firstly, the large member states: Germany, France and the United Kingdom. As major economic (Germany) and diplomatic (UK, France) regional powers, each of these countries has bilateral economic and political ties with China that are important to China as well as to them. For Europe's 'big three', 2016 was a turning point. The UK decided by referendum to leave the European Union and has since been seeking a new strategic orientation with both its EU partners and with China – a search whose outcome is still unknown. That same year Germany suffered its 'Kuka shock', in which China stole a march on the country's economic establishment in its own backyard with massive investments, including a takeover in high-tech industry. While China's acquisition of the port of Piraeus could be seen as a peripheral event (and was even welcomed by some German policymakers as an economic investment that reduced the financial burden and risks for Europe), the takeover of a jewel in Germany's technological crown was a visible blow. Since then Germany has been sounding the alarm in Brussels and among its European partners. It soon became clear that Berlin sets the tone regarding China in the EU, with the rapidly shifting debate on screening foreign investments in 2016-17 and the Commission's description of China in 2019 as not only a partner and a competitor but also a 'systemic rival'. France, economically less liberal and traditionally heedful of China's political aspirations, has followed Germany's lead, as has the Commission under President Jean-Claude Juncker. In short, with London leaving the Union, Berlin and Paris now acknowledge explicitly that they can no longer go it alone against China. French President Emmanuel Macron made this very clear with his invitation to Chancellor Angela Merkel and Commission President Juncker to join him at the Elysée Palace for Xi's state visit in March 2019. The announcement in April by Germany's economic affairs minister, Merkel's close confidant Peter Altmaier, that Germany, France, Spain and the UK would coordinate all future steps

<sup>122</sup> See Verhelst, K., 'Oostzeelanden zijn vruchtbare bodem voor 5G', *Financieel Dagblad*, 20 November 2018.



relating to the BRI fits this same pattern.<sup>123</sup> (The other two countries in the EU's 'big six', Italy and Poland, are already committed to the BRI.) The larger EU states feel the geopolitical pressure from China but, at the same time, are trying to maintain or regain a certain freedom to act with respect to the US.

The second group of smaller Northwestern European members states, including the Netherlands, Sweden, Finland and Denmark, are free-trade states that saw China, once it opened its markets in 1978-79, primarily as an economic opportunity. They have had to accept in recent years that their relationship with China also has a security dimension. They follow Germany in their economic policies, as their economies (particularly the Netherlands') are generally speaking closely interlinked with that of their powerful neighbour. At the same time, these countries take a firm stance towards China on values and human rights; their parliaments and public opinion demand that their governments adopt critical standpoints in these areas, if not with visible deeds then at least with audible words. For its part, China does not hesitate when it feels aggrieved to snub these smaller and therefore vulnerable countries, as occurred with the Netherlands and Denmark in 1997, Norway from 2010 to 2016 and Sweden from 2018. As a consequence, while these states are now starting to perceive a change in their relations with China, they have not yet fundamentally modified their strategic orientation. Most Northwestern European countries (except Belgium and Luxembourg) are reticent about taking major steps towards European integration; a few of them (like the Netherlands and Denmark) are particularly sensitive to pressure from the US, others less so (such as non-NATO member Sweden and Belgium, which sticks close to its larger neighbour France). In short, this group recognises the importance of joint European action but would rather put off reaching conclusions.

The third group comprises the countries of Southern, Eastern and Southeastern Europe. In the past decade they have enthusiastically opened their economies to Chinese investors and – like the northwestern countries – have tried to increase their share of the Chinese market. For the eastern countries the turning point was the 2008 financial and economic crisis, which struck a number of them (such as Hungary and the Baltic states) particularly hard. In 2012 the desire for closer bilateral relations crystallised in the 16+1 forum.<sup>124</sup> In the southern countries (Greece, Portugal, Italy and to a lesser extent Spain) it was the eurozone crisis, starting in 2010, that made them set their sights on China. The Mediterranean islands of Cyprus and Malta, also part of the southern group, show little loyalty to the EU in their dealings with China.<sup>125</sup> At the same time, the countries in this group are to some extent disappointed with what China has to offer them economically and know that their political and economic relationship with the European Union (and the US) is more important. In that sense, they are open to a counter-offer from Northwestern Europe and Brussels. Although this group does not yet see China as a serious strategic threat, they are in principle susceptible to geopolitical

123 See Daly, T., 'Europe Wants to Deal with China as a Group : German Minister', Reuters, 26 April 2019.

124 See chapter IV for more on the EU's policy on the Western Balkans (the southeastern countries).

125 Like a number of other European countries, both Malta and Cyprus sell 'golden passports' – and thus EU citizenship – to people who are willing to invest in their countries. Chinese nationals are the largest group of customers. See Calamur, K., 'The EU Wants to Clamp down on the Super Rich's Visa of Choice', *The Atlantic*, 23 January 2019 and 'Selling Citizenship is Big Business – and Controversial', *The Economist*, 29 September 2018.

pressure from Washington, because of the threat from either Russia (a strong argument in Poland and the Baltic states) or Turkey (an important factor for Greece). It is important to bear in mind the gradations and different experiences within this group. This applies for example to human rights, on which some eastern and southern countries (e.g. Estonia and on occasion the Czech Republic) are willing to join in robust criticisms.

Lastly, Hungary is in a category of its own. It is the only EU member state to openly flirt with China's autocratic model. Prime Minister Viktor Orbán, who has been in power since 2010 and now has a third consecutive mandate that will last until 2022, expects not only economic relief from Beijing but also political and diplomatic support, and is willing to make the EU pay the price for its deals with China. Orbán's illiberal domestic agenda is presenting the other EU member states with growing problems and, as we will see in the next chapter, is making official joint action against China on human rights more and more difficult. The challenge for the EU institutions and the value-driven northwestern countries will be to isolate Hungary and make sure that other member states do not follow its lead. In the AIV's opinion, to achieve that, besides the EU institutions' own much discussed financial instruments (such as regional funds), the member states could make more use of their bilateral economic relations with Hungary.<sup>126</sup>

The dynamics of this landscape of bilateral relations, with these four groups of countries as informal clusters, provide the indispensable background to understanding the salient issues to be examined in the following chapter.

126 Hungary receives a great deal of money in the form of direct investments from Germany (€2.1 billion in 2018). See 'Hungary Set New Foreign Trade Records in 2018', Hungarian Ministry of Foreign Affairs and Trade, 3 January 2019, and 'Hungary: Budgets and Funding', European Union.

## IV Issues between the member states

### Introduction

The government asked the AIV to identify the policy areas where the member states have no consensus with respect to China. This chapter focuses on these issues. They relate either to direct relations with China (e.g. screening Chinese investments) or the rise of China on the global stage (e.g. European industrial and competition policy).

In the previous chapter, to acquire a thorough understanding of the motives behind the positions of various EU member states on issues relevant to policy on China now and possibly in the future, the AIV described how the bilateral relations between a number of EU member states and China developed historically and how their geostrategic positions have evolved. Their standpoints are determined not only by the substance of a specific issue but often at least in part by how they place themselves strategically. The factors they take into account include the balance they seek to strike between openness and protection, the position they choose in the geopolitical dynamics between the US and China, their expectations of the European Union, and their awareness of their own unique value and the trump cards they hold in their relations with China.

In this chapter we will see that the nature of these motives partly determines what strategies can contribute to greater European unity and capacity to act.<sup>127</sup> For example, member states that have sought rapprochement with China in times of economic distress and have, for that reason, not signed EU statements on human rights might be persuaded to change their minds if they receive a favourable counteroffer. If, however, a member state's position is strongly motivated by ideology or security concerns, it is more realistic to seek ways of accommodating it, by for example urging the state concerned to abstain from voting (constructive abstention).

The joint policy area involved and the associated institutional frameworks also determine which strategies are available to promote a united European voice. For example, under the EU Treaty member states have agreed not to use their veto in Community policy areas like the single market or trade policy, making it possible to outvote a member state. That option is not available, however, in many areas where member states adopt different positions on China, either because decisions can be made only on the basis of unanimity (e.g. human rights) or because the EU has no competence in the area concerned (e.g. the signing of agreements relating to the BRI). In these areas member states seeking to act in concert on China have to find other options than majority voting. We will look at these strategies more systematically later (see V.4). In this chapter, we will first explore specific ways of reducing divergences, for example through informal coordination, or as a last resort ignoring a member state that wilfully blocks unity.

<sup>127</sup> For the strategies that the consensus machine in the EU has developed over the course of several decades to accommodate the diversity of the member states, see Philippart, E. and Sie Dhian Ho, M., 'From Uniformity to Flexibility: The Management of Diversity and its Impact on the EU System of Governance', in: G. de Búrca and J. Scott, *Constitutional Change in the EU: From Uniformity to Flexibility?*, Oxford/Portland OR: Hart Publishing, pp. 299-336.

For ten issues, the AIV has looked at (1) how the lack of unity among EU member states manifests itself, what lies at the root of the lack of consensus and what role China plays in this respect; (2) what is at stake for Europe and the Netherlands; (3) how Europe's capacity to act with respect to China can be increased and how the Netherlands can contribute to this; and (4) to what extent Dutch interests can and must be promoted through the EU.

The key criterion for selecting these themes was their relevance in answering the government's questions on how to overcome the lack of consensus within the EU. It was therefore not the significance of China's actions for Europe (e.g. Chinese investments in Africa) or of European-Chinese cooperation (e.g. for climate policy). These would be important issues in a report on the EU's China strategy as a whole. This report focuses instead on the government's request to propose strategies to promote Europe's capacity to act decisively with regard to China.

#### **IV.1 Market access and trade agreements**

China and Europe are two of the world's largest economies and trading blocs. China is the EU's second largest trading partner after the US, and the EU is China's largest trading partner. An enormously complex situation lies behind these imposing statistics, however. There are major differences between European countries, and between the forms and extent of the opportunities and challenges that member states and other countries' trade and investment in China and vice versa present. It is these differences and their consequences that make economic relations with China so complex, and that often make it difficult for the EU to agree on a coherent joint message. Unity achieved with such difficulty is also easy to undermine. It is difficult to convert the EU's undeniable economic power into political-strategic unity. At the same time the basic conditions for the EU to act as a bloc in its bilateral relations with China are at their most favourable in the area of trade.

Foreign trade has been an exclusive competence of the EU and its institutions since the 1960s, when a common external tariff was introduced. This means that bilateral trade agreements between individual member states and China are not permitted (as the UK, which would like to negotiate with Beijing before it has left the Union, is currently experiencing). In the area of trade the European Commission has a formal right of initiative and representation, and the preponderance of practical experience. The member states make decisions in the Council of the European Union and vote by qualified majority in this area of policy;<sup>128</sup> the European Parliament has rights of assent. Although the Council in practice rarely takes a vote, the 'shadow of the majority' looming over the table generally results in a process of give and take in which all member states make concessions and reach a consensus.

Three striking recent moments in the trade relationship between the EU and China illustrate this dynamic.

Firstly, in the summer of 2005, a conflict arose on textiles both within the EU and between Beijing and Brussels. After the textiles market was liberalised by the WTO at the start of that year, China exceeded the provisional ceilings and large consignments

<sup>128</sup> Under article 207, paragraph 2 of the TEU.

of textiles – 48 million pullovers, 17 million trousers and 4 million bras<sup>129</sup> – were seized in ports. While some member states feared empty department stores and higher prices for consumers, others were anxious about the survival of their own textile industries. European Commissioner for Trade Peter Mandelson (a British national) had underestimated the textile tsunami and lost control of the situation.

Secondly, in 2013, a dispute about solar panels almost led to a trade war between China and the EU. Supported by a large number of member states, the Commission, represented by Commissioner for Trade Karel de Gucht, wanted to invoke anti-dumping and anti-subsidy measures to restrict these state-subsidised imports from China. Germany, fearing Chinese reprisals against its car industry, secured unilateral European easing of the measures.<sup>130</sup> The member states' divergent standpoints on this issue varied with their degree of dependence on exports to China and thus their vulnerability to any Chinese import restrictions.

Lastly, the period during which China would 'automatically' acquire market economy status (MES) – 15 years after its accession to the WTO – expired in December 2016. That would have restricted the options for the EU and the US to impose defensive measures. In the run-up to this deadline France, Italy and Germany urged the Commission to prevent the granting of MES status to China, arguing that the People's Republic sought at the same time to preserve the official privileges it received as a developing country. So as not to offend Beijing the matter was kept low-profile and China's non-MES status was tacitly extended.<sup>131</sup>

These examples show a substantive, palpable shift in the customary positions of the 28 member states. 'Reciprocity', for example, ten years ago still an emotionally charged term for some, has become something of a shared keyword. Although not every member state has the same interest in access to the Chinese market, the principle is now generally accepted that opening European markets in a certain area – for example, public procurement – should be matched by an equivalent opening of the Chinese market. There is also an observable shift from an almost exclusively 'offensive' EU trade policy focused on removing barriers to the Chinese and other markets to a more 'defensive' policy aimed at protecting certain sectors of the European economy.

The AIV expects that conflict between member states within the EU in the coming years will be focused around finding the right balance between offensive and defensive trade policy. Countries like the UK, the Netherlands and Sweden have traditionally been more focused on opening foreign markets. They now acknowledge the need for protective measures, but remain on the liberal side of the spectrum in the internal debate. On the other side are countries like France, Italy and Spain, which have been more emphatically concerned for a longer time with protecting their own manufacturing industries. As a

129 See Cronin, D., 'Bra Wars and the EU's China Syndrome', *Politico*, 12 April 2014.

130 See Emmot, R. and Blanchard, B., 'EU, China Resolve Solar Dispute – Their Biggest Trade Row by far', Reuters, 27 July 2013 and Blenkinsop, P., 'EU Ends Trade Controls on Chinese Solar Panels', Reuters, 31 August 2018.

131 As recently as April 2019, in an internal procedure, the WTO ruled that the EU and US had correctly argued that MES is not automatic and that China did not yet fulfil the criteria. See Baschuk, B., 'China Loses Market-Economy Trade Case in Win for EU and US, Sources Say', *Bloomberg*, 18 April 2019.

major industrial exporter within the EU, accounting for 44% of all EU exports to China, Germany has a decisive voice in this discussion. This made the change of course by the influential Federation of German Industries (BDI) in January 2019 all the more significant. After focusing for many years only on the opportunities offered by China, the BDI referred to China in its substantial report on relations with the country as a 'systemic competitor' and called for a halt to the forced transfer of technology and infringements of companies' intellectual property.<sup>132</sup> EU representatives have been discussing these concerns with China for some time now, most recently at the EU-China summit of 9 April 2019.<sup>133</sup>

The Netherlands too recognises that protecting national interests calls for a trade policy that is both balanced and supported by all member states. Given the open structure of our own economy, it is in the Netherlands' interest to prevent the legitimate protection of certain industries from taking on the character of protectionism. That requires forming coalitions with like-minded countries and seeking a role in the German debate.

In light of the clearly divergent positions of the member states, the AIV recommends devoting greater attention at EU level to the strategic dimension of trade with China and the long-term consequences for industry in EU countries of systematic Chinese state support for companies exporting goods. This means that assessments of Chinese exports to the EU should take account, not only of the benefits for consumers, but also of the impact of state support for these exports on the corresponding European domestic producers. Now that the public debate has taken off on the consequences of this unequal playing field for European industry, we are seeing somewhat less diversity in positions between EU member states. This is because even countries where China's state-supported exports are not impacting as directly on domestic industries are becoming aware that they may fall victim to this uneven playing field in the future.

A consensus on defensive trade measures in response to Chinese state support for exports could gradually take shape as awareness takes hold in Europe and within the Chinese Communist Party that, as China's largest export market, EU member states have enormous leverage in demanding a level playing field for global trade. Countries that fear being relatively vulnerable to Chinese reprisals against defensive trade measures (e.g. Germany and its export industry) could be persuaded that EU measures can be seen as a credible threat that is also in the interests of an offensive trade policy.

Despite the varying interests within the EU, all member states have a vital interest in preserving the multilateral trade order as a whole, which is currently under tremendous pressure as a result of tensions between the US and China. There is no disagreement on this in the EU, and the coming years will be decisive for safeguarding an open global economy and prosperity in Europe, including the Netherlands. Much attention is rightly paid to how Europe is positioning itself in the trade war between the US and China. Europe shares the general concerns of the Trump administration about market access and intellectual property, but does not employ the same means and confrontational style

132 See 'BDI präsentiert 55 Forderungen zum Wettbewerb mit China', BDI, January 2019.

133 The recent joint statement from the EU-China summit seems to be a step forwards: both sides agreed that there should not be 'forced transfer of technology'. They also underlined the importance of following international standards for intellectual property protection and enforcement. The main question remains of course how and to what extent these pledges will be followed up with practical action.

towards China to achieve these aims. Both the US and China are currently moderating their most aggressive demands in their trade disputes with the EU, so as to focus on their main opponent. This explains not only why Washington has provisionally suspended carrying through its threat to impose import tariffs on cars, especially German cars, on grounds of national security, but also why China was so accommodating at the most recent EU-China summit. In the shadow of a potential escalation of the American-Chinese conflict, which certainly cannot be ruled out with US presidential elections being held next year, this relative relaxation of tensions with Europe offers only limited solace.

#### **IV.2 Strategic economic policy**

China's growing role and influence in Europe and awareness of the strategy behind it has led to a debate on the need for the EU to adopt a more strategic economic policy. This debate was initiated by the government and business communities in France and Germany (and to a lesser extent Italy), which are calling on the EU and its member states to pursue a more common policy to secure the future of European industry and the knowledge economy in light of China's strategic policy on industry, innovation, trade and investment. While market-based thinking predominated before the establishment of European policy on competition, industry, trade and innovation, there is a growing awareness that Chinese companies enjoy an enormous advantage resulting from the CCP's decision to take the lead in the next industrial revolution, and that China is mobilising massive public resources to achieve that goal.

China's efforts and successes throw new light on Europe's government investments in innovation, which are much smaller by comparison. They highlight European restraint in industrial policy and in supporting high-tech champions, Europe's openness to foreign investment, and the strict European rules in the fields of competition law, public procurement and state support.

At the same time economic openness and the completion of the single market have brought the European Union great prosperity, and member states like the Netherlands in particular are wary of protectionism in the single market in a new geopolitical guise. Lack of consensus between EU member states is a permanent danger, for example when countries that traditionally pursue a liberal course are not convinced that protection and countermeasures are necessary in response to China's strategic economic policy. Consensus is also at risk when member states disagree on making funds available for a stronger effort on innovation.

In December 2018, 18 EU member states called for a more ambitious and strategic European industrial policy.<sup>134</sup> The call coincided with discussions about a proposed merger between Alstom and Siemens, Europe's largest companies in the market for high-speed trains. The Commission's ultimate rejection of the merger on 6 February 2019 led to considerable frustration, especially in France and Germany. Within existing EU rules, which only permit the Commission to judge on the basis of the 'relevant market' (i.e. the single market), the Commission had little choice. For both companies, supported by the French government, global competition, from the Chinese company CRRC in particular, was the reason for the proposed merger. The Commission's decision contributed to the

134 See EPSC, 'EU Industrial Policy after Siemens-Alstom: Finding a New Balance between Openness and Protection', March 2019, pp. 1, 19.

French and German governments producing a manifesto for a European industrial policy, based on three pillars:

1. Pooling resources for large-scale investments in innovation;
2. Adopting defensive measures, including a European FDI screening mechanism (see elsewhere in this report) and a reciprocity mechanism for public procurement with third countries;
3. Changes to the existing European competition framework to take greater account of competition at global level and not only within the EU.

In addition the French and German governments proposed introducing the possibility of a right to appeal to the Council which, under certain conditions, could override decisions by the Commission.<sup>135</sup> In the AIV's opinion this could open the door to political intervention at the expense of the Commission's independent judgment.

For the AIV, certain elements of the above proposals go too far. However, it is worth considering to what extent internal EU rules on competition can also be applied to non-EU companies. The same applies to other areas of EU legislation. The recent changes to the EU's gas directive, for example, also make it applicable to gas pipelines to and from third countries (the 'Nord Stream 2 compromise'). In the annotated agenda of the European Council of 21 and 22 March 2019 the government also recognises that the EU must prepare itself for the new global context and explore whether unfair competition will increase from other parts of the world and, if so, what steps it can take to address the problem.<sup>136</sup>

The Commission has followed up on the Dutch government's request to issue a long-term plan of action to strengthen the EU's global competitive position. The European Council of March 2019 asked the Commission to determine before the end of the year how gaps in EU legislation can be filled, so that the disruptive effects on the EU's single market of foreign state participation in and financial support for companies can be adequately addressed.<sup>137</sup> Although China is not explicitly mentioned, this conclusion was clearly written partly with this country in mind.

The discussion on modifying and tightening up industrial and competition policy can be expected to be one of the main political debates in the new EU cycle from 2019 to 2024. This was clear from the paper prepared by the Commission for the informal meeting of 27 EU heads of government in Sibiu, Romania, on 9 May 2019. The Commission's paper underlines the importance of a modern industrial policy and an

135 See e.g. Efstathiou, K., 'The Alstom-Siemens Merger and the Need for European Champions', *Bruegel* blog post, 11 March 2019.

136 See Parliamentary Papers 21501-20, no. 1417.

137 See European Council Conclusions, 21-22 March 2019.



up-to-date competition policy.<sup>138</sup> The Netherlands must prepare for this debate in good time and, in doing so, keep a close eye on the strategic and geopolitical context. The government's letter to parliament of 12 May 2019, laying out its position on European competitiveness, shows that it is fully aware of this necessity.<sup>139</sup>

### **IV.3 Foreign direct investment screening**

In recent years there have been growing concerns about the nature, aims and scale of Chinese and other foreign investment in European countries. These concerns relate to the possible risks to national security, public policy and the strategic dependence of individual member states and/or of the EU as a whole.

Similar concerns have been expressed much longer in the US. The influential Committee on Foreign Investments in the United States (CFIUS) has intervened in various takeovers and investments on the basis of a perceived threat to national security. It recently ruled that the Chinese company Kunlun Tech had to sell the recently acquired dating site Grindr. Dutch companies too have fallen foul of the CFIUS; the Committee blocked Philips' plans to sell its division Lumileds, located in the US, to a Chinese investor.<sup>140</sup>

Although concerns about Chinese and other foreign investments are not shared equally by all EU countries, 14 member states saw sufficient reason to draw up national rules for screening investments from outside the Union so that, if necessary, they could be prevented.<sup>141</sup> A number of other countries are currently drawing up similar rules, while others are not setting up a national mechanism for the time being.

In September 2017, spurred on by the governments of Germany, France and Italy (which had in the meantime become less enthusiastic about FDI screening), the Commission issued a Communication on this issue. That has since led to a Regulation, after a relatively quick procedure – underscoring the widely recognised political importance of the issue – which entered into force on 10 April 2019.<sup>142</sup>

The Regulation is general in scope and not specifically aimed at China. Its aim is to create a European framework to address the possible risks of FDI for security and public policy. It includes a non-exhaustive list of factors that member states and/or the Commission can take into account when screening foreign investments. These factors are:

138 See Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Europe in May 2019: Preparing for a More United, Stronger and More Democratic Union in an Increasingly Uncertain World: The European Commission's Contribution to the Informal EU27 Leaders' Meeting in Sibiu (Romania) on 9 May 2019', p. 31.

139 Parliamentary Papers 30821, 21 501-20, no. 73.

140 See 'Nederland gaat buitenlandse investeringen toetsen op spionagegevaar', *Financieel Dagblad*, 19 April 2019.

141 The 14 states are Austria, Denmark, Germany, Finland, France, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, Spain and the UK.

142 Regulation 2019/452 of the European Parliament and of the Council of 19 March 2019.

- a. critical infrastructure, whether physical or virtual;
- b. critical technologies and dual use items;
- c. supply of critical inputs, including energy or raw materials, as well as food security;
- d. access to sensitive information, including personal data, or the ability to control such information;
- e. media freedom and pluralism.

The Regulation focuses mainly on the timely sharing of information on proposed foreign investments between member states and with the Commission. The Commission can use this information to assess whether the proposed investment poses a threat to security or public policy in several member states. The Commission can also conclude that a proposed investment is a threat to a programme or project of the Union as a whole, such as Horizon 2020, Galileo or trans-European transport, energy and telecommunications networks. The Commission's conclusions are not binding.

The Regulation does not make it compulsory for member states to screen foreign direct investments. They can still decide for themselves whether to do so.

Foreign investment, including Chinese investment, is of great importance to the Dutch economy. The government therefore does not want to introduce any unnecessary obstacles that could lead to uncertainty among potential well-intentioned investors. This may explain the government's initial reluctance regarding the Commission's original proposal.<sup>143</sup> In its response, the government stated that it was unclear why the goal of screening investments could only be achieved through a legislative instrument (a Regulation) and not, for example, through a Directive or guidelines based on best practices.<sup>144</sup> After the Commission had clarified its proposal, the Netherlands ultimately voted in favour of the amended Regulation. The Netherlands considered it important (and still does) that the Regulation did not infringe on national competences regarding public policy and national security, and that measures to promote economic security should not be used for protectionist purposes.

The government is currently fleshing out a screening mechanism to monitor the national security risks of takeovers and investments. As with the EU Regulation, the mechanism is general in nature and not specifically aimed at China, for example.<sup>145</sup>

#### **IV.4 5G networks and choosing Huawei equipment**

In a short time, the award of contracts for the new 5G network for mobile data traffic, seen as vital infrastructure for the future, has become a burning issue in the technological and economic-military rivalry between the US and China. Worldwide, only four companies can supply the necessary technology: Huawei and ZTE in China and Ericsson and Nokia in Europe. Of these four, Huawei is the most advanced in developing this new network at the lowest price, though it has only been able to achieve this

<sup>143</sup> BNC file of 1 December 2017.

<sup>144</sup> Parliamentary Papers 22 112, no. 2437.

<sup>145</sup> See Letter to parliament from the Minister of Justice and Security, 18 April 2019, Parliamentary Papers 30 821, no. 72.

through substantial state subsidies.<sup>146</sup> The US seeks however to prevent China from being the first to roll out 5G and is exerting pressure on its allies not to work with Chinese companies.<sup>147</sup>

That presents the Netherlands and other EU member states with a dilemma. The economic interests at stake are enormous. Any 5G provider other than Huawei could cost billions more, and reduced competition also pushes up the price.<sup>148</sup> In addition, Huawei products are already present in existing networks, routers and meter cupboards.<sup>149</sup> On the other hand, considerable security interests are involved. These fall into three categories. Firstly, there is the concern – although Western security services have no hard evidence to back it up – that Huawei is allowing or will allow the Chinese state to conduct espionage ‘through the back door’. As it happens, Chinese legislation adopted in 2017 calls on private companies to help government at all times. Although the espionage dimension appeals to the public imagination, for the AIV this is not the core issue. A second security risk is of greater importance: strategic dependence on Huawei and ZTE and indirectly on China. 5G would allow China to impose major technological standards in the future, especially if European companies like Nokia and Ericsson are squeezed out of the market. There would then be no other alternatives to Huawei and ZTE, giving China a monopoly on the supply of 5G infrastructure and its successors. This adds to the uncertainty about the possibility, China aside, of maintaining vital communications processes. Thirdly – a factor that points in the other direction – a ban on Chinese products by the US and its allies involves another security risk. Even if it targets specific products posing a security risk, with integrated supply chains and Chinese countermeasures, it would accelerate economic decoupling between the US and China.<sup>150</sup> That would essentially divide the world into two blocs, increasing the risk of a trade war and reducing the tempering effect of economic integration on political and military confrontation.<sup>151</sup> It could unleash an unpredictable chain of action and reaction.

The allocation of 5G frequencies is a national competence in the EU, as are considerations of domestic security. Political direction can be provided through the

146 This does not include additional costs to guarantee the security of the network.

147 See Van der Lugt, S., ‘EU-China Investments: The 5G Political Power Game’, *Clingendael Spectator*, 25 February 2019 and Kaska, K., Beckvard, H. and Minárik, T., ‘Huawei, 5G and China as a Security Threat’, NATO Cooperative Cyber Defence Centre of Excellence (CCDCOE), Tallinn, 2019.

148 The GSMA, which represents mobile operators worldwide, believes that the ban on Huawei and ZTE will make the development of 5G across Europe €55 billion more expensive and delay it by up to 18 months. See Gwénaél Barzic, ‘Europe’s 5G to Cost \$62 bn. More if Chinese Vendors Banned: Telcos’, Reuters, 7 June 2019.

149 See Hijink, M., ‘China zit al overal in onze netwerken’, *NRC*, 25 April 2019.

150 See Bermingham, F., ‘As Trade War Continues, Are the US and Chinese Economies Headed for a Messy Divorce?’, *South China Morning Post*, 20 June 2019; one expert is quoted as speaking of the ‘Balkanisation of supply chains’.

151 See ‘The Right Call on Huawei’, *The Economist*, 27 April 2019, p. 10.

European Council<sup>152</sup> or through coordination. The Commission launched its 5G Action Plan as early as 14 September 2016, with a clear road map and guidance for the EU-wide rollout of 5G at the end of 2020. A progress report is presented every quarter.<sup>153</sup> At the end of March 2019, to supplement these reports and at the request of heads of government, the European Commission made a number of recommendations on 5G: member states must carry out a risk assessment of their network infrastructure and review the security requirements by 30 June 2019, partly in light of the 'legal and policy framework in third countries'. The Commission encourages information sharing and coordination. After 1 October 2019 a Union-wide risk analysis will be published.<sup>154</sup>

In this constellation of forces some countries, like Belgium, are still waiting to see how the situation develops; others have already taken positions or are in the process of doing so. In the Netherlands the Economic Security Task Force will shortly be presenting its report to the government on the policy required to protect society and the economy, including future 5G networks, against threats like espionage. Roughly speaking, there are three groups of countries. The first group comprises countries that like Australia, New Zealand and Japan have followed America in banning Huawei; the first to do so in Europe were Estonia and the Czech Republic. Poland announced that it too would exclude Huawei after arresting a Huawei employee in January 2019 on suspicion of espionage.<sup>155</sup> For these countries, diplomatic pressure from their ally in Washington may have been the decisive factor. On the other side is a small number of member states, with Hungary at the forefront, that see no problems with Huawei as a partner.

Between these two extremes there is a substantial group of mainly large Northwestern European member states that are pragmatically seeking room to manoeuvre to more or less reconcile economic and security interests. Most notably, while the UK is a member of the Five Eyes alliance with the US, Canada, Australia and New Zealand, Prime Minister Theresa May resisted American pressure in April 2019 to exclude China by drawing a dividing line between the core and the periphery of the 5G network and allowing Huawei access to the latter. Germany is also willing to do business with Huawei, on condition (among other things) that it does not pass any data on to Beijing. France is also not explicitly excluding the Chinese company in advance, although security will weigh heavily in Paris when the time comes to award contracts.

There is a growing awareness that selecting a 5G provider is not purely an economic or technological choice but also a strategic move (deliberate or not) in the US-Chinese rivalry. Given that this is not a simple matter of take it or leave it (there is as yet no equivalent alternative for Huawei, even though Europe has been working on the rollout of 5G technology since 2016), core European countries are pragmatically attempting to limit the security risks without relinquishing the economic benefits. In the AIV's view, the more EU member states follow the British and German example the greater the political

152 See European Council Conclusions, 21-22 March 2019.

153 See Pujol, F., Manero, C. and Jaffel, T., '5G Observatory Quarterly Report 3: Up to March 2019', European Commission, April 2019.

154 See Commission Recommendation (EU) 2019/534, 'Cybersecurity of 5G Networks', 26 March 2019.

155 See Plucinska, J. and Koper, A., 'Poland Set to Exclude China's Huawei from 5G Plans', Reuters, 24 January 2019.

added value will be of maintaining a degree of elbowroom between the US and China. In addition, it is important for the EU to itself continue investing in 5G, support its own companies, safeguard competition and not become strategically dependent on only one or two Chinese actors.

Concerns about China's growing technological presence in Europe led to the EU Cybersecurity Act being adopted by the Council of the European Union on 9 April 2019.<sup>156</sup> The Act introduced EU-wide cybersecurity certification for products, processes and services sold in the EU, thus potentially solving some of the problems like inadequate or erroneous programming. It also strengthened the European Agency for Network and Information Security (ENISA).

Huawei is also taking action to protect its position on the European market. On 5 March 2019, in the presence of representatives of the European Commission, it opened the Huawei Cyber Security Transparency Centre in Brussels.<sup>157</sup> The centre was set up to support the development of standards and certifications and restore public and official confidence in Huawei products.

#### **IV.5 Arms 2.0: export of goods and technology with potential military applications**

In 1989 the EU imposed an arms embargo on China in response to the violent suppression of the Tiananmen Square protests. The embargo has not prevented several member states – notably France, Italy, the UK and Germany<sup>158</sup> – exporting goods to China since the 1990s, including helicopters and ship's engines, that have contributed to the modernisation of the country's armed forces. Despite this partial access to Europe's defence industry, China has long insisted that the embargo be lifted. In 2003-2005 France and Germany advocated its lifting within the EU, which requires a consensus of the member states. Although it seemed likely for some time that the embargo would be lifted, in the end it remained in force (see chapter II.1). Since then the issue has no longer been on the EU's agenda, partly because it is clear that lifting the ban would be unacceptable to the US, but China continues repeatedly to raise it. The Chinese government's most recent policy document on the EU also calls for the embargo to be lifted as soon as possible.<sup>159</sup>

Yet the embargo no longer plays a major role in bilateral relations between China and the EU.<sup>160</sup> The main reason is that the focus of China's requirements for military modernisation has shifted from material goods like weapons systems and vehicles to advanced technology. Much of this technology is owned by companies or research

156 See Text adopted by European Parliament on a proposal for a Regulation on ENISA and on Information and Communication Technology cybersecurity certification, first reading, 12 March 2019.

157 See 'Huawei Cyber Security Transparency Center Opens in Brussels', Huawei, 5 March 2019.

158 For deliveries by France, Germany and the UK in particular, see Bräuner, O., Bromley, M. and Dachâtel, M., 'Western Arms Exports to China', SIPRI policy paper, January 2015.

159 See China's Policy Paper on the European Union, December 2018.

160 See Duchâtel, M. and Bromely, M., 'Influence by Default: Europe's Impact on Military Security in East Asia', European Council on Foreign Relations policy brief, May 2017.

institutes and does not have a specific military application, but can be of considerable importance directly or indirectly for states' military capabilities. While the EU arms embargo is partly losing its practical significance (its symbolic value, as a token of Europe's rejection of China's human rights policy, remains considerable), legislation on export controls is gaining in importance.

Central to that legislation is the EU's Common Position on arms exports,<sup>161</sup> which forms the core of the Union's export control policy. Applications for licences to export military goods are screened against eight criteria, including complying with international commitments, respecting human rights and international humanitarian law, preserving regional peace and stability, national security and the risk of the goods being diverted. Particular attention is paid to 'dual use' items, i.e. items which can be used for both civil and military applications. A European Regulation defines which of these items require an export licence; the list is regularly updated.<sup>162</sup> In September 2016 the Commission submitted a proposal to update the list itself. There is certainly good cause to modernise the list, given the need to control exports of cyber surveillance products in the interests of protecting human rights. This is an issue in the relationship with China.

The US too is taking steps to restrict the transfer of advanced technology from Europe to China. It is currently expanding its export control regime, which will shortly include a large number of 'emerging and foundational technologies', including artificial intelligence.<sup>163</sup> For its part, China too is preparing new export control legislation. Through extraterritorial jurisdiction, both the American and the proposed Chinese legislation apply to European companies that make use of either country's technological knowledge.<sup>164</sup> The geopolitical rivalry between the US and China is increasingly affecting high-tech sectors, not particularly in traditional defence industry but in a wide variety of technologically advanced companies in the regular (civilian) market.

Now that China has in practice accepted that the European arms embargo is unlikely to be lifted in the foreseeable future, it is focusing its efforts on safeguarding its future access to European high-tech by persuading Europe through diplomacy to remove its restrictions on the export of high-tech products. Although such products are not of interest solely to the arms industry, they do contain technologies that can potentially

161 See Council Common Position 2008/944/CFSP defining common rules governing control of exports of military technology and equipment, 8 December 2008.

162 Regulation EU 428/2009. The list of items requiring an export licence, which is regularly updated, is found in Annex I. For the policy and the legislation it is based on, see European Commission, 'Dual-Use Trade Controls' and Commission Delegated Regulation (EU) 2017/2268 of 26 September 2017 amending Council Regulation (EC) No. 428/2009 of 5 May 2009 setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items.

163 See Dickenson, S., 'New Restrictions on High Tech Technology Transfers to China', *China Law Blog*, 27 November 2018.

164 See McShane, J., 'A Closer Look at China's New Export Control Law', *Export Solutions*, 28 August 2018.

be used for military purposes, in line with the priorities of China's current industrial policy.<sup>165</sup>

An issue for the Netherlands is how to deal in the EU with the geopolitical pressure from the US and China. American pressure can partly be explained by differences with the EU regarding enforcement. The US has considerable federal enforcement capacity, it imposes heavier sanctions for export-related violations, and it applies the principle of extraterritoriality. Given the increased willingness of the US government to enforce its legislation and the many extradition agreements it has with other countries, failure to comply with American export control rules poses significant risks for both organisations and individuals, including those outside the US. The risks of not complying with the legislation of the EU and its member states are lower.<sup>166</sup>

For the Netherlands it is important to protect Dutch companies in industries where other EU countries are competitors or have other interests. In this arena, the Netherlands supports the proposed modernisation of the Dual Use Regulation. It is also trying to promote a level playing field in Europe by advocating EU-wide instruments to replace separate national measures for export controls on cyber surveillance technology.<sup>167</sup>

The shift in the focus of attention from the traditional weapons industry to high-tech in a broader sense means that a larger part of Europe's economic production is being or will be affected by arms export regimes. This is leading to greater diplomatic tension, especially in the transatlantic relationship, and economic uncertainty for European companies, but will also make it possible to reduce the sharpest differences within Europe on this point. While the arms embargo was a thorn in the side of Europe's larger arms exporters after 1989 (while affecting other member states' economies less), the ban on high-tech exports to China is affecting many more countries. The dividing lines are becoming less pronounced. In other words, in material terms the situation is becoming more difficult, but more member states are in the same boat, raising the possibility of their working together in the arena of Chinese-American rivalry.

#### **IV.6 Human rights**

Thanks to China, human rights are a core issue for the Netherlands' strategic task in Europe. Considerable political attention is paid in the Netherlands to the human rights situation in China, while China has made it clear that it does not appreciate intervention in its domestic affairs. Until a few years ago the US took a strong position on the human

165 See Duchâtel, M. and Bromely, M., 'Influence by Default', op.cit., p. 9. China's industrial policy priorities are outlined in the document 'Made in China 2025'. For more on this programme see Wübbecke, J., Meissner, M., Zenglein, M., Ives, J. and Conrad, B., 'Made in China 2025: The Making of a High-tech Superpower and Consequences for Industrial Countries', *Mercator Institute for China Studies*, 2, December 2016.

166 See Antzoulatos-Borgstein, B., 'Een introductie in Export Controls en Compliance', *Militair Rechtelijk Tijdschrift*, V, Volume 2018.

167 See 'Het Nederlandse wapenexportbeleid in 2017', *Parliamentary Papers* 22054, no. 294.

rights situation in China, but recently its efforts seem to be weakening.<sup>168</sup> While it is important for the Netherlands to act through the EU on this issue, there is frequently insufficient unity among the member states, as has become painfully and publicly clear. Against this background the Netherlands is working with like-minded countries to find solutions.

Since the violent response to the protests on Tiananmen Square in 1989, human rights have been a prominent theme in the Netherlands' policy on China, based on broader human rights policy as a cornerstone of Dutch foreign policy.<sup>169</sup> This also applies to the current government, which announced in its coalition agreement that the budget of the Human Rights Fund would be increased,<sup>170</sup> with special attention devoted to freedom of expression, including internet freedom, freedom of religion and belief, equal rights for women and girls, support for human rights defenders, equal rights for LGBTI people, and the international legal order and the fight against impunity.<sup>171</sup> The 2018 Human Rights Report noted that the international trend is unfavourable, which calls for a robust response from the government, out of conviction and to protect the Netherlands' interests.<sup>172</sup>

The Netherlands' May 2019 policy document on China explicitly mentions the deteriorating human rights situation in the country. Civil and political rights are under particular pressure, civil society space is limited and human rights defenders are obstructed in their work or even convicted of criminal offences.<sup>173</sup> The House of Representatives is also alert to the human rights situation in China, as shown by a series of broadly supported motions on, for example, freedom of religion and belief and the rights of Uighur Muslims and other minorities in the northwestern province of Xinjiang.<sup>174</sup> As part of a campaign that the Chinese government claims is aimed at combating extremism and terrorism, up to a million (by UN estimates) Uighurs, Kazakhs

168 See Lum, T. 'Human Rights in China and U.S. Policy: Issues for the 115th Congress', Congressional Research Service, July 2017, p. 1.

169 Van Leuven, L.J.P.M., 'Het Nederlandse mensenrechtenbeleid ten aanzien van China: Hoeksteen of in de hoek gedreven?', Utrecht University, 2014.

170 See 'Confidence in the Future', Coalition Agreement 2017-2021, VVD, CDA, D66 and ChristenUnie, p. 52.

171 See Kamerbrief over de intensivering van het mensenrechtenbeleid, Parliamentary Papers 32 735, no. 227.

172 See Ministry of Foreign Affairs, 'Mensenrechtenrapportage 2018: Inzet en resultaten buitenlands mensenrechtenbeleid', p. 5.

173 See Ministry of Foreign Affairs, 'The Netherlands and China: A New Balance', policy document, May 2019, section 3.1.2, 'Human rights'.

174 See for example Motion by MP Tunahan Kuzu on the immediate closure of Chinese re-education camps, 2018-2019 session, 35 000 V, no. 42; Motion by MP Lodewijk Asscher et al. on an international enquiry into the situation of the Uighurs, 23 987, no. 337 (both in Dutch).



and other mainly Islamic minorities are being held in numerous 're-education camps' in the province.<sup>175</sup>

In times of globalisation, human rights policy on China concerns not only the rights of Chinese people in China, but also the rights of Dutch nationals. This includes business people, researchers and journalists working in China and Uighurs in the diaspora who have acquired Dutch nationality. The worldwide technological competition around, for example, artificial intelligence and facial recognition will also affect many people's human rights and privacy.<sup>176</sup> The application of new technology in China for the surveillance of private individuals shows how innovation can be used to restrict human rights. These trends mean that the Netherlands' human rights policy can no longer be based purely on the ethics of bearing witness and showing solidarity with people in far-off countries, but must also address domestic security and protecting our own citizens. A lack of engagement with China's internal situation can thus affect us directly.

This situation is even more of a challenge now that China's human rights discourse and actions in the international arena have become much more assertive in recent years, in two ways. Firstly, China no longer responds defensively or tries to keep a low profile in deflecting criticism in the UN Human Rights Council, but is increasingly focusing its diplomatic efforts on changing the very concept of human rights. It is doing so by appealing to sovereignty, internal stability and socioeconomic development as fundamental values of the international order, on an equal footing with individual, democratic freedoms. China's behaviour shows that it considers the latter group of values subordinate to the former.<sup>177</sup> In 2017 China successfully persuaded 140 countries to support a statement in the Human Rights Council endorsing the goal of 'building a community of shared destiny for humankind', the main theme of a speech by Xi Jinping at the UN in Geneva in January 2017. In June of the same year the speech was a source of inspiration for the first human rights resolution China introduced, entitled 'The Contribution of Development to the Enjoyment of all Human Rights'. Despite criticism from the US and EU member states that the resolution suggested that countries could relax their human rights commitments in the interests of development, it passed by a large majority.<sup>178</sup> Given the great support that China enjoys among poorer countries, in which it invests heavily (see also IV.7 on the BRI), the EU can only combat this Chinese discourse politically by winning back democratic developing countries at the UN for the cause of classic human rights.

175 See for example the statements by Gay McDougall, Co-Rapporteur for China for the UN Committee on the Elimination of Racial Discrimination (CERD), and by UN High Commissioner for Human Rights Michelle Bachelet 'Bachelet presses China for U.N. access to Xinjiang's Uighurs', Reuters, 6 March 2019.

176 Ministry of Foreign Affairs, 'The Netherlands and China: A New Balance', May 2019, section 3.1.2, 'Human rights'.

177 See Okano-Heijmans, M.O., Van der Putten, F.P. et al., 'A United Nations with Chinese Characteristics?', Clingendael Report, 2018.

178 See Van der Putten, F.P., 'Case Study 1. Human Rights: Breaking the Western Monopoly of Discourse in Human Rights' Issues', in: *Ibid.*, pp. 6-10.

Secondly, a more assertive China is adopting a sharper tone in setting limits on other countries' criticism of its human rights situation, by invoking its national sovereignty.<sup>179</sup> In its most recent Policy Paper on the European Union, the CCP stated its willingness 'to conduct constructive exchanges on human rights on the basis of equality and mutual respect in the hope that these exchanges play a positive role in promoting China-EU relations and common progress on human rights'. It added, however, that 'the European side should view China's human rights conditions in an objective and fair manner and refrain from interfering in China's internal affairs and judicial sovereignty in the name of human rights'.<sup>180</sup> In short, China has its own narrative, is hardly bothered any more about damage to its reputation, and feels justified and strong enough to demand that other countries keep their opinions to themselves.

<sup>181</sup>Against this background, when announcing the publication of the Netherlands' policy paper on China, foreign minister Stef Blok concluded, 'Without Europe, we cannot deal with China'. The Hague experienced this at first hand in 1997 when, as rotating president of the Council of the European Union, the Netherlands submitted a resolution critical of China in the UN Human Rights Commission. China responded by cancelling a planned Dutch trade mission.<sup>181</sup> Like-minded countries had been trying to submit similar resolutions to the Commission since 1989, but China had always succeeded in obstructing them. Support among EU member states for such public denunciations of China has declined over the years; reluctant member states expressed concern at the EU's loss of face at the UN due to a series of failed China resolutions. There was also increasing resistance from the 'Airbus group' of large member states – France, Germany, Spain and Italy – which wanted to keep relations with China cordial because of their significant economic interests in the country. Like the Netherlands, Denmark also suffered reprisals from China in 1997. In response to the division within the EU, Denmark submitted a resolution criticising China directly to the Human Rights Commission, outside the framework of the EU. Both countries became the target of Chinese countermeasures without this prompting any clear reaction from the EU. After 1997, as a result of these experiences, Dutch and European policy largely followed the long-standing German tradition of quiet diplomacy with China on human rights so as not to jeopardise its close economic ties with the People's Republic.<sup>182</sup>

179 Ibid.

180 See China's Policy Paper on the European Union, December 2018.

181 The UN Human Rights Commission was replaced by the Human Rights Council in 2006.

182 See Wong, R., 'Towards a Common European Policy on China?: Economic, Diplomatic and Human Rights Trends Since 1985', *Current Politics and Economics of Asia*, 17/1, 2008, pp. 155-81; Malcontent, P.A.M. and Huijboom, A., *De Nederlandse inzet in de VN-Commissie voor de Rechten van de mens* ('Dutch Activities in the UN Human Rights Commission'), The Hague: Policy and Operations Evaluation Department (IOB), 2006.

In recent years, however, we have again been seeing initiatives by EU member states, including Germany, to publicly condemn China's human rights violations.<sup>183</sup> Now, however, there are other member states that show scant enthusiasm for public denunciations of China. In March 2017, for example, Hungary refused to sign a joint letter condemning the reported torture of imprisoned lawyers. Diplomats claimed that Hungary's stance prevented the European Union from signing the letter as a bloc, though a number of individual member states did sign it.<sup>184</sup> They even alleged that Hungary threatened not to sign such statements in all similar future cases.<sup>185</sup> There was less public attention to the fact that the Netherlands also refused to sign the letter, probably in accordance with the self-imposed rule – adopted after its clash with China in 1997 and followed until recently – that it would only join in such statements if there were a quorum of ten EU member states, including Germany, France and the UK.

A second painful lack of unity was manifest in June 2017, when Greece blocked a critical EU statement on China in the UN Human Rights Council. It was the first time that the EU was unable to agree on a joint statement in the UN's main human rights body since it was established in 2006.<sup>186</sup> At a time when it was under pressure from international creditors and receiving limited investment support from EU member states (for the port of Piraeus as an example, see IV.8), Greece's position was linked to its desire to attract Chinese trade and investment.

According to the European Think-tank Network on China (ETNC), which studied differences in standpoints on these issues in the EU, the member states can be divided into four groups. Germany, Sweden and the UK have an active human rights policy: they speak out publicly, address sensitive issues with their Chinese counterparts behind closed doors, and form human rights partnerships in China. The ETNC places the Netherlands in a second group, with Belgium, Denmark, France and Norway (included in the study though not an EU member state). These countries also pursue an active policy

183 The reason given for this more critical attitude is the deteriorating human rights situation in China, but it could also reflect greater scope in domestic politics now that the business community in Germany and other large EU member states like France is equally apprehensive about the consequences of China's rise on the international stage. As a result, for the first time in many years, opinions in human rights, security and business circles have converged towards a more robust approach to China (in this connection see III.1 for Germany's pivotal year in 2016 and II.2 for a similar reversal in American policy).

184 The letter – from ambassadors and *chargés d'affaires* in Beijing to China's Minister of Public Security Guo Shengkun – was signed by Australia, Canada, Japan and Switzerland, together with seven EU member states (Belgium, the Czech Republic, Estonia, France, Germany, Sweden and the UK). See Denyer, S. and Ruhala, E., 'Eleven Countries Signed a Letter Slamming China for Torturing Lawyers; The U.S. Did Not', *The Washington Post*, 22 March 2017.

185 Ibid.

186 A comment by a spokesperson of the Greek foreign ministry echoed Xi's speech from 2017: 'When the stability of a country is at stake, we need to be more constructive in the way we express our criticism, because if the country collapses, there will be no human rights to protect.' See Cuming-Bruce, N. and Sengupta, S., 'In Greece China Finds an Ally Against Human Rights Criticism', *New York Times*, 19 June 2017.

but are hesitant about exerting public pressure on Beijing.<sup>187</sup> A third group, including the Czech Republic, Latvia, Poland, Portugal, Romania and Spain, do not currently make public statements, preferring to leave that to EU spokespeople. Lastly, Greece, Hungary and Italy are the most passive and sometimes even obstruct the majority. The ETNC researchers offer three explanations for these differences. Firstly, there are diverging historical legacies. Most European countries have been less explicitly critical of China in their human rights policies since the mid-1990s, but this trend is noticeably stronger among younger democracies like the Czech Republic, Spain and Portugal than in older ones. Secondly, economic factors influence policies in unexpected ways. As the example of Germany shows, close trade and investment relations with China do not by definition correlate with restraint in criticising the country for its human rights situation. In some EU member states, however – not only Greece, but also Hungary and Romania – the hope of Chinese investment has affected their position on human rights. Thirdly, in some cases, Chinese pressure has led a number of European countries to review their policies. This happened in Denmark, France, the UK, the Netherlands and Norway after China imposed sanctions. In the case of France, Beijing imposed sanctions after President Sarkozy, as rotating president of the Council of the European Union, gave the Dalai Lama a prominent reception in Gdansk in 2008.<sup>188</sup>

EU rules do not allow disagreements on human rights to be resolved by voting. Human rights statements can only be made if unanimously adopted by all member states. The European Commission recently called for allowing qualified majority voting in a number of other areas, including EU positions on human rights in multilateral forums, by using the ‘passerelle clause’ in article 31 (3) of the Treaty on the European Union (TEU), in other words with a simplified revision procedure.<sup>189</sup> The ‘passerelle clause’ makes it possible to use qualified majority voting rather than unanimity in cases other than those specified in article 31 (2) of the TEU. However, this requires a prior unanimous decision by the Council, making it politically impossible at this time.<sup>190</sup> Restraint is also advisable, as outvoting a member state on a sensitive point of foreign policy can have political costs, for example by eroding legitimacy. This is why it is better, as the AIV explains in greater detail later (see V.4), to persuade a member state to use the option of ‘constructive abstention’ rather than a veto.

187 Given the government’s recent more proactive approach, the Netherlands now seems to belong more to the first group.

188 Rühlig, T.N., Jerdén, B., van der Putten, F.P., Seaman, J., Otero-Iglesias, M. and Ekman, A., *Political Values in Europe-China Relations*, European Think-tank Network on China, December 2018, pp. 11-17.

189 See Communication from the Commission to the European Council, the European Parliament and the Council, ‘A Stronger Global Actor: A More Efficient Decision-making for EU Common Foreign and Security Policy’, 12 September 2018, COM(2018) 647 final.

190 The letter from the Minister of Foreign Affairs on the BNC file on the Commission’s proposals stated that the government supported the Commission’s suggestion to decide EU positions on human rights in multilateral forums by qualified majority voting. The government noted a number of legal objections to applying the passerelle clause in this area, however. See House of Representatives, 2018-2019 session, 22 112, no. 2714, 4-5, and Senate, 2018-2019 session, 35114, no. A, Report on written consultations.

Another strategy is to take initiatives with like-minded countries within the EU. In this spirit the Netherlands adopted a rule of thumb in 1997, referred to above, only to sign statements on China if they had also been signed by at least ten other EU member states including the three largest. More recently, in line with its more activist stance, the Netherlands has occasionally deviated from this rule. The only member state that has systematically refused to participate in statements on China in recent years is Hungary. In the face of this willfulness, the other 27 member states have in some cases decided to ignore Hungary's veto and act together as 'the EU' in the international arena. As Budapest has not 'constructively abstained', these have not been EU statements in the full legal sense. They are no less politically important if the message from the 27 members states is 'forget that one member state; we are Europe'.

Such initiatives by like-minded EU-countries – including the 'EU minus one' variant – take on greater weight when other like-minded states from outside the EU join them. Under President Trump the US has withdrawn from the UN Human Rights Council, making transatlantic cooperation more difficult. In this situation two authoritative American political scientists called for setting up a 'G9' of democratic states and US allies; the nine states are Germany, France, Italy, the UK and the EU from Europe; Japan and South Korea from Asia; Australia; and Canada from North America.<sup>191</sup> When other democracies, like India and New Zealand, support a human rights statement on China, the absence of one or more signatories from the EU has less political significance. This therefore presents opportunities for the Netherlands to seek support for a resolute human rights policy both within and outside the EU.

#### **IV.7 Memorandums of Understanding on China's 'new Silk Road'**

In 2013, while visiting Pakistan and Indonesia, President Xi launched the biggest strategic project of his presidency, now known as the Belt and Road Initiative (BRI).<sup>192</sup> The BRI aims to improve land and sea communication links between countries across several continents through, for example, large-scale investment in infrastructure projects. Europe and Africa are the end points of these 'new Silk Roads', though for China its relations with the countries in its own neighbourhood – intermediate links in the chain like Pakistan, Indonesia, Vietnam and Malaysia – are strategically more important.

It is becoming increasingly clear that this infrastructure initiative is also aimed at deepening economic cooperation and achieving China's geopolitical and security goals. It includes exchanges in areas like science, technology and culture, and military, legal and counterterrorism partnerships. China is also using the BRI to set norms and standards for products, services, logistics, data and e-commerce, reducing over time its dependence on foreign, especially American, infrastructure and standards. That allows China to better control a broad range of international flows of goods, data, people and money. These developments give the BRI major political significance as a potential alternative principle for ordering international relations. In a recent report, the French

191 See Daalder, I.H. and Lindsay, J.M., 'The Committee to Save the World Order: America's Allies Must Step up as America Steps Down', *Foreign Affairs*, Nov./Dec. 2018.

192 The Chinese government initially used the name 'One Belt, One Road' (OBOR) but jettisoned this in 2016 in favour of Belt and Road Initiative, because of potential misunderstandings about the use of the English word 'one'. The name remained the same in Chinese.

Institute of International Relations (Ifri) spoke of 'competing forms of globalization'.<sup>193</sup>

For these reasons China is aiming to involve as many countries as possible in the BRI. EU member states are divided on participation in the initiative. A significant number (Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia and Slovenia) have already signed Memorandums of Understanding (MoUs) on the BRI. Some of these did so in the early years (Poland and Hungary in 2015), when the initiative seemed to primarily involve infrastructure investments. Now that China's strategic intentions with the BRI have become more evident, criticism of the signatories is increasing. Luxembourg was the latest EU member state to sign an MoU, on 27 March 2019, aimed at cooperation in the banking sector.<sup>194</sup> A few days earlier Italy became the first G7 country to sign an MoU, to the displeasure of EU non-signatories, including France and Germany, and in the face of intense pressure from the US.<sup>195</sup>

Concluding economic and other agreements with third countries is an area of national competence. This limits the options for completely preventing divergences within the EU on BRI agreements. There are, however, various ways of promoting more united action.

Firstly, the EU can counter China's offers to make infrastructure investments in member states with initiatives of its own. In September 2018, for example, the Commission and the High Representative presented the major EU initiative 'Connecting Europe and Asia: Building Blocks for an EU Strategy'.<sup>196</sup> With this infrastructure project the EU has recognised the increased political significance of the BRI as well as the value of its original objective of improved intercontinental links. These are in the interests of both Europe and China, and of the Central Asian countries through which the links pass, but should preferably be established on the basis of EU standards regarding human rights, transparency, working conditions and investment protection. This Brussels-variant connectivity initiative, which would benefit from stronger connections to efforts by member states, sends Beijing a message about Europe's strategic awareness and commitment to its own norms. In principle it could make participation in the BRI by member states and candidate countries less attractive.

Concerns over the BRI MoUs can be usefully divided into two categories: about their content and about the fact of their signature. As far as content is concerned, firstly, partly because of the confidential nature of the underlying agreements, the consequences of a member state concluding an MoU are not always clear to other EU countries. That causes disquiet, even though the MoUs are not legally binding. Recent signatories like Italy have warded off this criticism by stating that they have made the text 'EU-proof' and have not

193 See Ekman, A. et al., 'China's Belt and Road and the World: Competing Forms of Globalization', *Etudes de l'Ifri*, Ifri, April 2019.

194 See Van der Putten, F.P., 'Silk Road Headlines', Clingendael Institute, 3 April 2019.

195 On 23 March 2019. See Fonte, G., 'Italy Mulls Preliminary Belt and Road Deal with China', Reuters, 6 March 2019.

196 See Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, 'Connecting Europe and Asia: Building Blocks for an EU Strategy', 19 August 2018.

made any commitments that conflict with EU principles. Informally, member states share draft texts with each other and with the European External Action Service (EEAS), as a form of damage control behind the scenes.

In the AIV's opinion this improvised form of coordination should be formalised and strengthened as soon as possible. The screening mechanism for foreign investments (see IV.3) can be used as an example. That, too, is a national competence; there is no need to tamper with this principle to engage in coordination, a notification requirement and political pressure in order to at least know who is doing what and thus strengthen the Union. The BRI's strategic and substantive impact is sufficient grounds for such arrangements.

Substantive screening would not, however, remove the second cause for concern, the fact of the MoUs' signature. Even if the content of the agreement complies fully with EU standards, the signatory is still giving additional legitimacy to the BRI as a geopolitical project and an alternative model for the international order. It is telling that reports in the Chinese state media on the second major Belt-and-Road Forum in Beijing in April 2019 systematically emphasised the number of participating countries – the tally currently stands at about 130, and all newcomers are celebrated like new trophies. The US in particular sees the signing of a BRI MoU not primarily as confirmation of an economic partnership but as a profession of faith in Xi's political project, which China is using to acquire 'friends'.

In the AIV's opinion, the effect of the MoUs in legitimising China's geostrategic ambitions should not be underestimated. Each new signature strengthens China's international reputation. That calls for restraint. It is not in Europe's interests for an international organisation to emerge that competes with the OECD (on economic cooperation or industrial standards), let alone with the United Nations. That is what made Italy's signature of a BRI agreement this March such a blow. Understandable as it was that the government preferred not to condemn Italy for signing the agreement,<sup>197</sup> the AIV doubts whether it is truly the case, as the government claims, that bilateral MoUs between EU member states and China do not necessarily undermine EU unity. After all, the MoU meant more than a commitment to agreements made jointly as the Union. Shortly after Italy made its move, German economics affairs minister Peter Altmaier announced that Germany, France, the UK and Spain would coordinate any subsequent steps relating to the BRI (see also III.1, under Germany, and III.4). The AIV sees this initiative by non-signatory EU member states as a welcome step, which should lead to better and earlier coordination through official EU channels.

It is also important to take note of a second type of MoU that EU and other countries, including the Netherlands, are signing with China. These are mainly more developed countries joining with China in 'business partnerships in third countries'. Unlike the BRI MoUs, these agreements are not aimed at securing BRI projects – simply because more advanced economies do not need them – but at promoting cooperation with Chinese companies and/or banks on BRI projects in third countries. The German company Siemens, for example, signed an MoU with China's Belt and Road Construction Promotion Center at

197 See e.g. the government's response to questions from MPs on Italy's intention to link up with the BRI: Aanhangsel van de Handelingen, 2018-2019 session, no. 2263.

an event attended by Chancellor Merkel and President Xi.<sup>198</sup> Like BRI agreements strictly defined, these MoUs often reflect China's desire for a tangible result from a bilateral summit meeting, a desire that these countries are pleased to fulfil. As there is no question here of a relationship of dependence, the signatory countries can more easily avoid references to the BRI in the MoU and sometimes even include EU connectivity references in the text.<sup>199</sup> These projects do not legitimise the BRI in the same way.

In light of the criticism of member states that sign BRI memorandums, however, some restraint in signing such business partnerships is advisable. Particularly when these types of 'business' MoUs actually have no substance and function only as diplomatic lubricant, they can best be avoided. On the other hand, they can also be a vehicle for attempting to change Chinese practices through cooperation by making them more transparent and sustainable according to EU standards. This also calls for greater information exchange and coordination between member states.

In short: for both substantive and strategic reasons, China's Belt and Road Initiative calls for an active response (EU connectivity), with due regard for national competences, and for better coordination and at the very least explicit reference to EU principles in all MoUs concluded with China, both those directly related to the BRI and 'business' memorandums with an indirect link to the BRI. Lastly, European coordination is also useful in the run-up to BRI events like the Belt and Road Forum in Beijing in April 2019. On such occasions, too, EU member states need to exchange information in good time on, for example, possible Chinese rapprochement with their countries. The EU Delegation in Beijing plays an important coordinating and facilitating role in this respect, as was the case in April 2019 on the negotiations on the joint communiqué of the Leaders' Roundtable at the BRI Forum.<sup>200</sup>

#### **IV.8 Chinese investments in ports**

Chinese investments in European ports have risen rapidly in recent years. The state-owned company COSCO is an active and visible player in this sector. Its most striking investment was the acquisition of a majority interest in the Greek port authority of Piraeus in 2016. The company also has majority interests in the container terminals in Zeebrugge, Valencia and Bilbao, and minority interests in the terminals in Rotterdam, Antwerp and Vado, Italy. It has shown interest in Sines, Portugal, where calls for tenders are soon to be issued for expansion of the terminal. Another major Chinese investor is China Merchants, also state-owned, which has a 49% share in seven container terminals in France, Belgium, Malta and Greece through a joint venture with the French CMA CGM group. Lastly there is CK Hutchison, which has interests in 12 European container terminals (seven in seaports and five in inland ports). Hutchison is a private company located in Hong Kong, placing it at a greater distance from the Chinese state than COSCO and China Merchants.

198 See Okano-Heijmans, M. and Kamo, T., 'Engaging but not Endorsing: China's Belt and Road Initiative', Clingendael Institute, May 2019.

199 Ibid.

200 See Second Belt and Road Forum for International Cooperation, 'Joint Communiqué of the Leaders' Roundtable', 27 April 2019.



Public attention for Chinese investments in European ports focuses mainly on whether COSCO's involvement in Piraeus has made Greece strategically dependent on China to any significant extent. Western media have seen a link between this investment and the Greek veto in 2017 of an EU resolution on human rights problems in China.<sup>201</sup> This suggests that China might also acquire political influence in other relatively small European countries by investing in ports. Although it is reasonable to assume that COSCO's involvement in Piraeus affected Greece's veto in 2017, there are no indications that port investments offer China unique opportunities to acquire political influence in EU member states. There are many ways in which economic dependence on China can develop and lead to a degree of strategic dependence. Investment is one way, but it can also happen through trade relations. The German car industry, and therefore the German economy, is highly dependent on exports to the China, the world's largest market for cars.

Less prominent in the public debate but of greater importance is the combined impact of Chinese investments in ports in several member states on the EU's geopolitical position. A central factor is China's increasing influence on the transport of goods to and from the Union. Port investments are only one aspect of a process that also embraces China's involvement in global trade, shipping, shipbuilding, port financing and port management in third countries, and rail and air transport. The lion's share of goods exported from the EU are carried by sea. COSCO, which is a shipping company as well as a force in port management, is a prominent player in this wider arena. As the world's third largest container shipping company and member of an alliance that also includes CMA CGM, COSCO has considerable influence on the allocation of goods flows between European seaports. Through COSCO and China Merchants, the Chinese government has therefore acquired greater control, not only over China's own import and export flows, but also over those of European countries and of the EU as a whole.

Two current developments on the European side have implications for how this process will develop in the future. Firstly, there is the new European screening mechanism for investments, including those in infrastructure (see also IV.3). The mechanism does not block new Chinese investments in European ports, but does increase communication and coordination on those investments within the EU. Secondly, the EU's existing Consortia Block Exemption Regulation, which allows shipping companies to form alliances without violating European legislation on competition, is due to expire in April 2020. The market for intercontinental container traffic is currently dominated by three consortia. The consortium system gives large shipping companies, including not only COSCO but also a number of European companies (with the Danish company Maersk as the biggest), a strong position in negotiations with European port authorities.<sup>202</sup> It is not yet clear whether the European Commission will extend the Regulation.

It is of great importance for the Netherlands' role as a logistics centre that a substantial share of goods flows between Europe and the rest of the world continue to pass through its ports without this leading to strategic dependence on China. The Netherlands cannot achieve this objective alone. Coordination within the EU is crucial in two respects. Firstly, the possibility of Chinese dominance of maritime transport lines is a geopolitical

201 See Barboza, D., Santora, M. and Stevenson, A., 'China Seeks Influence in Europe, One Business Deal at a Time', *New York Times*, 12 August 2018.

202 See Merk, O. et al., 'The Impact of Alliances in Container Shipping', *International Transport Forum*, 2 November 2018.

challenge for the EU as a whole. Given China's economic power as the world's second largest economy and biggest trading nation, combating that dominant position is beyond the capacity of individual EU member states. Secondly, China's involvement increases competition between European seaports. The EU's Atlantic seaports, including Rotterdam, have traditionally had a greater share of the Union's external trade than the Mediterranean ports. With China focusing strongly on partnerships with ports in Mediterranean countries, this difference is declining. A policy based one-sidedly on maintaining the status quo in market relations pushes the southern countries closer to China, making it easier for Chinese players to redistribute cargo flows over time to better suit China's economic and geopolitical objectives. This will probably lead to Mediterranean ports acquiring a greater share in the total flow of goods. It would therefore be wise for the Netherlands to focus more in the EU on preventing China from achieving a dominant position in maritime transport than on competing with other European countries with large seaports.

#### **IV.9 Chinese investments in the Western Balkans**

'We must find unity when it comes to the Western Balkans – once and for all. Should we not, our immediate neighbourhood will be shaped by others.'<sup>203</sup> These are the words of European Commission President Jean-Claude Juncker in his State of the Union address in September 2018. Although he did not mention them specifically when he spoke of 'others', he was undoubtedly thinking of countries like Russia, Turkey and China, whose influence in the Western Balkans is growing. This development is a cause for concern in the EU. Since the end of the Balkan wars (1991-1999), ethnic and other conflicts have been smouldering in the region and could easily flare up if competing foreign powers intervene. The prospect of accession to the EU – in the footsteps of regional frontrunners Slovenia (2004) and Croatia (2013) – has so far helped contain these conflicts. The recent agreement between Greece and North Macedonia about the latter's name is a good example of what the EU's power of attraction (and in this case NATO's as well) can achieve.

With regard to China, the concern is that it will try to promote its political model in Western Balkan countries, which often have weak governments and/or precarious financial situations, at the expense of the European model of liberal democracy. In addition, through investments, China can build up a strong economic position in candidate countries, which would give it automatic access to the European market after their accession. China's increasing influence is also clear from the MoUs that these countries have signed on the BRI (see IV.7). China is focusing in these partnerships on the transport, energy and manufacturing sectors. Despite China's involvement, the EU remains by far the largest trading partner for the Western Balkan countries, accounting for 73% of their trade. At 7.5%, China's share is much smaller. The EU is also the biggest investor in the region, with more than 60% of foreign direct investment, compared to only 3% for China.<sup>204</sup>

Serbia is the only country in the Western Balkans that has succeeded in attracting substantial Chinese FDI. It is the most important country for China in the region and has

203 See State of the Union 2018 address by Commission President Juncker.

204 See Zenelli, V., 'China in the Balkans: Chinese Investment Could Become a Challenging Factor for the European Future of the Western Balkans', *The Globalist*, 9 April 2019.

the largest economy. That is partly why, besides Chinese investments, trade between the two countries has risen considerably in recent years.

Another reason why the Western Balkans countries are open to Chinese loans and do not always give preference to European funding is that there are no strict conditions attached to Chinese credit. The EU imposes conditions relating to, for example, the rule of law, good governance and combating corruption. The thorough screening required to enforce these conditions also means that European bureaucracy is often slow.

Whether these countries will orient more towards China in the coming years depends not only on their bilateral relations with China but, at least as important, on their prospects of actually acceding to the EU. If they feel that accession is unlikely for a long time to come, they will probably look increasingly to China for trade and investment. Beijing's interests are obvious; not only do these countries have low labour costs, the region's location gives China the access it wants to Western Europe's markets, technology and knowledge.

On the European side, there is high awareness of the importance of continuing to bind the Western Balkans to the EU. This was evident, for example, at the EU-Western Balkans summit in Sofia on 17 May 2018, the first since the summit in Thessaloniki 15 years earlier. After the meeting, European Council President Donald Tusk said there was no other future for the region than the EU, adding: 'There is no other alternative, there is no plan B. The Western Balkans are an integral part of Europe and they belong to our community.'<sup>205</sup> In the Sofia Declaration the EU expressed its unambiguous support for the Western Balkans' European prospects. In practice, this takes the form of increased support for the rule of law, more cooperation on security and migration, support for socioeconomic development and greater connectivity. Through the summit, the Declaration and the pledge to organise a follow-up summit in Croatia in 2020, the EU hoped in the spring of 2018 to respond to the increased interest in the Western Balkans from Russia and China, despite the striking absence in the declarations of any reference to the two countries' involvement.

The Dutch government's letter to parliament of 9 May 2018 containing the annotated agenda of the Western Balkans summit also made no explicit reference to Russia or China. The letter did state explicitly that the EU's 'strict and fair' accession policy would remain unchanged.<sup>206</sup> In an earlier letter dated 23 February 2018, in response to the Commission's strategy on the Western Balkan countries' accession prospects, the government emphasised that it remained committed to this perspective. It did consider, however, that specifying 2025 as the date of possible accession by Montenegro and Serbia could become an end in itself, and be in tension with insisting on compliance with the criteria (for example, on strengthening the rule of law).<sup>207</sup>

205 See European Council, 'Remarks by President Donald Tusk after the EU-Western Balkans Summit', 17 May 2018.

206 See 'Geannoteerde agenda van de informele Europese Raad Westelijke Balkan', Kamerbrief 21 501-20, no. 1324 (in Dutch).

207 See 'Kabinetsappreciatie van de strategie van de Europese Commissie inzake een geloofwaardig uitbreidingsperspectief voor en versterkt engagement met de Westelijke Balkan', Kamerbrief 23 987, no. 219 (in Dutch).

This reasoning is understandable in itself, but because of geopolitical considerations it should not lead to the countries concerned having no or insufficient accession prospects. The responsibility for this of course lies primarily with their governments. A situation must however be avoided in which these countries increasingly shift their attention to China (and Russia) because their prospects for accession to the EU are dwindling. In the AIV's opinion, additional European efforts are required in all the areas specified in the Sofia Declaration, and the Netherlands should give these efforts its full support. This by no means implies closing the door to cooperation with China. It does mean that, in the Western Balkan countries as elsewhere, more effort is required to link Chinese investment in the region to the EU's agenda, including in the area of connectivity. Moreover, these countries should demonstrate their willingness to comply with European norms and standards as they prepare for EU membership.<sup>208</sup>

The Netherlands is not alone in having reservations about the possible accession of the Western Balkan countries to the EU. France, too, has serious reservations, and President Macron regularly emphasises that deepening EU integration has priority over enlargement. Countries like Slovakia, the Czech Republic, Slovenia, Bulgaria and Romania, which border on or are close to the Western Balkans, are much more positive about eventual enlargement of the Union than, for example, France and the Netherlands, and regularly point out its geopolitical importance.<sup>209</sup> Geopolitical factors also make the Western Balkan countries' possible accession to NATO a serious issue. This question however falls beyond the scope of this report, which focuses on the EU.

#### **IV.10 China's activities in the South China Sea**

The conflicting claims by China and a number of its neighbours to the numerous islands and reefs and the surrounding waters of the South China Sea have been a source of international tension for many years. The Chinese government claims some 90% of the whole area, alleging that the waters and islands have belonged to China for thousands of years. To strengthen its claims, China has considerably increased the size of a number of the islands and reefs in recent years, enabling it to build airfields and seaports on them for military use. Taiwan, Vietnam, the Philippines and Malaysia have also built military bases on several islands. After armed confrontations with (South) Vietnam in 1974 and 1988, tensions rose even further after the US entered the arena as a directly involved party in 2010, claiming that ensuring free passage in the South China Sea was in its national interest.

Under the international law of the sea, countries can count waters up to 12 nautical miles from their coastlines as their own territory, including any islands. The exclusive economic zone, within which countries can lay claim to gas and oil reserves, extends to 200 nautical miles. An important difference between how China and many Western countries interpret maritime law relates to whether foreign warships have the right to

208 See Stumvoll, M. and Flessenkemper, T., 'China's Balkans Silk Road: Does it Pave or Block the Way of Western Balkans to the European Union?', CIFE policy paper 66, 14 February 2018.

209 On 11 June 2019, on the eve of political consultations in the EU Foreign Affairs Council, the foreign ministers of 13 member states issued a statement calling for accession negotiations to be started with Albania and North Macedonia. The states were Estonia, Latvia and Lithuania; the Czech Republic, Hungary, Poland and Slovakia; Bulgaria, Croatia and Slovenia; and Austria, Italy and Malta. See 'Estonia Joins Declaration Supporting Western Balkan European Integration', *ERR News*, 11 June 2019.

enter a country's economic zone without permission. China is one of a small group of countries that believe this is not permitted, while the US and many other countries – including the Netherlands and most European states – think that coastal states have no right to exclude foreign ships from the zone.<sup>210</sup> China's strategic interests in the South China Sea have geopolitical dimensions (undisputed domination of major international transport routes), military dimensions (unobserved passage for nuclear submarines) and economic dimensions (fishing and energy extraction).

In January 2013 the Philippines initiated an arbitration procedure against China to challenge the legal basis of China's claim. To examine the case, the International Tribunal for the Law of the Sea (ITLOS) set up an arbitration tribunal under the Permanent Court of Arbitration in The Hague. On 12 July 2016 the tribunal announced that it had rejected a number of principles underlying China's claim on the basis of the United Nations Convention on the Law of the Sea (UNCLOS), which China has also ratified. China had, however, already stated at the start of the arbitration procedure that the tribunal did not have jurisdiction over this case because it concerned maritime borders and territorial waters about which China had submitted a declaration years before.<sup>211</sup>

Although the decision of the arbitration tribunal is binding under international law, compliance cannot be enforced. The European Union and its member states recognise the decision, but take no position on the sovereignty aspects of China's claims.<sup>212</sup> For various reasons, Hungary, Greece and Croatia ensured that the EU statement issued after the publication of the decision made no reference to China,<sup>213</sup> as a result of which it was little more than a cautious appeal to both sides to abide by the decision.<sup>214</sup> The US has taken a more outspoken position, and its warships deliberately sail close to certain islands to challenge 'excessive maritime claims' and show regional allies that it is able and willing to defend its military presence in the area. French and British warships have also sailed through waters that China considers part of its exclusive economic zone without first requesting permission.<sup>215</sup> China sees these manoeuvres as deliberate provocations and violations of its sovereignty.

The Netherlands attaches great importance to international law and the community of values on which it rests. Like France and the UK, the Netherlands believes that the

210 See Articles 58 and 87 of the United Nations Convention on the Law of the Sea.

211 See United Nations, 'Oceans and Law of the Sea: Declarations and Statements', 30 April 2019.

212 See High Representative, 'Declaration on the Award rendered in the Arbitration between the Philippines and China', 15 July 2016.

213 While the desire to find favour with China was most doubtless decisive for Hungary and probably for Greece, Croatia is apprehensive about recognising international arbitration on maritime disputes, as it is involved in a dispute with Slovenia on its sea borders.

214 See Mclaughlin, D., 'EU on Guard as China Builds Infrastructure and Influence', *Irish Times*, 22 November 2018 and Casarini, N., 'Beijing's Ambitions in the South China Sea: How Should Europe Respond?', *Instituto Affari Internazionali*, April 2018.

215 See 'France Challenges Beijing in South China Sea', *Straits Times*, 12 June 2018.

right to pass through the exclusive economic zone of other countries unannounced and without prior permission is universal and should be safeguarded. Germany also believes that China should be held to account more forcefully for violating its obligations under international law. Substantial Chinese investments in and strong bilateral relations with some member states like Hungary and Greece, however, help make it difficult to reach agreement within the EU on China's role in the South China Sea. Another member state, Portugal, agrees with China that there should be restrictions on military access to the economic zone of another country. That is why, in the AIV's opinion, it is necessary to work in a broader European forum – in any case with the larger EU member states – on a common European policy on the South China Sea, partly to translate the decision of the arbitration tribunal into a political position.<sup>216</sup> Because of the unanimity rule in this area and the political obstacles to a treaty change to make majority voting possible, the options for outvoting obstructionist member states are limited (see also IV.6, human rights). The Netherlands could however join forces with the larger EU member states to urge other member states, on the basis of article 31, paragraph 2 of the TEU, to constructively abstain rather than use their veto. That would also make it possible to reach a European consensus more frequently under the Common Foreign and Security Policy (CFSP) (see also chapter V.4).

216 See also the call to this effect in Dubbelboer, F., 'Scherpere keuzes voor Europa in de Zuid-Chinese zee', *Clingendael Spectator*, 6 November 2018.

# V Summary, conclusions and recommendations

## V.1 Main lines of argument

The rise of China presents a challenge to the international order based on the US and European model in which the Netherlands has flourished since 1945. The expectation of economic and political convergence – widely shared until recently – now has to make way for the more realistic prospect that China will not become a liberal democracy along Western lines in the foreseeable future. While economic stagnation or political unrest can certainly not be excluded, it would be advisable to assume that China's economy will continue to grow and the Chinese Communist Party will retain its power. China's immense population, together with three key strategic characteristics – a long-term perspective, the self-evident integration of security policy with economic interests, and a centralised government apparatus – make it an actor to be reckoned with (chapter I).

The resolute political leadership in Beijing is proactive and thus both able and willing to respond without hesitation to any action on the part of other major powers. This has resulted in a global game of action and reaction, whose outcome is unpredictable, in which China feels that time is on its side. Any action the US or Europe takes in respect of the People's Republic will therefore always have consequences. The integration of China into the global economy since 1978-1979 has had an enormous and unforeseen impact on international power relations and on American and European economies and societies. Similarly, any decision to reverse this growth in international interdependence – a prospect that currently enjoys considerable popularity in Washington (the 'decoupling of value chains') – will unleash a new series of events, including China flexing its muscles towards the EU (chapter II.1). This gives the strategic choices that the Netherlands and Europe will have to make regarding China in the coming months and years exceptional weight.

Against this background, the European Commission and High Representative of the Union for Foreign Affairs and Security Policy issued a Joint Communication in March 2019 identifying China as a partner, a competitor and a systemic rival of the EU.<sup>217</sup> That last term in particular attracted attention in Beijing. The Union is now making an effort to acknowledge and take account of the normative and other differences between the two systems so as to safeguard areas of cooperation where there are vital mutual interests. In the same spirit, the Dutch government published a policy memorandum on China in May, entitled 'The Netherlands and China: A New Balance'.<sup>218</sup> After a period of unqualified economic opening, the new guiding principle of the government's China policy is 'Open where possible, protective where necessary'. This change in the Netherlands' thinking brings with it the need for ongoing strategic reflection on what to protect and how, and calls for national and European decision-making arrangements for reaching such judgments.

In the meantime, the Netherlands and the other EU member states are having to deal with the US response to China's rise. The atmosphere in Washington has been

217 See Joint Communication to the European Parliament, the European Council and the Council: EU-China – A Strategic Outlook, JOIN(2019) 5 final.

218 See Parliamentary Papers 35 207, no. 1.

completely transformed in a short time, and the relationship between the two countries is now primarily seen through the lens of geopolitical, technological and economic rivalry (chapter II.2). That leaves less scope for cooperation and shared interests. The trade war unleashed by President Trump out of discontent with what he sees as extremely unequal bilateral trade relations with China and the country's unfair economic practices may escalate. The US is already exerting increasing pressure on its European NATO allies to choose its side in this conflict, for example by excluding the Chinese telecom company Huawei from 5G to prevent a situation of strategic dependence. European countries share many of America's economic and political concerns about China's evolution under Xi Jinping. We also share the US's core political values of democracy, the rule of law and human rights, and we are closely tied to the US through our security policy. At the same time, Europe must be able and willing to maintain a degree of strategic distance from Washington in some areas, for example because our interests do not run completely parallel to those of Washington for geographical reasons or because of our different industrial base. There is also considerable concern in the EU about how the Trump administration is disrupting the international multilateral system, for example, by sabotaging the Dispute Settlement Appellate Body of the World Trade Organization and withdrawing from the nuclear agreement with Iran, the Paris Climate Agreement and the UN Human Rights Council. This calls for careful positioning: certainly not 'equidistant' from Washington and Beijing – as our democratic system alone puts us closer to the US – but also not automatically following every move the Americans make in their rivalry with China.

In this constellation of forces – analysed in greater detail in the two opening chapters of this report – the Netherlands can only promote its interests vis-à-vis China to a limited extent on its own. As the government made clear in its policy document on China of May 2019, we have to do that together with our European partners. Internal division within the Union presents a serious handicap to this cooperation. This was the starting point of the request for advice that the government sent to the AIV in October 2018.

In this report, the AIV has sought the causes of the lack of consensus within the EU primarily in the member states' bilateral relationships with China (chapter III). In doing so, it has examined the bilateral relationship that ten EU member states – including Germany, Italy, Poland, Hungary, the Netherlands and Belgium – have with China (III.1). It goes without saying that it has analysed economic factors, such as imports and exports and/or Chinese investments. At the same time, it has proved useful to examine the bilateral relationships from a historical and political perspective. The often cited fault line between the Western and Eastern EU member states, for example, is grounded not only in economic differences but also in relations between the states of the former Soviet bloc and the People's Republic during the Cold War. The presence of a large Chinese community in a member state can also be a significant factor. These ten portraits of relations with China give an impression of the specific motives that members states may have for adopting a certain attitude towards the country. In this light, we have also examined the relationship between the EU and China in a narrower sense, as it has developed since 1975 (III.2), and a number of regional initiatives, including the 17+1 platform, in which China works with a group of countries in Central, Eastern and Southeastern Europe (III.3).

In an intermediate conclusion, the AIV has noted that, the many differences between the 28 EU member states notwithstanding, they can usefully be divided into four informal clusters. Firstly, there are the large member states – Germany, France and the UK – which can deploy their own economic and/or diplomatic influence in their bilateral relations with China, have their own security and economic policy interests and make their own



judgments about values. Secondly, there are the smaller Northwestern European member states, often free-trade states like the Netherlands, which have recently acknowledged the security policy dimension of their relationship with China and remain to some extent attached to a strong human rights discourse. Thirdly, there are the countries of Southern, Eastern and Southeastern Europe, which have opened themselves up to Chinese investments since 2008 but, in some cases, are disappointed in what China has to offer them. And lastly, there is Hungary, the only member state which flirts openly with the Chinese autocratic model (III.4).

The AIV has then examined how these differences between EU member states manifest themselves on specific issues (chapter IV). To that end, it has analysed ten policy issues that currently relate to China or are in play because of China and which give rise to internal division.<sup>219</sup> Attention was focused first on economic relations (including market access, screening of foreign investments and arms exports, IV.1-5). There have recently been exciting initiatives and substantive shifts in this area, and there is growing awareness that trade relations too have to be seen from a strategic perspective. The AIV then looked at human rights (IV.6), a key theme for the Netherlands and other countries, where there is a real shift in relations with China while the situation is deteriorating. Lastly, we have examined a number of geostrategic issues relating to China's Belt and Road Initiative (BRI), such as the Western Balkans and ports (IV.7-9), as well as Chinese actions in the South China Sea (IV.10). We have also analysed possible ways, depending on the political nature and institutional structure of the policy area in question, of moving beyond the current lack of consensus within the EU. In doing so, we have paid particular attention to the Netherlands' interests and values.

To make final recommendations, the AIV considers it useful to draw closer analytical links between a number of themes from the previous chapters. We will do so in three stages. First we look at the outcomes of the study from the perspective of Europe's strategic awareness, as introduced at the end of chapter II. We then give a more detailed explanation of member states' motives for adopting their different standpoints. Lastly, we present ways of overcoming these differences in specific areas in a systematic way.

The AIV derives its ten specific recommendations from this three-stage analysis in the course of the text. They fall into two categories. Recommendations 1 to 5 each refer to a specific aspect of a more strategic perspective on China, which the Dutch government can advocate within the EU or take initiatives to promote. Recommendations 6 to 10 concern – with reference to the government's request for advice – specific suggestions for tackling the differences of opinion within the EU and in doing so, increase the Union's joint capacity to act with respect to China, which will be in the Netherlands' interests.

## **V.2 Four strategic questions**

### *What is at stake (1)*

The first strategic question – which each EU member state and the EU as a whole need to address – is whether they are willing and able to determine what they wish to protect in their encounter with China, in terms of security, values, cultural tradition or whatever else. Awareness of what is at stake will underpin strategic reflection.

<sup>219</sup> For this reason, a number of key policy areas for our partnership with China, such as climate (where the divisions in the EU are not related to China) fall outside the scope of this report.

China's increasing impact on our societies, economically and more widely, is presenting us with new dilemmas. Firstly, it is making us reflect on the issue of openness versus protection. How far can a country open up its economy, infrastructure, universities, etc. to another – because that country will also benefit from it or because, as in the case of the Netherlands, cultural and economic openness is part of its self-image – and still remain itself and protect its interests? The government acknowledges this dilemma explicitly in its recent policy document on China. A second dilemma, which the government also acknowledges, comes from the Netherlands' desire to promote universal human rights and democratic values while, at the same time, furthering our economic, diplomatic and security policy interests. The tension between these two objectives has existed for a long time but has become much more intense in recent years. That is partly because China is decreasingly concerned about damage to its reputation, but also because globalisation brings China's human rights violations closer to the sphere of influence of EU member states. It is affecting the personal connections of nationals of member states (for example, family of members of the Chinese diaspora who have become EU citizens) and recently nationals from Europe and elsewhere directly (see the cases of Swedish citizen Gui Minhai and the Canadians Michael Kovrig and Michael Spavor). Our study of bilateral relations between EU member states and China has shown that these dilemmas of openness and values are mainly experienced by Northwestern European countries while, at present, countries in Eastern and Southern Europe are less troubled by them.

A third dilemma relates to the impact of China's rise on the restructuring of the international order. The tension here lies between the short-term economic benefits of participating in Chinese initiatives like the BRI and the risk of undermining international institutions in the longer term. Inasmuch as this issue relates to global governance, it is clearly considered more significant in Northwestern Europe than in Eastern and Southern Europe. This was apparent from the divergences along these geographical dividing lines on agreements relating to the new Silk Road (chapter IV.6). However, Western European countries, too, can sometimes show little hesitation in taking part in Chinese initiatives (in 2015, for example, the UK was the first EU country to participate in the Asian Infrastructure Investment Bank). By contrast, awareness of the geopolitical position of the EU as a whole is still low.

In short, in terms of growing awareness of what is at stake strategically, the Netherlands is part of a substantial group of countries that also includes Germany, France, the UK and the Scandinavian/Nordic member states, the other two Benelux partners and Ireland. This is an important conclusion. In the coming years, the Netherlands must work closely with these countries, share experiences with them and join with them in reflecting on perspectives for action. At the same time, we need to continue to engage in dialogue with member states that currently think or act differently to ensure that dividing lines do not needlessly deepen or become fixed, which will only make concerted European action more difficult in the longer term.

The AIV considers it essential that the Netherlands and the rest of Europe explicitly acknowledge the strategic dilemmas China poses for them. In its policy document on China, the government takes a major first step in addressing the question of openness versus protection. The AIV assumes however that this reflection is still only in its early stages. What we ourselves stand for, what is most dear to us in our society and what price we are prepared to pay to protect it will have to be considered both in greater depth and more critically in the years to come, by government and also in public debate. This debate can start by recognising that, in the EU countries mentioned above, a community of shared destiny has evolved historically with six pillars: a democratic state based on the

rule of law and individual freedoms; a social and sustainable market economy; the welfare state; a secular, pluralist society; knowledge based on science; and engagement with the international legal order.<sup>220</sup> Together, these pillars shape a European way of life, which it is the task of government to protect and develop further.<sup>221</sup>

Discussing and solving these strategic dilemmas require both new political and diplomatic structures and a substantive public debate.

As far as political and diplomatic structures are concerned, the AIV advises setting up new bodies, along the lines of the recently established ministerial committee on economic affairs and security (in The Hague, 2018/2019), the recently introduced mechanism for screening foreign investments (in coordination between Brussels and all EU capitals, 2017-2019) or the developments in the US National Security Council. As strategising in China does not fall into sharply compartmentalised policy areas, it is crucial for Dutch and European decision-making to integrate security policy-related, economic and strategic dimensions at the highest level, not only with respect to China but also to Russia and other geostrategic actors.

*RECOMMENDATION 1: The AIV recommends that the Dutch government advocate within the EU for the establishment of forums where an ongoing discussion can be conducted on economic and security matters and political assessments can be made. The start of the 2019-2024 political cycle in the EU – with a new Commission, and new president of the European Council and a new Parliament – is an opportune moment to submit such proposals. This can occur at various places in the EU executive, in line with thinking in a number of capitals, for example the European Council, the European Commission, the Council of the European Union or the European External Action Service (EEAS).*

First, it is important to place China more frequently on the agenda of the European Council, where security policy, economic and strategic issues should be addressed jointly. Besides the 28 heads of government and the Council president, the president of the Commission is a member of the Council and, when foreign policy decisions are on the agenda, the High Representative for Foreign Affairs and Security Policy also attends. The European Council therefore brings together the highest authorities in EU capitals and Brussels.<sup>222</sup> This is indispensable when discussing an issue like China, which has to be addressed at the highest level. As the European Council has been very much crisis-driven in recent years, good preparation is essential. The essential importance of involving the European Council in summits with major powers became clear in the strategic preparations for the most recent EU-China summit on 9 April 2019. For the first time, the summit was not prepared by the EEAS but by the cabinet of the European Council president, the Commission secretary-general and the permanent representatives of the member states (in COREPER II); in other words, by all the top-level advisers associated directly with European Council members.

220 See Dhian Ho, M., 'Europa tussen markt en gemeenschap. De terugkeer van identiteitspolitiek', *Beschermerslezing*, Camp Vught National Memorial, 28 January 2018.

221 See AIV advisory report no. 108, *Forming Coalitions in the EU after Brexit: Alliances for a European Union that Modernises and Protects*, July 2018.

222 Van Middelaar, L., *Improvisatie en oppositie: De nieuwe politiek van Europa*, Groningen: Historische Uitgeverij Groningen, 2019.

Second, partly to that end, the new president of the European Commission can designate a vice-president for economic affairs and security within the College of Commissioners. The vice-president would coordinate and supervise the commissioners' decision-making process and the preparation of decisions within their cluster, in line with existing or proposed procedures within the Commission for the clusters of foreign policy/defence, climate/sustainability and migration/Schengen.

Third, a Council for Economic Affairs and Security could be added as a new Council configuration, given that the configurations have remained essentially unchanged since 2002. The new Dutch ministerial committee could serve as an example. This initiative could encourage other member states to set up a similar body.

Fourth, the EEAS could play a greater role in supporting decision-making at the highest level by the European Council and the president of the Commission. If the EEAS does not perform this role adequately, the possibility could be considered of eventually setting up an EU equivalent of the US National Security Council. This body would advise the highest political leaders (meaning, in the EU, the European Council including the president of the Commission) on security policy and strategic considerations relating to other geostrategic actors and which concern the Union as a whole.

*If however a strategic discussion on the EU and China along the lines explored here does not get off the ground in the upcoming terms of the Commission president, the Council president and the Parliament, the AIV recommends that as a last resort the Netherlands set up this strategic forum with like-minded countries outside the structures of the Union. As with the Fiscal Compact concluded by 25 member states in 2011 during the eurozone crisis, which was agreed outside the EU Treaty due to a veto by the UK, the involvement of EU institutions and later possible embedding within the Treaty would not be excluded. Another reason for possibly setting up such a 'Eurogroup for Economic Affairs and Security' is that, in current circumstances, sensitive information cannot comfortably be shared with all member states.*

As far as the *content* of the debate is concerned, the AIV calls for a sharper focus on core European values. Just as China makes certain demands of Europe (on, for example, Taiwan, Tibet and non-intervention in domestic affairs) and the US formulates an increasing number of 'shoulds' for our China policy (see chapter II), the Netherlands and other European countries should define and uphold their 'red lines' more clearly. This must take place in full awareness that neither Beijing nor Washington have much patience with gratuitous criticism or with demands for autonomy that cannot be made good. For that reason, too, for most European countries only jointly adopted red lines are credible. Without wishing to anticipate the substantive debate, the AIV can imagine that it could focus on three clusters: firstly, our political values (democracy and the rule of law, human rights, privacy and freedom of religion); secondly, our core socioeconomic values, which could for example be safeguarded by international institutions like the WTO, the UN and the World Bank, and BRI-related agreements (single market rules, terms of employment, environmental standards, protection of intellectual property); and thirdly, our security interests and the core principles of the international order (to resist its disruption by China and/or the US, or the establishment of a parallel order). Drawing red lines is pointless unless it is backed up by the will and resources to implement or enforce them. Europe's China strategy must also make this strategic shift more explicit than was the case in 2016 (when it was last approved by the 28 EU governments) or in the substantively good proposal by the Commission and the High Representative in March 2019.

Answering these strategic questions more effectively particularly requires more knowledge of China. How the Chinese state and the Party evolve and work, what objectives the country sets itself and what resources it has at its disposal, what its strengths and weaknesses are, and how it may operate in the geopolitical arena are indispensable elements in the strategic positioning of the Netherlands and the EU. The government acknowledges the need for more knowledge about China and, in its policy document on China, recommends establishing a knowledge network bringing together policymakers from different ministries and experts from various disciplines in a public or semi-public environment.<sup>223</sup> The AIV believes that better knowledge of China is one of the keys to achieving greater European unity on relations with the country. After all, where politicians, policymakers and opinion leaders make judgments and decisions on the basis of relatively superficial observations,<sup>224</sup> the mood can easily swing one way or another, increasing the risk of abrupt changes of course and solo initiatives by member states. A solid knowledge basis does not in itself determine political judgments, but it does lay the foundations for well-informed strategic decision-making.

*RECOMMENDATION 2: The Dutch government can advocate in the EU for the next China strategy to state more explicitly than the current version from 2016 what is essential to the Union and what we need to protect. This is at the heart of strategic action, and of the efforts needed to make the strategy persuasive for the public. In the spring of 2019 the Commission and the High Representative issued a Strategic Outlook as a starting point for this debate, which still needs to be conducted by the member states. A complete update of the China strategy supported by all member states must express more strategically what Europe wants and demands from China, in terms of red lines and leverage (see below). It must make clear what China's status as not only a partner and competitor but also a systemic rival implies for our political choices.*

*The AIV also recommends that, during this new EU political cycle, the government advocate the establishment of a European knowledge network on China, preferably within the Commission, for example under the vice-president for economic affairs and security called for above. As with the Netherlands, better communications between departments in Brussels and ministries in national capitals, between different policy silos and between China experts from various disciplines could raise the level of knowledge of China throughout the EU as a whole. That could promote convergence in perceptions of the country in public debates.*

#### *The geopolitical playing field (2)*

The second strategic question relates not to what is at stake but to awareness of the geopolitical playing field. To what extent do European countries already feel the geopolitical tension between the US and China, and how far are they willing and able to adopt their own individual positions and maintain a certain margin of manoeuvre?

Generally speaking this awareness is still relatively weak, in government and among the wider public. The Dutch government's policy document on China also fails to address the issue or provide direction on how to deal with it. The situation is little different in other member states. However, looking beyond declarations of intent or expressions of loyalty to the US to practical policy choices, it is apparent that in practice some EU member

223 Parliamentary Papers 35 207, no. 1.

224 By way of comparison, how many more books and articles do European policymakers and politicians read about Donald Trump than about Xi Jinping?

states are seeking room to manoeuvre between the US and China (e.g. in the Huawei/5G dispute, see IV.4). The rule of thumb is that they choose the US in matters of defence and, where possible, China where the economy is concerned. The question is how long this tension can be dealt with, given the close link between the economy and security.

It is true that dilemmas caused by American-Chinese rivalry have only recently become more sharply defined. While the arms embargo imposed on the People's Republic after 1989 is less strict than it was (see IV.6), the US is stepping up the pressure on another, broad front focused around high-tech products. The focus has gone beyond arms exports to target products like semi-conductors, dual-use technologies and telecommunications. Most of this pressure currently comes from the US, but the AIV expects this to change. As the US imposes more and more conditions on Chinese access to European high-tech products – and possibly at a later stage also regarding Taiwan and the South China Sea – China will respond by imposing conditions of its own on European companies, or export restrictions on, for example, rare earth metals.<sup>225</sup> Most European countries are as yet experiencing relatively little pressure from either side, though there are concerns that it will increase. It has only recently been seen as an acute problem at national level (notably because of the 5G dispute).<sup>226</sup> That may bear witness to an underestimation of America's China policy and its expectations of Europe.

There is still little awareness that a policy on China is also a policy on the US and Russia, and even on India. That is unfortunate, as the EU must not only develop a consistent policy towards these major 21st-century geostrategic actors, but more importantly must have a coherent policy towards all three. Member states seem to assume that they have scope to adopt their own positions towards China and the US. However, only the big three European countries have the ambition to be geopolitically autonomous in their stance towards Washington and Beijing, irrespective of what the other member states do. The others merely seek to strike a balance between the two great powers without aiming to change the geopolitical situation, either by acting as an individual country or by taking the lead of a group of countries.

The AIV notes that European governments and public opinion still need to become accustomed to the forces that could be unleashed by the American-Chinese rivalry in the coming years. Washington's use of legal extraterritoriality (for example, in imposing sanctions against Iran) or its rather casual invocation of security policy arguments in trade conflicts (including against the EU: portraying the German car industry as a threat to US national security) are a foretaste of what can be expected from the US; China's initial retaliatory measures suggest what Beijing has in mind.<sup>227</sup> In light of the hypothesis that American pressure will increase to the point that there will be a 'decoupling' of technological value chains or even the formation of distinct economic blocs, it is important to note that a comparison with the Cold War is misleading. In the years from 1947

225 The first signs of this are becoming visible. See Sue Lin Wong and Nian Liu, 'China threatens to blacklist "non-reliable" foreign companies', *Financial Times*, 31 May 2019.

226 Dutch telecom company KPN, for example, senses an acute problem and has included clauses in its contracts with Huawei in anticipation of a possible Dutch government ban on doing business with the Chinese company.

227 See Stevenson, A. and Mozur, P. 'China steps up trade war and plans blacklist of US firms', *New York Times*, 31 May 2019.

to 1989, when international relations were dominated by the confrontation between an American and a Soviet bloc, Western Europe was by no means as closely linked economically and technologically with the Soviet Union as it is today with China.<sup>228</sup> Any such decoupling today would seriously disrupt the European economy.

Against this background, the AIV advises the government and parliament to devote greater public attention to the impact that the American-Chinese rivalry is already having today. The public in the Netherlands and Europe will have to become accustomed to the idea that the years after ‘the end of history’ in which everything was ‘free’ – when we could enjoy cheap security from America, cheap gas from Russia (and Groningen) and cheap clothes from China, while giving development aid to Africa – are now over.

*RECOMMENDATION 3: In light of the geopolitical tensions between the US and China, the AIV advises the government to explicitly acknowledge the strategic significance of economic interdependence. While Washington exerts pressure on its NATO allies to sever specific economic and technological ties with a geopolitical rival to reduce strategic vulnerability in relation to 5G, for example, it is important to point out that economic interdependence – such as Russia’s interlinking with Europe through supplying gas – has a mitigating impact on conflict. This is the principle on which European integration was built, beginning in 1950 with Franco-German reconciliation and cooperation in the field of coal and steel. Furthermore, the technological interdependence of the three great trading blocs – America, China and Europe – has had a stabilising effect on international relations. This effect depends however on the dependence being reciprocal (and in the case of 5G, for example, on the continued involvement of European companies). These economic and technological ties must not be severed lightly, even if that were possible, as – given China’s importance and quickness to respond (see above) – no one knows what chain of events it might unleash.*

#### *The Europe card (3)*

The third strategic question is to what extent a member state is prepared to play the Europe card in promoting its own interests and values, especially if this inevitably means making compromises and occasionally being outvoted for the sake of a higher, common good.

In our study of bilateral relations between EU member states and China, we saw on the one hand a plurality of specific countries’ historical and political ties with the People’s Republic and a diversity of bilateral economic relations, varying between North and South, East and West, countries with ports and with rail connections, countries in need of investment and countries with an urge to export, etc. In this light, the lack of consensus within Europe should come as no surprise. On the other hand we noted that, in many cases, EU countries nonetheless act together as a bloc, and not only in the strongly institutionally embedded field of international trade.

A highly relevant development, however, is that positions within Europe are shifting. Three recent moves towards greater strategic unity within the EU are worth noting. First, even the big member states – Germany, France, Spain and (on the brink of leaving the Union) the UK – acknowledge their individual vulnerability and are visibly choosing to promote

<sup>228</sup> With the exception of the specific situation of Germany, which was divided into four occupied zones in 1945, one of which was under the control of the Soviet Union.

their interests through the EU.<sup>229</sup> Second, the smaller and/or less prosperous member states in Southern and Eastern Europe that were keen on Chinese investments are to some extent backpedalling. Third, there is a growing awareness, even among the free-trade states in Northwestern Europe like the Netherlands, that a purely economic view of for example the privatisation of vital infrastructure (like the power grid and ports) or a rejection of every strategic economic policy (for example, through innovation and industry policy) is unwise. This group, too, is showing itself willing to coordinate through a common framework.

At the same time, these shifts and adjustments by governments and policymakers have as yet hardly been reflected in a clear public awareness that it is not possible to protect national interests without the EU. The Dutch government has taken initial steps in this direction in its policy document on China, but has not yet sufficiently translated its foreign policy mission statements into efforts to convince the Dutch public or present that public with choices. Much attention is devoted in the public debate to negotiations and minor conflicts with European partners and neighbours, whose importance sometimes pales in comparison with the major strategic challenges posed by China's rise, both in the area of economic modernisation and investments in future technologies and in a geopolitical sense.

*RECOMMENDATION 4: The AIV concludes that, amidst all the focus on incidents, obstructionist countries and fragmentation, there is an undeniable tendency towards European unity regarding China. The AIV advises the government to point this tendency out and join in it. Although the Netherlands has traditionally been extremely sensitive about the large member states ('the big boys') forming blocs, the AIV welcomes the fact that in the current geopolitical turbulence they are increasingly presenting a united front to the outside world and acting in concert in relation to China. In this development, the AIV perceives a core of the required European capacity to act and advises the government not to oppose such initiatives but to join with them and/or encourage EU institutions to do likewise.*

#### *Europe's trump cards and capacity to act (4)*

There is little strategic debate in Europe on what trump cards and leverage we have in our dealings with China. Ignoring this fourth strategic question is costly. It is highly arguable whether countries that give something to China ask for or receive enough in return. In 2016, for example, Greece received €280 million for the sale of 51% of the shares in the port of Piraeus, additional Chinese investments in the port and – thanks to support from Chinese shipping companies – substantially increased container transshipment capacity. That seems relatively little compared to what China received in return, namely the operational management of a major EU seaport and a success story for the Belt and Road Initiative. The EU – which, together with the IMF, had forced Greece to sell the state's share in corporations like the port – was incidentally the first to show deficient awareness of the strategic significance of the transaction.<sup>230</sup> Other examples of 'giving' include signing partnership agreements on the BRI, the participation of heads of government

229 For the coordination between these four member states on the BRI, see Peter Altmaier in: Daly, T., 'Europe Wants to Deal with China as a Group: German Minister', *Reuters*, 26 April 2019. For France and Germany, see Macron's invitation to Merkel and Juncker to attend the summit with Xi in March 2019 (see III.1 France).

230 The Greek government and the port of Piraeus informally approached the Dutch government at the time to enquire whether the Port of Rotterdam Authority would be interested in taking over Piraeus 'otherwise the Chinese will'. The offer was declined.



in BRI forums or in the opening ceremony of the Olympic Games in Beijing in 2008 and 2022, and membership of the 17+1 group and of the AIIB. The conditions under which China is granted access to the European market can also be seen as falling into this category.

Europe has more leverage than it realises. As the main international partner of the US, owners of a highly developed and extensive market, and neighbours to Russia, the EU countries are of great strategic value to both China and the US. Only the East Asia region (with Japan, South Korea, North Korea, Taiwan, Vietnam, Singapore and Indonesia as its main economies) has a comparable geopolitical importance in the relationship between the two 21st-century great powers. The EU has a unique role in this situation: thanks to the Union, Europe is not only a region but also an actor. Europe is thus not at the mercy of the clash of the titans, but can also act itself. Below, the AIV identifies five areas in which the EU possesses the capacity to act regarding China. The question that arises is how we, as the Netherlands within Europe, can increase that leverage.

#### 1. Market access

The possibility of restricting access to the European market is the most commonly used source of European leverage. Given the EU's commitment to open markets and non-discrimination, however, its room for manoeuvre in this area has always been limited, although 'defensive' measures permitted under WTO rules – such as anti-dumping and countervailing duties – have been used to some extent. Germany's change of course since 2016 can be attributed to a greater insight into China as a strategic competitor, but also suggests that the country is aware that it had given too much away to China. France and the Commission are moving in the same direction: Chinese access to the European market is now more conditioned than in the past on European access to the Chinese market. Recent moves towards a more China-specific (though formally still general) approach and a greater emphasis on reciprocity is opening up new opportunities that the EU needs to learn to grasp, partly to the benefit of existing multilateral frameworks and action in the field of intellectual property.

Establishing an EU-wide coordination mechanism for screening investments has a dual strategic function. On the one hand, it can give Europe greater control of foreign investments in strategically important companies. On the other hand, the EU's attractiveness as an investment market can be used in this way to strengthen the Union's negotiating position with regard to China. This calls for a strategic awareness on the part of the Netherlands that an assertive trade policy that serves national export interests in China quickly becomes futile if it is not accompanied by a willingness to use defensive trade policy as leverage. In other words, anyone wishing China to open up its markets to them must also be able to make tactical use of the threat of closing its own markets. Reciprocity is an important basic principle in this respect, especially for public procurement, as is permitted under WTO rules. Possible measures to address the problem of massively subsidised state-owned companies are the subject of another extensive, emerging debate on the EU's strategic economic policy (see IV.2).

#### 2. Technology

Access to European technology is of great strategic importance for China in order to play a role at a higher level in international value chains and further modernise its armed forces. As the US recently introduced new obstacles to Chinese access to American technology, Europe's value to China is increasing even more. For a long time, China had virtually unrestricted access to European technology through scientific and commercial partnerships and Chinese takeovers of European companies.

To retain technology as a means of leverage in its relations with China, the EU needs to preserve its technological lead in certain areas or at least ensure that it does not fall behind. Screening of foreign direct investment (FDI) can also give the EU greater control in preserving its technological lead. The problem is that Europe is falling more and more behind the US and China technologically in areas like artificial intelligence, electric cars and batteries, and new data-based forms of industrial organisation. Consequently, it is in danger of missing out on the new technological revolution. France and Germany are aware of this danger. It demands a leap forward and massive investments in research and development, nationally and Europe-wide. The Netherlands, too, could invest more in its national high-tech industry and, at EU level, advocate modernisation of the EU budget and, within that, sharp increases in the research budget.

Europe could take a more emphatic lead in discussions on industrial and technological standards, especially now that the US is withdrawing from them. The EU's strength in trade policy makes this possible: as the world's largest consumer market, with free trade agreements with more 70 countries, the EU's norms and standards are widely accepted and applied.

Since the repression of the Tiananmen protests in 1989, the effectiveness of using arms exports to exert pressure on China has largely been limited to the possibility of lifting the arms embargo imposed after the protests in return for something else. In 2005, however, it became clear that the EU is not prepared to go head-to-head with the US on this issue, so that this was no longer a practical option. In the meantime, however, new opportunities for exerting pressure have emerged as China's dependence on imported technology for the modernisation of its military increasingly lies outside the traditional defence industry and in the area of technology (see IV.5).

### 3. Legitimacy

China seeks recognition and legitimacy from Europe, and that gives Europe a third source of leverage in publicly criticising China's conduct in terms of human rights and international law. To a certain degree, the EU can in this way put China's legitimacy as a global actor in question. It has often done so in international coalitions with countries like the US, Canada, Australia and New Zealand. At the end of the 1990s, public criticism of China's human rights record was partly replaced by the EU-China human rights dialogue, which takes place behind closed doors and which China invariably approaches as a two-way dialogue between moral equals. Although the European External Action Service and the European Parliament continue to issue statements criticising China – mostly on human rights – the People's Republic appears to have grown less rather than more sensitive to them.

To strengthen this means of leverage, it is necessary to resist China's claims that international norms and standards are 'Western'. This requires support from the developing countries, united in the G77 – currently a group of more than 130 countries – particularly the democratic ones, including India, Indonesia, Brazil and South Africa as major actors. Without their support, European criticisms quickly sound like neocolonialism or expressions of 'the West against the rest'. This is moreover one of many reasons – along with migration policy, raw materials and future relations on a continent where China is making extensive investments – for Europe to devote greater political and diplomatic energy to Africa, something that the Dutch government among others can advocate within the EU. A central forum for discussing human rights norms is the UN Human Rights Council, where China has acquired an influential position thanks to support from many developing countries.

#### 4. Diplomatic clout: membership of the EU and international organisations

Membership of the EU is a trump card for individual countries in their relations with China. China wants friends, to give it access to information and to the European market. Countries like Hungary and others that give China what it wants can ask for favours in return, which in many cases damage the Union as a whole. Conversely, member states can make things difficult for China, the bigger members like Germany in particular by consolidating their positions at EU level, or can advocate a position that China would welcome, as with the Netherlands on free trade post-Brexit. The challenge for the Union is to prevent member states from abusing their EU membership to curry favour with China. See V.3 for possible strategies to address this problem.

European countries also hold a trump card in their membership of international organisations other than the EU. This applies in particular to the UK and France as permanent members of the UN Security Council and to other member states during their terms as temporary Security Council members. Any UN member state that can vote, both individually and by influencing a group of countries, has something to offer (see Africa again, above). The EU, too, has diplomatic status at the UN, and is a participant in the G20. This makes China an important and sometimes indispensable partner on the international stage, for example on the global climate agreement or Iran. As these are, however, generally goals that the EU strives to achieve without China in any event, it cannot use this as leverage in relations with the People's Republic.

#### 5. Geopolitical clout: Europe as a bloc in the balance of power

In the global balance of power between the US and China, which side the European countries (and Russia) take is very important for both parties. As competition between the US and China increases, Europe becomes even more important – even one of the main prizes, along with East Asia (see above). Currently, for obvious security policy-related and other reasons, Europe is in the American camp, along with all other NATO members.<sup>231</sup> Nevertheless, as recent examples show, the geopolitical rivalry between the US and China in principle offers Europe greater opportunities to make use of and strengthen the four sources of leverage described above.<sup>232</sup> In addition, new sources of leverage are emerging. Europe only has genuine leverage over China when it has a degree of room for manoeuvre in respect of the US. This was the lesson learned from the arms embargo: American pressure prevented the EU from lifting the embargo, neutralising a European means of exerting pressure on China. When Europe is less dependent on America, even in a minor respect, it is stronger in respect of China.

The best way to increase the EU's potential leverage with respect to the US – and therefore to China – is to strengthen the position of the euro against the dollar. The euro is the world's second largest reserve currency. Strengthening this position requires the completion of the banking union that the EU has been working on since 2012, the creation

231 22 of the 28 EU member states are also members of NATO (the exceptions being Austria, Cyprus, Finland, Ireland, Malta and Sweden), as are a number of EU candidate countries (Turkey, Montenegro and Albania).

232 Some observers saw a link between the successful (for the Union) EU-China summit on 9 April 2019, at which China made a number of economic pledges and, for the first time in many years, accepted a reference to universal human rights, and the tensions at that time between the US and China. Perhaps Beijing could not afford problems on two fronts, allowing the EU to 'ask for more'.

of a capital markets union and, eventually, a form of 'safe assets'.<sup>233</sup> Another strong message, as suggested by the European Commission, would be to pay for all oil imports in euros in the future.<sup>234</sup> International representation of the eurozone at the IMF or the World Bank would also increase the currency's importance.

While the chances of reducing dependence on the US dollar are relatively high, reducing dependence on US conventional military capabilities and on the balance of strategic nuclear deterrence guaranteed by the US is a different matter, especially in the short term. As the AIV argued in its advisory report 'Nuclear Weapons in a New Geopolitical Reality: An Urgent Need for New Arms Control Initiatives' (2019), it is of the utmost importance that Europe give priority to achieving greater military independence in conventional terms. This is necessary not only to establish a more balanced relationship with the United States as quickly as possible and to make a serious contribution to the Alliance in a military sense, but also to be prepared for developments unfavourable to Europe in an uncertain world.<sup>235</sup> In principle an improved relationship with Russia, which poses a direct threat to EU countries on the Union's eastern flank, would reduce strategic dependence on the US. Although there is little room for manoeuvre in current circumstances, the possibility of a future rapprochement with Moscow should not be ruled out. Nor does the EU have anything to gain from driving Moscow into the arms of Beijing.

A third source of leverage with respect to China, linked to this, is making use of Europe's geopolitical clout by joining forces with the 'ring of democracies' around the People's Republic in the Pacific. This is a coalition of like-minded, or at least democratic, countries including India, Japan, Australia and New Zealand. Europe needs to devote greater attention to India in particular. The country is after all the world's largest democracy, is set to overtake China in the size of its population in the near future, and occupies a strategically important geographical position in respect of a rapidly growing East Africa, which will make the Indian Ocean a crucial economic hub in coming decades. The US was working with countries from this coalition (excluding India) on a wide-ranging trade agreement (the Trans-Pacific Partnership, TPP) but withdrew under President Trump. In principle, there is little reason why the EU should not fill this vacant position; in a certain sense it is already doing so implicitly through its deep and comprehensive free trade agreements (FTAs) with South Korea, Japan, Singapore, Vietnam and the Philippines, while new agreements with Indonesia, Australia and New Zealand are in preparation. Here, too, the EU's strength in trade policy pays off.

*RECOMMENDATION 5: The EU member states, including the Netherlands, should recognise that they have common means of leverage with respect to China, and recognise what they are. There are five such means of leverage: market access, technology, legitimacy, diplomatic clout and geopolitical clout. The AIV advises the government to strengthen all five,*

233 See AIV advisory report no. 105, 'Is the Eurozone Stormproof? On Deepening and Strengthening the EMU', September 2017.

234 See Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions: Towards a Stronger International Role of the Euro, 5 December 2018, COM(2018) 796 final.

235 See AIV advisory report no. 109, 'Nuclear Weapons in a New Geopolitical Reality: An Urgent Need for New Arms Control Initiatives', January 2019.

*starting with what the Netherlands can do itself and then through the EU. In some cases this may require choices that may encounter public resistance, for example for greater Dutch investment in technology through the EU budget or for strengthening the euro. The AIV considers these key issues. This makes public discussion of these choices even more important, in the light of a strategic vision and with a long-term perspective.*

### **V.3 Six motives**

It is important to acknowledge that the member states, individually or as groups, can have varying motives for the positions they take regarding China. Six of these motives are summarised below. They are not mutually exclusive and the list is not exhaustive. As a whole it shows the diversity of views that need to be reflected in each joint EU decision. It also explains why certain forms of divergence can be persistent and why China sometimes has to do very little to sow the seeds of division to secure its own interests.

**Historical bonds** – The discussion of bilateral relations showed that some member states have ties with China dating back many years. The most important recent dividing line is between Eastern and Western Europe during the Cold War (1947-1989). For the countries east of the Iron Curtain, the Chinese people – notwithstanding the tensions that existed between Moscow and Beijing – were seen as Communist comrades in a worldwide struggle. That shared memory made it easier for Hungary under Prime Minister Viktor Orbán, for example, to shift its perspective from pro-Western criticism of China’s human rights record (1998-2002) to ideological alignment with the current Chinese leadership (since 2010). Conversely, the countries of Western Europe – including the Netherlands – feel a close bond with the Atlantic alliance and a continuing appreciation of the role played by the US as a protector against the Soviet threat and as a liberator in 1917-18 and 1944-45. These historical experiences reverberate in the positions taken by the member states today.

**Economic distress** – EU member states experiencing economic problems become eager to attract foreign investors. This was the case for several countries in Eastern Europe after the financial crisis of 2008, and even more so for Southern European countries like Greece and Portugal after the eurozone crisis that began in 2010. Countries in Northwestern Europe are also in search of investment but, as stronger economies, can afford to be more cautious. This difference can be seen in their different attitudes to BRI memorandums of understanding.

**Trade** – There is a difference between member states like Germany and the Netherlands, with substantial exports to China and a balance of trade that is nearly in equilibrium, and most other member states, which have a negative balance of trade. Though the latter may also have considerable exports to the People’s Republic, they still import more. Consequently, as the discussion of market access showed (see IV.1), member states have different views on the priorities of the EU’s trade policy. This does not, however, usually obstruct decision-making, thanks to the EU’s strong institutional framework. Export and import relations can lead to two kinds of vulnerability, which can in turn lead to a lack of consensus: importers can become dependent on certain indispensable products, while the loss of the Chinese market can, for large exporters in particular, jeopardise part of their industrial base, endangering employment.

**Democratic self-awareness** – Most EU member states are strongly attached to democratic institutions, human rights and the multilateral order, political values that also feature

prominently in the EU Treaty.<sup>236</sup> This applies particularly to the Northwest European countries. Within that group, the three big member states often opt, wholly or partly, for behind-the-scenes diplomacy while others, like the Netherlands and Sweden, sometimes set great store on stating their positions visibly and audibly. In Eastern and Southern Europe the picture is varied and can depend on the individuals holding high office (in the Czech Republic, for example, the president and prime minister currently hold different views on this issue).

**Security policy** – Only two EU member states (the UK and France) are capable of defending themselves militarily, thanks to their possessing nuclear weapons and (by European standards) strong armed forces. Both countries seek to expand their military power further by, for example, developing their defence industries. This ambition affects their positions on a great many geopolitical issues (e.g. the South China Sea and arms exports). Nevertheless, divisions within the EU on security issues are generally speaking relatively limited.

**Geography** – The geographical location of a member state can be a source of vulnerability. Russia's western neighbours, including Poland, the Baltic states and Finland, experience a military threat and uncertainty that is felt less acutely by the Atlantic and/or Mediterranean countries. Geography can on the other hand be a great advantage. Some member states are located at the crossroads of transport routes or have ports that enable them to offer China benefits that other member states cannot. That increases the temptation to take action unilaterally.

Looking at these various motives raises the question to what extent active policy on the part of China itself plays a role in giving rise to division in Europe. In its request for advice the government asks the AIV to consider this factor. As the above list shows, it is difficult to answer this question in general terms. Enquiries and discussions in The Hague, Brussels and Beijing suggest that, even without China pursuing an active policy of divide-and-rule, it can fairly easily take advantage of existing fault lines within the EU. In some cases, it is the member states themselves that, apparently on their own initiative, break ranks out of opportunism to find favour with China. Good examples are the establishment of the Asian Infrastructure Investment Bank (with the UK) and the 16+1 platform (in which Poland played an instrumental role on the European side). According to Beijing, even if China makes every effort not to actively divide EU member states, 'you sometimes make it very difficult for us' and it looks like a policy of divide-and-rule. Ever since the imperial period, China has had a strong preference for bilateral relations over having to deal with a group or bloc of countries. Within its diplomatic tradition, it has developed many strategies to achieve this aim ('managing the barbarians'). In that sense, its present-day bilateralism and the 'serial bilateralism' of regional forums like 17+1 fit this pattern. Individual member states, especially the bigger ones, and the EU's representatives in China must of course continue to call Beijing to account on this point. Realistically, however, the main efforts in moving towards great European unity must come from within the Union itself. Strategies that could be used to achieve that are discussed in the following section.

236 Article 2 of the Treaty on European Union states: 'The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.'

Inasmuch as China itself can be seen as fostering European divisions, the establishment of what was then the 16+1 platform with Eastern European member states and candidate countries in 2011 and 2012 is a conspicuous example. The initiative was a daring move by China that opposed the EU's interests. The initial response from EU representatives and member states like Germany and France was strongly disapproving and critical. Given that the German chancellor, for example, has an annual summit meeting with China's political leaders, the European platform members did not immediately see why they should be criticised for taking part in a platform that in essence also offered them an annual meeting with the Chinese prime minister. In a later phase the EU opted for an advisory role on the sidelines as a formal observer of the 17+1 platform. The EEAS informally assesses the platform's final declarations and other statements in advance. The platform has now been operating for seven years. Although it has not lived up to the expectations of some member states (see, for example, III.3), it is here to stay.

*RECOMMENDATION 6: The AIV believes that in an ideal situation the 17+1 platform would not exist, but feels it is time for the EU to be more proactive in its approach to the platform so as to cushion its divisive effects. One option would be to upgrade the EU's status from observer to full member. It could then monitor the extent to which the platform respects the EU's competences, on behalf of participating as well as non-participating member states. A similar formula is in place for the EU's participation in the G7/8 and the G20. Here, too, only a limited number of EU countries are members and the EU presidents speak politically for the member states that are absent.<sup>237</sup> Although the EU's initial reason for not participating in the platform was so as not to legitimise it (which is why the EU decided to advise it from the sidelines), playing a more active part would better protect the interests of the EU as a whole and testify to greater European strategic self-awareness regarding China.*

#### **V.4 Seven strategies for overcoming a lack of consensus**

United in diversity, through decades of cooperation and integration European actors have developed a wide range of strategies to cope with diverging interests and standpoints. These strategies are useful to varying degrees, depending on the context, in overcoming a lack of consensus regarding policy and positions on China. That context is determined by the institutional framework in the policy area concerned and by the motives of individual member states.

**Outvoting** – The European treaties specify the areas in which member states have relinquished their power of veto. Successive rounds of treaty revision have extended the areas where majority voting applies. Since the Treaty of Lisbon (2009) qualified majority voting has even become the standard voting rule in the Council. Although there is a culture of seeking consensus in the European Union, member states know that in these 'Community' policy areas a minority standpoint can in the last resort be outvoted.

The first question to be asked is whether majority voting should always be used. In some cases, it is legally possible but politically a blunt instrument that carries a high cost. It may, for example, affect specific interests, special socioeconomic arrangements or values

<sup>237</sup> The European Economic Community (EEC) was admitted to the G7 in 1977 on this basis, partly at the request of the Netherlands, so that the five small member states not participating in the group also had a vote. The EEC was represented through the Commission and the rotating presidency of the European Council.

that are of great importance to a member state – and thus have repercussions for the legitimacy or actual implementation of the decision.<sup>238</sup> (The latter does not of course apply to declarations and statements.)

The second question is whether the applicability of majority decision-making should be further extended. There are two possible routes for doing this. In some cases it would require a treaty change, e.g. with double unanimity (when signing and again when ratifying the treaty). In the AIV's opinion, this is not a feasible option in the current state of affairs. The second route is a simplified procedure for treaty change, specifically to abolish vetoes, using the 'passerelle' clauses provided for this purpose in the Treaty. Regarding the latter route, the Commission published an ambitious Communication on expanding the areas where the Council could act by qualified majority in the EU's Common Foreign and Security Policy (CFSP).<sup>239</sup> The Dutch government also referred to this in its 2019 State of the European Union.<sup>240</sup>

*RECOMMENDATION 7: In the AIV's opinion, majority decision-making should be used sparingly on exceptionally sensitive foreign policy issues. In many cases, the benefits of a greater capacity to act must be weighed against high political costs. It is also important to guard against the hypocrisy of member states that believe they will always be in the majority while hanging on to their right of veto on issues that are important to them but where they could find themselves in the minority. Nevertheless, threatening to put a constitutional discussion on the agenda (on expanding the options for majority decision-making) could help restrain some states' conduct in specific current discussions.*

**Reducing divergences** – In light of the great diversity between member states in areas where the European Union has few or no competences, or where there are sensitive issues at stake, the Union has often chosen to adopt strategies that contribute to gradual convergence. Structured processes of information exchange, monitoring, benchmarking, learning from each other and non-binding coordination have been applied over the years in areas like macroeconomic policy, social policy and justice and home affairs.

In this connection, the AIV observes that putting FDI screening on the agenda, as a non-binding instrument, has been an example of promoting a shift towards greater unity. This initiative, launched by Germany and France with Italian support, shows that this approach works best when such issues are put on the agenda by a strong group of member states. Two years later, it is clear that member states that were initially hesitant about screening (such as the Netherlands and Finland) have given up their opposition, perhaps through peer pressure and/or changed viewpoints. The mere fact that such an initiative is being publicly discussed in all member states (between ministries and with parliament) can ensure that 'compartmentalised' positions in which one policy perspective dominates (e.g. economic interests in attracting investments) are viewed from a more general strategic perspective and thus converge. Such public debate can temper the differences between

238 This is what happened to the legally acceptable but politically controversial majority decision by the Council of 21 September 2015 on asylum quotas.

239 See Communication from the European Commission to the European Council, the Parliament and the Council, 'A Stronger Global Actor: A More Efficient Decision-making for EU Common Foreign and Security Policy', 12 September 2018, COM(2018) 647 final.

240 See 'State of the European Union', letter to parliament, 4 February 2019.



member states, as all the dilemmas and considerations they are all faced with must in principle be taken into account in decision-making.

*RECOMMENDATION 8: The AIV observes that in areas where there is marked lack of consensus, non-binding coordination initiatives can be one way of moving towards convergence. Foreign direct investment (FDI) screening is a good example. Coordination on 5G procurement is another, ongoing initiative with an uncertain outcome. Though such initiatives have the greatest chance of success when large member states are on board, there is nothing to stop smaller member states like the Netherlands from taking the lead. The AIV therefore advises the government to actively advocate the introduction of coordination initiatives in the EU, for example in the area of export controls (arms 2.0). Another possibility – for member states that have not yet signed them – is coordination on memorandums of understanding (MoUs) on the Belt and Road Initiative, as a follow-up to the coordination announced earlier this year by four large member states.*

**Trade-offs** – In the EU consensus machine, divergent standpoints are sometimes traded off in ‘package deals’ and ‘linkage politics’. This ensures that in a series of decisions on substantively unrelated issues, each member state can claim a victory in negotiations on a specific point that is particularly important to it.

The AIV has not found any specific examples of this strategy being used in relation to China. Hypothetical trade-offs are imaginable in which Hungary, for example, is persuaded to return to the European camp by offering the country exemptions in other areas. It is, however, crucial to keep a close eye on the price paid for such deals; in the AIV’s opinion they must not be made at the expense of the EU’s legitimacy as a union of democracies.

**Making a counteroffer** – Economic need or distress has led European member states and candidate countries to welcome foreign investments. Where other European member states – on reflection – find this undesirable for strategic reasons, devising and offering attractive European alternatives for these investments can be a possible solution.

In this connection the EU launched a new Connectivity Strategy in 2018 to improve infrastructure and intercontinental links between Europe and Asia, in part as a response to China’s Belt and Road Initiative. The strategy aims to implement projects (in some cases for public procurement) on the basis of EU standards on transparency, environment and working conditions so that participating countries are not dependent on Chinese credit.

The EU has robust instruments at its disposal to reduce China’s influence in the countries of the Western Balkans, including the prospect of future EU membership. This must continue to be a credible perspective but need not be used immediately. Other proposals can already be made now, for example in the field of infrastructural investments. For some Balkan countries, NATO membership could be an intermediate step (but this is not an option for Serbia, which prefers not to choose between Moscow and Washington).

*RECOMMENDATION 9: Faced with the strategic challenge posed by China and the attraction it holds for the EU’s members states and neighbours, the Union does not need to take a passive stance but has substantive and financial resources at its disposal to encourage other member states or candidate countries to join in European positions. This can take the form of trade-offs on specific issues or of making counteroffers in response to Chinese proposals. The AIV advises the government not to hesitate to employ such methods and in each case to assess on strategic grounds whether the often short-term costs are justified by the more long-term strategic benefits. It is especially important to view the Western Balkans*

*through this lens. Here, too, the rise of China calls for clear choices by EU member states, choices that can and must be defended publicly.*

**Accommodating minorities** – As outvoting is not always possible or desirable, reducing divergences takes time to produce results, and substantive trade-offs and counteroffers cannot eliminate all dissension, the EU has also developed strategies over time to enable joint action without all member states taking part. This can occur in three ways: within the Treaty (accommodating minorities), outside the Treaty (bypassing the framework of the EU) or despite the Treaty (ignoring a minority).

To accommodate divergences within the Treaty, firstly, temporary or permanent treaty-based instruments have been developed for ‘enhanced cooperation’ or ‘flexible integration’.<sup>241</sup> This entails accepting that member states have different rights and duties in a specific area. Non-participation is thus embedded in EU law, offering legal certainty to both the majority or lead group that does wish to act jointly and those that choose not to participate.

A form of accommodation provided for within the Common Foreign and Security Policy since the Treaty of Amsterdam (1997) is constructive abstention. This allows member states to abstain from voting and not to vote against a decision. Consequently, the Council can adopt a decision without all member states having to explicitly vote in favour. A member state that abstains from voting can explain why it has done so in a formal statement and is then not obliged to implement the decision. Through the statement, the abstaining member state does however acknowledge that the decision is binding for the European Union and that it cannot act in any way that is in violation of the decision or obstructs its implementation.

**Bypassing the framework of the EU** – Secondly, in some cases, EU member states have found it necessary to break through blockades in EU decision-making by working together intergovernmentally with a limited number of other member states outside the framework of the Union. A good example is the Fiscal Compact set up outside the EU Treaty by 25 member states, during the eurozone crisis, in response to a British veto of a treaty change in December 2011. The EU institutions were however given a role in the initiative and it was agreed that it would eventually be integrated into the Union framework.

Bypassing the framework of the EU should not be done lightly, as setting up parallel structures weakens that framework and leads to resentment among those who chose or were not permitted to participate. Yet, in the AIV’s opinion, there are scenarios imaginable – for example, sustained resistance to an issue of essential importance to a large group of countries or the EU as a whole – that would, in the last resort, legitimise mobilising the EU’s capacity to act in this way.

**Ignoring a member state** – Thirdly, if a single member state persistently obstructs decision-making in a policy area where majority voting does not apply and does not wish to make use of the option of constructive abstention in the field of foreign and security policy, while all the remaining member states adopt a common position, the option of acting as ‘the EU minus 1’ can be considered. This option is being applied in practice in the case of

241 See e.g. AIV advisory report no. 98, ‘Differentiated Integration: Different Routes to EU Cooperation’, December 2015.

Hungary to statements about China's human rights record. Recently it was reported that a Hungarian veto on Israel had also been ignored.<sup>242</sup> When the other 27 member states issue a human rights statement not signed by one member that has not constructively abstained, it is not legally speaking a EU statement in the full sense of the term. It is no less important politically, however: the message from the 27 members states is 'forget that one member state; we are Europe'. When the EU seeks to work with like-minded countries in the Pacific region, like India, Australia and New Zealand, one missing signature has even less impact.

*RECOMMENDATION 10: The AIV recommends that countries that do not wish to sign human rights statements take advantage of the option of constructive abstention provided by the EU Treaty. The more member states choose this option, the less need there will be to place the Commission's proposal to extend majority voting to more areas of the CFSP on the agenda (see above under Outvoting). This can also be in the interests of abstaining member states. The advantage of constructive abstention for the EU is that one obstructionist country does not prevent the Union from speaking as a whole. If one member state persistently refuses to use this option, the possibility of ignoring that one state and nonetheless issuing a statement as the European Union, and therefore at least making the political weight of the other states felt, is worth considering.*

## **V.5 A public matter**

What happens in China and the Far East is of enormous importance for the future of societies and economies like those of the Netherlands. However, while diplomatic and public attention has been focused in recent years on the disruptive events the Union has had to deal with from within its own borders (like the eurozone crisis and Brexit), from nearby (Syria, North Africa and Russia) and from across the Atlantic Ocean (the US), the challenge from China and the East has long been neglected. In the AIV's opinion, it is crucial to make politicians and wider public opinion fully aware of the impact of China's steady rise, so that the Netherlands and the rest of Europe can find the most satisfactory possible answers to the questions they are facing in the short and medium term.

As argued above, this awareness particularly requires first and foremost greater knowledge about China (see recommendation 2). Yet this alone is not enough. A forceful response to the strategic questions posed by China also calls for a historically embedded and future-oriented narrative on who and what the Netherlands and the rest of Europe are and want to be in the world of the 21st century. This is not only a matter of knowledge and facts but also of ability to win over the public, as those in power in Beijing, Moscow and Washington are well aware. The AIV is pleased to note that, in its policy document on China, the Dutch government very explicitly calls for the Netherlands to pursue its interests regarding China through the EU. The AIV would conclude by pointing out that while this fundamental choice may (and, as far as the AIV is concerned, must) be initiated by the country's political leaders and can be prepared and partly implemented by policymakers, it must ultimately be supported by public opinion, not only in the two houses of parliament but by the public at large. That means that Dutch politicians need to look beyond the divergences within the Union and the Netherlands' specific concerns about internal European affairs. After all, Europe has been declared to be preeminently the means of preserving and protecting the core of what we as Dutch society most cherish. Dutch politicians must therefore speak of Europe in a way that more emphatically highlights what unites us as Europeans – from

242 See Rettman, A., 'EU Ignores Veto on Israel, Posing Wider Questions', *EU Observer*, 1 May 2019.

Irish to Swedes, from Portuguese to Bulgarians – in our own history and in the wider strategic landscape of the 21st century.

## **V.6 Ten recommendations** (brief summary)

Based on the analysis in the advisory report, the AIV has in this concluding chapter made ten recommendations. For the reader's convenience, these ten recommendations are briefly summarised below.

Five recommendations for acting more strategically in respect of China:

1. Develop forums within the EU for the assessment of economic, value-related and security interests that China's rise demands, in the appropriate locations; if this is not successful, take the initiative as a last resort to set up a strategic forum with like-minded member states outside the framework of the EU.
2. Advocate an update of the EU China strategy (2016) that expresses the wishes and demands of the member states in strategic terms of 'red lines' and potential forms of leverage; also advocate the establishment of a knowledge network on China within the new European Commission.
3. Acknowledge that economic and technological 'decoupling' of the three great trading blocs (the US, Europe and China) for specific products and for security policy reasons can be advocated, but also entails strategic risks, given that economic interdependence can have a mitigating impact on global conflicts.
4. Participate in initiatives taken by large EU member states for united action in respect of China and/or encourage EU representatives to participate in such initiatives.
5. Increase Europe's potential leverage with respect to China (market access, technology, legitimacy, and political and economic influence), starting with what the Netherlands itself can do by, for example, investing more in technology.

Five recommendations for overcoming the lack of consensus within the EU regarding China:

6. Upgrade the EU from observer to member of the 17+1 platform comprising China and a group of Central, Eastern and Southeastern EU member states, to enable the interests of the EU and of absent member states to be better promoted.
7. Be sparing with calls for and the use of majority decision-making on sensitive issues. The political costs of outvoting member states are often high. In areas where there are as yet no provisions for majority decision-making, it is not yet politically feasible to expand the options for using it through regular or 'light' treaty changes. There are other ways to strengthen European unity.
8. Take initiatives to achieve informal coordination on salient issues like the MoUs relating to the Belt and Road Initiative or export controls (e.g. arms exports), modelled on the recently introduced screening of foreign investments.
9. Consider substantive trade-offs or making counteroffers to encourage member states or neighbouring countries to support strategically important common positions.
10. Call on member states that are obstructionist in the field of foreign policy to make use of the option of 'constructive abstention' rather than their veto; consider as a last resort – besides specific actions with groups of like-minded states – issuing human rights statements on an 'all-except-one' basis, so that the European Union can still bring its political weight to bear.

## Request for advice

Professor J.G. de Hoop Scheffer  
Chair of the Advisory Council on International Affairs  
P.O.Box 20061  
2500 EB THE HAGUE

Date 9 October 2018

Re Request for advice EU-China

Dear Professor De Hoop Scheffer,

China presents both opportunities and challenges for the EU and the Netherlands. In some fields, China is a partner; in others a competitor. There are areas in which Chinese developments run counter to our interests. Strategies such as the Belt and Road Initiative (BRI) have both positive and negative aspects. Furthermore, China's efforts to develop a state-of-the-art manufacturing industry (Made in China 2025) call for a response by European policymakers.

The EU has formulated a strategy on China and is also discussing a European investment screening mechanism. This autumn, an EU connectivity strategy will be presented, which – like the Belt and Road Initiative – focuses on the links between Europe and Asia. Will this be sufficient to safeguard European interests? And will Dutch interests be sufficiently served?

In a wider geopolitical and economic context there is much to be said for a joint EU approach to China, as this will have greater impact. However, in practice this has not always proved possible. The economic competition between member states and the different priorities in their respective relationships with China, coupled with the more general difficulty of pursuing a common security and foreign policy within the EU, make it a challenge to speak with one voice. There are of course also institutional and trade policy issues vis-à-vis major strategic partners that influence the stance on China.

Then there is China itself. Time and again, China has proved able to find and exploit weaknesses in the EU's line of defence, be it European criticism of China's human rights record or certain Chinese trade practices. An example of this tactic is China's pledge to invest more in and import more from individual member states as a way of weakening this critical stance. In addition, regional initiatives such as 16+1 (cooperation between China, a number of Eastern European member states and various non-EU countries) make it more difficult for the EU to speak with one voice.

In short, Europe needs to act more effectively in its security and foreign policy and trade and investment policy in response to China's role and influence in the EU. The government would therefore appreciate receiving an advisory report from the AIV, no later than the end of this year, based on the following questions:

1. What policy areas are affected by the lack of unity in Europe's approach to China and how is this manifested? Can the AIV identify the underlying reasons for this as far as the EU is concerned, and what role China plays in this?
2. Can the AIV indicate the political and economic consequences for the Netherlands in the absence of an effective, united European approach?
3. Can the AIV indicate ways (relevant to the Netherlands) in which a European approach to China could be made more effective and unified? How could the Netherlands contribute to this process?
4. What are the Netherlands' specific interests and position in this regard? To what extent can and should we promote Dutch interests through the EU, or should this be done in other ways?

Yours sincerely,

Stef Blok

Minister of Foreign Affairs of the Kingdom of the Netherlands

**List of persons consulted**

Joanneke Balfoort	Ambassador to the Political and Security Committee, Dutch Permanent Representation to the EU, Brussels
Asad Beg	Counsellor and Head of the Political, Press and Information Section at the EU Delegation, Beijing
Marcel van den Bogaard	Deputy Head of the Political Department at the Embassy of the Kingdom of the Netherlands, Beijing
Erik Brattberg	Director of the Europe Program at the Carnegie Endowment for International Peace, Washington DC
Tom de Bruijn	Former Permanent Representative to the EU in Brussels, former Director-General for European Integration, former special adviser to the EU Task Force for Greece
Vincent Chang	Lecturer and research fellow at the Leiden Asia Centre
Nicolas Chapuis	EU ambassador to Beijing
Marco Chirullo	Deputy Head of the Far East Unit of the Directorate-General for Trade at the European Commission
Uwe Corsepius	Chief advisor on European Affairs to German Chancellor Angela Merkel
Rogier Creemers	Postdoctoral scholar in the Law and Governance of China at Leiden University
Ingrid d'Hooghe	Senior Associate Fellow at the Clingendael Institute
Esther van Damme	Project leader on the China policy document in the Asia and Oceania Department of the Ministry of Foreign Affairs
Robert Daly	Director of the Kissinger Institute on China and the United States at the Wilson Center, Washington DC
Yvette van Eechoud	Director of European and International Affairs at the Dutch Ministry of Economic Affairs and Climate Policy
Michael Every	Head of Financial Markets Research, Asia-Pacific at Rabo-Research, Economic Research
Said Fazili	Assistant Permanent Representative and coordinator Coreper II, Dutch Permanent Representation to the EU, Brussels
Evan Feigenbaum	Vice-president for studies at the Carnegie Endowment for International Peace, Washington DC

Luca Franza	Researcher at the Clingendael Institute
Gilles Goedhart	First secretary in the Political Affairs Department of the Embassy of the Kingdom of the Netherlands, Beijing
Jos Goffin	Assistant defence attaché at the Embassy of the Kingdom of the Netherlands, Beijing
Robert de Groot	Dutch Permanent Representative to the EU, Brussels
Paul Haenle	Director of the Carnegie-Tsinghua Center at Tsinghua University, Beijing
Linna Hai	Third secretary in the WTO Affairs Department of the Chinese Ministry of Commerce, Beijing
Melanie Hart	Director of China Policy at the Center for American Progress, Washington DC
André Haspels	Director-General for Political Affairs at the Dutch Ministry of Foreign Affairs
Jonathan Hatwell	Head of the China, Hong Kong, Macao, Taiwan, Mongolia Division of the European External Action Service (EEAS), Brussels
Joost van Hees	Director of Government and External Affairs at ASML
Maarten Heetderks	Second secretary in the Political Affairs Department at the Embassy of the Kingdom of the Netherlands, Beijing
Elmar Hellendoorn	Former postdoctoral research fellow at the Belfer Center, Harvard Kennedy School for Science and International Affairs, Cambridge, MA
Maryem van den Heuvel	Dutch Ambassador to Belgium, Brussels
Xiaobing Hong	First secretary in the Department of European Affairs, Ministry of Foreign Affairs of the People's Republic of China
Weinian Hu	Research fellow at the Centre for European Policy Studies (CEPS), Brussels
Paul Huijts	Secretary-General, Dutch Ministry of General Affairs
Christopher K. Johnson	Senior Adviser and Freeman Chair in China Studies, Center for Strategic International Studies, Washington DC
Katrin Kinzelbach	Associate Director of the Global Public Policy Institute (GPPI) in Berlin and professor at the Central European University, Budapest



Dirk Klaassen	Deputy head of International Cooperation, Trade and External Policy Section, Dutch Permanent Representation to the EU, Brussels
Pieter Jan Kleiweg de Zwaan	Deputy Director-General for Political Affairs at the Dutch Ministry of Foreign Affairs
Daniel Kliman	Senior Fellow and Director of the Asia-Pacific Security Program at the Center for a New American Security (CNAS), Washington DC
Ed Kronenburg	Dutch Ambassador to the People's Republic of China, Beijing.
Thomas Langelaar	Trade and investment counsellor, EU Delegation to Beijing
Jos Leenheer	Senior coordinating adviser on cyber security at the Dutch Ministry of Justice and Security
James Andrew Lewis	Senior Vice President and Director of the Technology Policy Program, Center for Strategic and International Studies, Washington DC
Zhenhua Li	Deputy Director of the European Affairs Department, Ministry of Commerce of the People's Republic of China, Beijing
Walter Lohman	Director of the Asian Studies Center at the Heritage Foundation, Washington DC
Sanne van der Lugt	Freelance policy adviser and associate fellow at the Clingendael Institute
Doudouce Luitse	First secretary for political affairs at the Embassy of the Kingdom of the Netherlands, Paris
Maria Martin-Prat	Director of Services and Investment, Intellectual Property and Public Procurement at the Directorate-General for Trade, European Commission
Olaf Merk	Administrator for Ports and Shipping at the OECD, Paris
Rachel Morarjee	Director of the Economist Corporate Network, The Economist, Beijing
Annette Nijs	Founder of The China Agenda
Daniel Peck	Executive Director of the US-China Economic and Security Review Commission, Washington DC
Professor Michael Pettis	Professor of Management Practice at Guanghu School of Management, Peking University

Peter Potman	Director of the Asia and Oceania Department (DAO), Dutch Ministry of Foreign Affairs
Bas Pulles	Deputy head of mission at the Embassy of the Kingdom of the Netherlands, Beijing
Brigadier General Carsten Rasmussen	Defence Attaché at the Danish Embassy, Beijing
Mattis Raustøl	Minister Counsellor, Norwegian Embassy, Beijing
Olivier Richard	Deputy head of mission at the French Embassy, Beijing
David Ringrose	Head of the Policy Outreach and International Affairs Unit at the Directorate-General for Communications Networks, Content and Technology, European Commission, Brussels
Harvey Rouse	Head of the International Relations Unit at the Directorate-General for Mobility & Transport, European Commission, Brussels
Hans Dietmar Schweisgut	Former EU ambassador in Beijing
Victor Schoenmakers	Director of European & International Affairs, Rotterdam Port Authority
Professor Zhiqin Shi	Professor and Dean of the Institute of International Studies at Tsinghua University, Beijing
Pier Stapersma	Senior researcher at Clingendael Institute
Michael Stibbe	EU advisor to the Dutch prime minister, Ministry of General Affairs
Yun Sun	Director of the China Program at the Stimson Center, Washington DC
Brigadier General Christof Tatschl	Defence attaché at the Austrian Embassy, Beijing
Matthew Turpin	Director for China at the US National Security Council, Washington DC
Brigadier General Jürgen Karl Uchtmann	Defence attaché at the German Embassy, Beijing
Hanneke Veringa	Head of Institutional Business in the Netherlands, AXA Investment Managers
Ulrich Weigl	Counsellor and head of the Trade Section of the EU Delegation, Beijing

Nout Wellink	Supervisor at the Bank of China
Chris Wensink	Consultant on transport and mobility, Panteia
Gunnar Wiegand	Managing Director Asia and Pacific, European External Action Service
Dirk Jan Wierenga	First Secretary in the Political Section of the EU Delegation, Beijing
Joerg Wuttke	Vice President and Chief Representative, BASF China, Beijing
Guangyuan Yang	Director of the Department of European Affairs, Ministry of Commerce of the People's Republic of China, Beijing
Robert Zimmerman	First secretary at the Embassy of the Kingdom of the Netherlands, Paris
Fei Zhao	Director of Western European Affairs Bureau, Central Committee of the Chinese Communist Party
Jian Zhang	Director and research professor at the Institute for European Studies, China Institutes of Contemporary International Relations (CICIR), Beijing
Xinsheng Zhang	President of the International Union for Conservation of Nature (IUCN)

**List of abbreviations**

<b>ADB</b>	Asian Development Bank
<b>AIIB</b>	Asian Infrastructure Investment Bank
<b>AIV</b>	Advisory Council on International Affairs
<b>ASEM</b>	Asia-Europe Meeting
<b>BDI</b>	Federation of German Industries
<b>BNC</b>	assessment of new European Commission proposals
<b>BRI</b>	Belt and Road Initiative
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CCP</b>	Chinese Communist Party
<b>CEDAW</b>	Convention on the Elimination of All Forms of Discrimination against Women
<b>CEI</b>	European Integration Committee
<b>CFIUS</b>	Committee on Foreign Investments in the United States
<b>CFSP</b>	Common Foreign and Security Policy
<b>ECSC</b>	European Coal and Steel Community
<b>EEC</b>	European Economic Community
<b>EU</b>	European Union
<b>FDI</b>	Foreign direct investment
<b>FOCAC</b>	Forum on China-Africa Cooperation
<b>ICT</b>	Information and communication technology
<b>Ifri</b>	French Institute of International Relations
<b>IMF</b>	International Monetary Fund
<b>MES</b>	Market Economy Status
<b>MoU</b>	Memorandum of Understanding
<b>NATO</b>	North Atlantic Treaty Organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PCA</b>	Permanent Court of Arbitration
<b>PiS</b>	Law and Justice party
<b>TTIP</b>	Transatlantic Trade and Investment Partnership
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNCLOS</b>	United Nations Convention on the Law of the Sea
<b>US</b>	United States
<b>VOC</b>	Dutch East India Company
<b>WTO</b>	World Trade Organization

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\*\*\* Joint report by the Advisory Council on International Affairs (AIV) and the Advisory Committee on Migration Affairs (ACVZ).