



Berlin
Bosphorus
Initiative

► CHINA-EUROPEAN UNION RELATIONS: WHAT TRAJECTORY WILL EUROPE TAKE AMIDTS THE U.S.- CHINESE RIVALRY?

Prof. Bahri Yılmaz

Sabancı University Emeritus Faculty Member

November 2021

Publication



Abstract

The aim of this research paper is to explore the possible causes of the evolving global conflict between the United States and China; to analyse the economic results and consequences of this rivalry for the European Union (EU) as well as its relations with China, both before and during the COVID-19 pandemic. We will closely examine the various dimensions of the conflict and the impacts of the U.S.-Chinese rivalry on Europe. We also intend to understand the structure of the conflict from the Chinese, American, and European perspectives. Finally, we will discuss the attitude of the EU to the China-U.S. rivalry as well as explore where the EU stands between these two super powers and which way Europe will go? Whose side it will take? Will the EU follow an independent route and speak with “one-single voice”? What trajectory will Europe take in the future?

Biography

Bahri Yilmaz is EU Ad Personam Jean Monnet Professor and Emeritus Professor in Economics at Sabanci University’s Faculty of Arts and Social Sciences. He worked as the Chief Advisor to the Ministry of State for European Union Affairs in Ankara between 1997 and 2002. He was a visiting fellow at Wolfson and Pembroke College, Cambridge, St. Antony’s College, Oxford, Korean Development Institute/Seoul, Stiftung Wissenschaft und Politik (SWP) Berlin and at the Centre for European Studies (CES) Harvard University.

China-European Union Relations: What trajectory will Europe take amidst the U.S. – Chinese Rivalry?

EXECUTIVE SUMMARY

Bahri Yilmaz¹

1. Introduction

The aim of this research paper is to explore the possible causes of the evolving global conflict between the United States and China and to analyse the economic results and consequences of this rivalry for the European Union (EU) and its relations with China before and during the COVID-19 pandemic. We will closely examine the various dimensions of the conflict and the impacts of the U.S.-Chinese rivalry on Europe. We also intend to understand the structure of the conflict from the Chinese, American and European perspectives. Finally, we will discuss the attitude of the EU to the China-U.S. conflict and explore where the EU stands between these two global powers and which way Europe will go? Whose side it will take? Will the EU follow an independent route and speak with “one-single voice”? What trajectory will Europe take in the future?

2. What are the differences in policy between the United States and the EU with regard to China?

The EU finds itself caught in the middle of two conflicting super powers. On the one hand, the EU had not looked favourably upon former President Trump’s “America First” policy, which had generally aimed to undermine international trade regulations and multilateral organizations. On the other hand, over the past four years, the United States has been pursuing a conflict-oriented approach to China by hampering the economic and political relations between the two countries. The disputes arising between the United and China are not only focused on important economic issues, such as the bilateral trade deficit, but also include ideological and security matters. In contrast, the EU is more critical of China on trade and market opportunities. Europe seems to be primarily committed to preserving rule-based multilateralism and a liberal economic order and the EU wants to make use of all options for beneficial co-existence with China.

Unlike Washington, Brussels does not want to be involved in any form of geo-strategic containment nor does it want to decouple its relations with China. On the contrary, it primarily wants to deepen economic-technological

1. Bahri Yilmaz is EU Ad Personam Jean Monnet Professor and Emeritus Professor in Economics at Sabanci University's Faculty of Arts and Social Sciences.

The author would like to thank the Alexander von Humboldt Foundation for supporting the project by granting a fellowship at SWP in Berlin. At the same time, I am grateful to the department of Asia at the SWP for giving me the opportunity to work together.

cooperation and to develop economic relations with China based “on openness, non-discrimination and fair competition.”²

It is a fact that China and the EU are two global economic powers dominating international trade. Chinese and EU firms are keen to take economic advantages supplied from China and the EU such as “creating jobs, stimulating innovation, and expanding their markets. China’s rapid development has greatly exploited the capital, technology and know-how of European companies.”³ For European companies, China is not only an important market for the production of intermediate goods and raw materials, an international value chain and huge consumer market, but it is also considered very important as a research base and for the development of high-tech products. Additionally, China has been moving from exporting low-cost labour-intensive products to high-tech products and has started to compete with the EU in third markets, namely in Russia, Latin America and Africa. In other words, China has been transforming its export structure from complementary goods to substitution goods.

However, although China has made some progress in tariff rates, essential problems still remain unsolved and are fiercely debated in the EU. These include “a lack of transparency; industrial policies and non-tariff measures that discriminate against foreign companies; strong government intervention in the economy resulting in the dominant position of state-owned firms; unequal access to subsidies and cheap financing; and poor protection and enforcement of intellectual property rights.”⁴ China is still refusing to fulfil these required conditions and continues to deviate from World Trade Organization (WTO) norms. China’s economic and trade policy is described as being “neo-mercantilist, techno-nationalism and non-convergent with OECD countries.”⁵

3. The Growing Rivalry between Beijing and Washington:

China’s Economic Rise is a Threat to U.S. Dominance as a Super Power: All debates on China in the United States indicate that the U.S. policy towards China is oscillating between cooperation, collaboration and confrontation. With regard to China, US Secretary of State Tony Blinken described this approach in his first programmatic speech at the beginning of March 2021 as follows: “Our relationship with China will be competitive when it should be, collaborative when it can be and adversarial when it must be.”⁶

2. BDI, China Report “*China: Partner and Systemic Competitor*,” January 2019: p.1.and “Joint statement of the 21st EU-China summit, 04. 10. 2019. Brussels,” https://eeas.europa.eu/delegations/china_en/60836/Joint%20statement%20of%20the%2021st%20EU-China%20summi

3. Bahri Yilmaz, “*China Bilateral Investment Relations: How Can the European Union Deal with the Chinese Investment Offensive?*” EAF Koç University Working Paper No: 2007 March 2020.

4. Country China, European Commission, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

5. Mikko Huotari, Jan Weidenfeld, Rebecca Arcesati. “Economic Managing Cooperation and Competition with *China: Towards a More Integrated European Trade Policy Approach*,” MERICS. March 2020, p.3.

6. US Department of State, »A Foreign Policy for the American People«, Speech by Antony J. Blinken, Secretary of State, 3.3.2021, <<https://www.state.gov/a-foreign-policy-for-the-american-people/>>

It is common wisdom that the United States aims to stop the further political, economic and technological expansion of Chinese influence around the world simply because different interest groups in the U.S. are convinced that China's rise is a threat to U.S. economic and military dominance in the global arena.⁷

4. From the Chinese Perspective: Conflict Syndromes

From the Chinese point of view, the United States is trying to maintain its own global supremacy by isolating China geopolitically and seeking to curb its economic, technological and military development. Beijing is absolutely convinced that the success story of the last four decades is primarily down to the hard work and stalwartness of the Chinese people, the commercial skills of its companies and a wise, far-sighted policy from Beijing's leaders. China has always looked at the United States and former colonial powers with deep suspicion. During the "Century of Humiliation," between 1839-1949, China was often described as having suffered three kinds of losses: a loss of territory; a loss political and economic sovereignty and a loss of national and human dignity. According to Chinese official statements and media reports in Beijing, the demonstrations in Tiananmen Square in 1989 was supported by the U.S. Administrations. As of today, there is no sign that Beijing could substantially change or reconsider its political attitude and official position against Washington.

5. Europe in the Face of U.S.-China Rivalry: Which way Europe will go?

Given all these facts, a solution to the political and economic conflicts between Washington and Beijing does not appear to be in sight. Furthermore, for the time being there does not even seem to be any common ground to reach such a solution. If the systemic competition between the United States and China becomes the status quo, would the bipolarization of the international system and the breakdown of multilateralism become inevitable? In other words, under such circumstances other countries would be forced to side with one of the two superpowers. The critical questions for Europe are whether, to what extent and under what conditions, it should support the U.S. in its rivalry with China? As Josep Borrell, the High Representative for Foreign Affairs and Security of the EU underlined, the EU must decide "whether it wants to be a global player or just a playground for other powers."⁸ The European Parliament's in-house research department and think tank responded by saying "...The Trump Administration considers China a strategic competitor to confront, rather than a country with which to engage. The EU, on the contrary, refers to China as a strategic partner and, despite persistent and considerable differences in position in some areas, continues to engage..."⁹

However, the question still remains as to whether all EU member states should support the decoupling and containment policies along with the trade and technological war against China declared by former U.S. President Donald Trump and continued by President Biden. Biden has also indicated his position in moderate words that

7. According to The Economist, the coalition covers Team Trump, the national-security hawks in Congress, Pentagon chiefs and the head of spy agencies, and civil society representatives such as religious conservatives, human rights advocates, labor unions and old-school protectionists. See *The Economist*, "Briefing: China and America", October, 20 – 26, 2018, p.24.

8. Carl Bildt, "**Which Way for Europe on China?**" Project Syndicate, December 12, 2019.

9. "State of play of EU-China relations: Summary," Briefing, European Parliament, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI_\(2019\)633149_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI_(2019)633149_EN.pdf). Alex Fang, Nikkei, Asia, April 29 2021

“...America will stand up to unfair trade practices that undercut American workers and American industries, like subsidies to state-owned enterprises and the theft of American technology and intellectual property...”¹⁰ Or should the EU continue to follow its own independent economic policies against China without regard to Washington’s attitude against Beijing as they try to find a middle ground between engagement and containment? Today, US President Joe Biden argues the world society that “America is back” at the centre of the international order, following four years of Donald Trump’s “America First” approach.¹¹

In plain language, “The trade War” has forced EU members to either side with Beijing or Washington. Some EU members are important trading partners for China and thus would not want to be involved in any conflict with Beijing. The United States is also an important economic and security partner for the EU states.¹² Interestingly, the United States wants to bring the EU into line with its position without instigating any strategic dialogues with the EU on any points of contention.

Chancellor Merkel’s statement after NATO Summit on June 15 in Brussels indicates that the EU will follow a two-track approach with regard to China. On the one hand, Europeans want to show their solidarity with Washington by sharing the U.S. view on „respecting human rights, fundamental freedoms, rule of law, an effective multilateral system based on principles of openness, transparency and accountability and the protection of minorities in Xinjiang, Tibet and autonomy in Hong Kong.”¹³ The EU, on the other hand, wants to avoid any conflict with China because some of its members, especially Germany, are heavily dependent on trade relations and investments in China and Germany is the greatest economic beneficiary among the EU members.

6. Conclusion:

As Former Chancellor of Germany, Helmut Schmidt stressed, *“...Western politicians must understand that the economic, scientific and technological rise of China is unstoppable and come to terms with this as a fact of life...”*¹⁴ Additionally, he pointed out that instead of complaining, accusing and teaching Chinese people how to behave and what they have to do, the only course of action seems to be to accept China as a new economic power and deal with it as it is.¹⁵

10. Alex Fang, Nikkei, Asia, April 29, 2021

11. Ana Palacio, a former minister of foreign affairs of SpainFive Visions for a New International Order Oct 13, 2021, Policy syndicate

12. The European Think Tank Network on China (ETNC) report underlines the current opinion of Europeans for future relations with China as follows: “They (EU members) all consider the U.S. their most important ally and they all depend on its military protection, but they also want to do as much business with China as possible. With this balancing act, the common European objective is to avoid a bipolar system in which EU member states are forced to take sides. “See: Mario Esteban and Miguel Otero-Iglesias along with Una Aleksandra Bērziņa-Čerenkova, Alice Ekman, Lucrezia Poggetti, Björn Jerdén, John Seaman, Tim Summers and Justyna Szczudlik, “Europe in the Face of U.S.-China Rivalry,” European Think Tank Network on China, January 2020: 5. http://nias.asia/sites/default/files/news_files/etcn_report_2019_0.pdf

13. Nato-Gipfel: Merkel spricht von Neuanfang - China im Fokus, Kölnische Rundschau, June 15, 2021.

14. Helmut Schmidt, “Vertiefungen (*Deepening*)” (Berlin: SiedlerVerlag, 2010), pp. 303–305.

15. Helmut Schmid, “Nachbarn China”, im Gespräch mit Frank Sieren, Econ, 2006, p.11.

The basic question is how should we align the interests of China with the interests of the world? The only realistic way to deal with China is to cooperate and collaborate with it in a peaceful coexistence.¹⁶ It is also inevitable - and there is no alternative- but for China to open itself to foreign companies, abolish discrimination and unfair trade regulations and adjust itself to international trade regulations and the rules of the game.¹⁷ At the same time, Chinese rulers should take some gradual steps to improve human rights and freedom of speech in the country by accepting the rules-based international order to be respected by the international community. As a final word: We remain hopeful that the United States, the EU and China will be able to create new opportunities for dialogue restarting the serious negotiations process of strategic engagement.

16. Chris Patten wrote that "... George Schultz, a former U.S. secretary of state told me in his long experience in business and government, Chinese communists always tried to define other countries' relationships with them entirely on their own terms. They wanted the rest of us to regard our ties with China as the political equivalent of a beautiful and priceless Chinese vase. They would allow us to look at or even touch it, provided we didn't risk dropping it by saying or doing anything that they believed should disqualify us from the honor of Middle Kingdom's favor..." Chris Patten, the last British governor of Hong Kong and a former EU commissioner for external affairs, is Chancellor of the University of Oxford., "China's One-Way Diplomacy", Project Syndicate, June 1, 2021

17. Bahri Yilmaz, Working Paper China-EU trade relations: Is China an economic partner, competitor or rival? Working Paper, No. 2010 Provided in Cooperation with: Koç University - TÜSİAD Economic Research Forum, Istanbul, p.14





China-European Union Relations: What trajectory will Europe take amidst the U.S. – Chinese Rivalry?

1. Introduction:

The highly anticipated EU–U.S. Summit took place in Brussels on June 15, 2021. This was the first EU-U.S. Summit since 2014 and the first visit by a U.S. President to the EU institutions since 2017. The leaders of the EU and the United States discussed recommencing transatlantic relations and preparing a “Joint Transatlantic Agenda” for the coming years.¹ Of course, China was one of the main topics on the agenda not only for the EU-U.S. Summit, but also the G7 Summit in Carbis Bay, in Cornwall England earlier in June. U.S. President Joe Biden was determined on his first visit to Europe to form a strong alliance of European partners to counter the rising power of China and to bring the leaders on board with his own differing China policy after his predecessor Donald Trump.

2020 was also a critical milestone for EU-Chinese relations. The first EU-China Summit took place on June 22, 2020. German Chancellor Angela Merkel planned to host EU leaders and Chinese President Xi Jinping in Leipzig Germany on September 14, 2020. However due to the pandemic a virtual online summit was held between the EU and China. Expectations coming out of the summit were that both sides would try to create new opportunities for dialogue and would restart the serious negotiation process of strategic engagement.

The aim of this research paper is to explore the possible causes of the evolving global conflict between the United States and China and to analyse the economic results and consequences of this rivalry for the EU and its relations with China before and during the COVID-19 pandemic. We will closely examine the various dimensions of the conflict and the impacts of the U.S.-Chinese rivalry on Europe. We also intend to understand the structure of the conflict from the Chinese, American, and European perspectives. Finally, we will discuss the attitude of the EU to the China-U.S. conflict and explore where the EU stands between these two global powers and which way Europe will go? Whose side it will take? Will the EU follow an independent route and speak with “one-single voice” in relations with China?

* The author would like to thank the Alexander von Humboldt Foundation for supporting the project by granting a fellowship at SWP in Berlin. At the same time, I am grateful to the department of Asia at the SWP for giving me the opportunity to work together.

1. The main topics of the EU-U.S. Summit can be summarized as follows: “(i) end the COVID-19 pandemic, prepare for future global health challenges, and drive a sustainable global recovery; (ii) protect the planet and foster green growth; (iii) strengthen trade, investment and technological cooperation; and (iv) build a more democratic, peaceful and secure world. Commitment to uphold the rules-based international order with the United Nations at its core, reinvigorate and reform multilateral institutions where needed, and cooperate with all those who share these objectives.”

EU-U.S. Summit Statement Towards a renewed Transatlantic partnership: EU-U.S.--Summit-joint-statement-15-june-final-final.pdf (europa.eu), paragraph 17, p.3

1.1. China's Challenge to the Global Economic Order

As Former Chancellor of Germany, Helmut Schmidt, underlined “..., *Western politicians must understand that the economic, scientific and technological rise of China is unstoppable and come to terms with this as a fact of life...*”²

It is widely held that China is not a democratic country and therefore its political system is not based on democratic values and rules-based international order. The country has been heavily criticized especially by Western political actors, who have mainly focused on serious political and social issues such as:³ authoritarianism under the Chinese Communist Party (CCP), human rights violations, restricted freedom of speech and press, corruption, repression of labour unions, oppression of ethnic minorities and environmental issues.

Despite all these weaknesses,⁴ it would be fair to argue that, during the first half of the twenty-first century, China has become a rising economic power and a new emerging global player:

Today, China is one of the three largest global economies alongside the United States and the EU. It has witnessed an enormous increase in its GDP and has the largest economy in terms of purchasing power parity. Furthermore, it is the world’s largest exporter and third largest importer and has the largest manufacturing sector in the world. Over 800 million people have moved out of poverty and have become members of the upper-middle class.⁵ That said, its income is still about one-sixth of the United States and one-third of the EU. Since 1978, the country has transformed itself from an agrarian economy to an industrial one and from a purely command economy towards a social market economy with Chinese characteristics.⁶ According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report,⁷ China became the second-largest recipients of foreign direct investment (FDI) inflows in the world in 2019 after the United States. China has the highest foreign exchange reserves held by any country in terms of U. S. dollars world-wide.⁸

2. Helmut Schmidt, "Vertiefungen (Deepening)" (Berlin: SiedlerVerlag, 2010), pp. 303–305.

3. Ha-Joon Chang, "The East Asian Development Experience: The Miracle, the Crisis and the Future;" published by Zed Books Ltd. London, 2006, p.1.

4. China is growing rapidly but it also has significant weaknesses and serious unsolved economic and social problems: see OECD, "OECD Economic Surveys China 2017," Paris, March 2017, <https://www.oecd.org/eco/surveys/china2017-OECD-economic-survey-overview.pdf>.

5. Gabriel Sigmar noticed that "...While Americans and Europeans argue for the importance of individual human rights, the self-confident Chinese rebuttal is that there are also social human rights: to education, nutrition, adequate housing, and so forth..." Policy Syndicate, 12.06. 2021.

6. See Bahri Yilmaz, "To Where Is China running? Challenges and perceptions after 40 years of Chinese reforms, transformation, and integration into the world economy", Working Paper, No. 1908 Provided in Cooperation with: Koç University - TÜSİAD Economic Research Forum, Istanbul.

7. "China remains the second largest FDI recipient in 2019: UNCTAD," <http://www.ecns.cn/news/2020-01-21/detail-ifzsuknk2869053.shtml>.

8. Newsmax-Finance, <https://www.newsmax.com/finance/markets/china-july forex reserves/2020/08/07/id/981017/>.

1.2. What are the differences in policy between the United States and the EU with regard to China?

The EU finds itself caught in between two conflicting super powers. On the one hand, the EU did not look favourably upon President Trump’s “America First” policy, which aimed to undermine international trade regulations and multilateral organizations. On the other hand, over the past four years, the United States has been pursuing a confrontational approach to China in terms of its economic and political relations. The disputes arising between the United States and China are not only focused on important economic issues, such as the bilateral trade deficit, but also include ideological and security matters. In contrast, the EU is more critical of China on trade and market opportunities. Europe seems to be primarily committed to preserving rule-based multilateralism and a liberal economic order and the EU wants to make use of any options for a beneficial co-existence with China.

Unlike Washington, Brussels does not want to be involved in any form of geo-strategic containment or decouple its relations with China. On the contrary, it primarily wants to deepen economic-technological cooperation and to develop economic relations with China based “on openness, non-discrimination, and fair competition.”⁹

China and the EU are two global economic powers dominating certain aspects of international trade. Chinese and EU companies are quick to seize any economic advantages supplied from both sides such as “creating jobs, stimulating innovation, and expanding their markets. China’s rapid development has greatly exploited the capital, technology, and know-how of European companies.”¹⁰ For European companies, China is not only an important market for the production of intermediate goods and raw materials, an international value chain and a huge consumer market, but it is also considered very important as a research base and as a developer of high-tech products. Additionally, China has been moving from exporting low-cost labour-intensive products to high-tech products and has started to compete with the EU in third markets, namely in Russia, Latin America and Africa. In other words, China has been transforming its export structure from complementary goods to substitution goods.

However, although China has made some progress in tariff rates, essential problems still remain unsolved and are fiercely debated in the EU. These include “a lack of transparency; industrial policies and non-tariff measures that discriminate against foreign companies; strong government intervention in the economy resulting in a dominant position of state-owned firms; unequal access to subsidies and cheap financing; and poor protection and enforcement of intellectual property rights.”¹¹ China is still refusing to fulfil these required conditions and continues to deviate from World Trade Organization (WTO) norms. China’s economic and trade policy is described as being “neo-mercantilist, techno-nationalism and non-convergence with OECD countries.”¹²

9. BDI, China Report “**China: Partner and Systemic Competitor**,” January 2019: p.1.and “Joint statement of the 21st EU-China summit, 04. 10. 2019. Brussels,” https://eeas.europa.eu/delegations/china_en/60836/Joint%20statement%20of%20the%2021st%20EU-China%20summi

10. Bahri Yilmaz, “**-China Bilateral Investment Relations: How Can the European Union Deal with the Chinese Investment Offensive?**” EAF Koç University Working Paper No: 2007 March 2020.

11. Country China, European Commission, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

12. Mikko Huotari, Jan Weidenfeld, Rebecca Arcesati. “Economic Managing Cooperation and Competition with **China: Towards a More Integrated European Trade Policy Approach**,” MERICS. March 2020, p.3.

2. The Growing Rivalry between Beijing and Washington: China's Economic Rise is a Threat to American Dominance as a Super Power

"...A new global political and economic order is emerging, the result of new economic realities. We cannot change these economic realities. But if we respond to them in the wrong way, we risk a backlash that will result in either a dysfunctional global system or a global order that is distinctly not what we would have wanted..."

Nobel Prize Winner Economist Joseph Stiglitz.¹³

2.1 The American Perspective:

The U.S.-China rivalry has become one of the main topics of international relations over the past four years. It is obviously a question of global balances of power and the status of both countries in the international system. However, the conflict also has other dimensions, including security, trade, technological and ideological issues.

In this section, we will closely look at the various dimensions of the conflicts and the impacts of the U.S.-Chinese rivalry on Europe. We also intend to understand the structure of the conflict between Beijing and Washington from the Chinese, American and European perspectives.

Since the launch of diplomatic relations between the United States and China by the Nixon Administration in 1972, economic relations between Washington and Beijing rapidly intensified without any serious interruptions until 2016. This period has been described as "*Chimerica*,"¹⁴ and the golden age of relations. American enterprises earned remarkable profits through the export of goods, services and investments to the Chinese market. Additionally, these companies also transferred financial capital, management know-how, and technology. Meanwhile, Chinese companies increased their exports to the world's biggest consumer market, the United States, and achieved immense profits as a result. In turn they partly transferred their profit-making contributions to capital accumulation in China and also reinvested their profits by buying American treasury bonds. As a result of these portfolio type investments, Chinese companies helped the U.S. government to close the budget deficit and simultaneously stimulated the rate of consumption spending in the United States.

It may be interesting to note that during the Cold War period, the East-West confrontation was taking place between two isolated opposite blocks, represented by the Soviet Union and the United States in the framework of ideological antagonism, an arms race and a global power competition. In contrast to the Cold War, Chinese and American economic relations are intertwined and both countries are economically highly interdependent on each other. China was the United States' third largest export market for goods and China was the United States' largest supplier of import goods in 2018.¹⁵

13. Joseph E. Stiglitz. "Chinese Century", *Geopolitics*, January, December 4, 2014. <https://www.vanityfair.com/news/2015/01/china-worlds-largest-economy>.

14. Niall Ferguson and Moritz Schularick, "Chimerica and the Global Asset Market Boom," *International Finance*, 10:3, (2007), pp. 215–239.

15. "U.S. goods and services' trade with China totaled an estimated \$737.1 billion in 2018. Exports were \$179.3 billion; imports were \$557.9 billion.

2.2. What has changed?

Over the last forty years, the picture has radically changed. China has become one of the leading global economies. The Chinese “*economic miracle*” began in December 1978 with Deng Xiaoping’s economic revolution and the opening of the Chinese economy to the global market. China’s opening to international competition has transformed the previously closed, economically underdeveloped, low-income country into the one of the most powerful nations of the global economy.¹⁶

Disregarding the principles of the free-market order and partly ignoring the multinational rules of the game, China has established its own political, economic, and social model of state capitalism under an authoritarian regime. Consequently, the economy is broadly led and controlled by the state and the Chinese Communist Party (CCP).

China’s economic success captured the attention of the United and started to cause concern within U.S. political circles after the 2008 global financial crisis when Beijing was beginning to be perceived as a potential economic and geopolitical rival to the United States. More precisely, the basis for Washington’s dominance as a super power in the global economy and its position in international organizations since the Second World War was now being seriously challenged by China. China’s rise to power has induced fear in the United States of its losing its status as an internationally dominant superpower¹⁷- just as the United States had once replaced the British Empire more than a century before.

2.3. President Donald Trump’s Policy against China

The relationship between the United States and China has been described using various labels under different administrations: The Clinton administration called it a “*strategic partnership*;” the Bush Jr. Administration as a “*responsible stakeholder*” and the Obama administration as “*partnership based on mutual respect and win-win cooperation*.¹⁸ The Trump administration published the U.S. National Security Report in December 2017, combined economic security with national security and declared “*China and Russia as strategic competitors*.¹⁹

The U.S. goods and services trade deficit with China was \$378.6 billion in 2018. U.S. FDI in China (stock) was \$107.6 billion in 2017, a 10.6 percent increase from 2016. U.S. FDI in China is led by manufacturing, wholesale trade, and finance and insurance. China’s FDI in the United States (stock) was \$39.5 billion in 2017, down 2.3 percent from 2016. China’s direct investment in the U.S. is led by manufacturing, real estate, and depository institutions. Sales of services in China by majority U.S.-owned affiliates were \$55.1 billion in 2016 (latest data available), while sales of services in the United States by majority China-owned firms were \$8.3 billion. „See *Office of the United States Trade Representative; Executive Office of the President, “The People’s Republic of China,”* <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>.

16. Bahri Yilmaz. “**The US-China Trade War: The War Nobody**” can win, EAF Working Paper Series, 1911 October 2019, p.3.

17. Peter Rudolf, “**Sino- American World Conflict: (Der Sino- Amerikanische Weltkonflikt)**”, in Barbara Lippert / Volker Perthes (ed.) Strategische Rivalität zwischen USA und China, Stiftung Wissenschaft und Politik Deutsches Institut für Internationale Politik und Sicherheit SWP-Studie, Februar 1,2020, Berlin, p.10.

18. Chi Hung Kwan, “**Why Has the U.S. Waged a Trade War against China? —Protracted Confrontation Inevitable**” RIET, 2018.

19. The report described the geopolitical situation as follows: “China and Russia challenge American power, influence, and interests, attempting to erode

The discussion on the so-called “*China conflict*” intensified with Donald Trump’s policies during his 2016 election campaign. He promised to make trade fairer for the United States in order to stop the “unfair transfers of American technology and intellectual property to China” and protect American jobs. President Trump claimed that “*China has stolen American technology, American jobs, and played a dirty game when it comes to restricting access to the Chinese market for U.S. firms.*”²⁰ There is a coalition of politicians and businesses within the United States that believes “... China has a deliberate strategy to push America back and impose its will abroad, and that there needs to be a strong America response.”²¹

China’s unforeseen rise as a new economic and military power - a new super power- is widely regarded in the United States as a threat to the United States’ own position of power in the international order it helped establish after the Second World War.²²

2.4. What is all this hype about?

“...The Trump administration’s conflict with China has little to do with U.S. external imbalances, closed Chinese markets, or even China’s alleged theft of intellectual property. It has everything to do with containing China by limiting its access to foreign markets, advanced technologies, global banking services, and perhaps even U.S. universities...”

Jeffrey D. Sachs of Columbia University²³

American security and prosperity.” They (China and Russia) are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence.” See: White House. (2018). “National Security Strategy of the United States of America.” December 2018.

The report labelled China as a ‘revisionist power’ and ‘strategic competitor’ that wants ‘to shape a world antithetical to U.S. values and interests’. In addition, the *Summary of the 2018 National Defense Strategy* issued by the US Department of Defense stressed that the ‘central challenge’ to the Pentagon was how to tackle ‘the re-emergence of long-term, strategic competition’ with China and other rival states,

See” **The White House, ‘National Security Strategy of the United States of America’,** December 2017, pp. 2–3, 25, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905-2.pdf>. U.S. Department of Defense, ‘Summary of the 2018 National Defense Strategy of the United States of America: Sharpening the American Military’s Competitive Edge,’ <https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

20. Calvin Miao, “**The US- China Trade War**,” *The Center for Global Business*, December 18, 2018. <https://sites.utexas.edu/longhornglobalbiznet/the-us-china-trade-war>.

21. According to The Economist, the coalition covers Team Trump, the national-security hawks in Congress, Pentagon chiefs and the head of spy agencies, and civil society representatives such as religious conservatives, human rights advocates, labor unions and old –school protectionists. See *The Economist*, “Briefing: China and America”, October, 20 – 26, 2018, p.24.

22. See the following for a detailed criticism of China’s unfair trade practices: U.S. Ambassador to the WTO Dennis Shea criticized China as follows and called for improvements (Shea 2018). Shea, D. (2018). “Ambassador Shea: “**China’s Trade-Disruptive Economic Model and Implications for the WTO.**” WTO General Council, Geneva, July 26. 14 President of the United States, National Security Strategy of the United States, Washington, D.C., Dec. 2017, p. 25.

23. J. D. Sachs, “**The War on Huawei.**” *Project Syndicate*, December 11, 2018. <https://www.project-syndicate.org/commentary/trump-war-on-huawei-meng-wanzhou-arrest-by-jeffrey-d-sachs-2018-12?barrier=accesspaylog>

In the strategic paper prepared by the Trump administration it alleged that China aims to achieve regional hegemony in the Indo-Pacific region and wants to gain worldwide supremacy in the long term.²⁴ With these strong statements made by President Trump, China is threatening not only the United States' military status as a dominant power in the long term, but also the resulting privileges and economic advantages.²⁵

It is argued, if China could gain more ground in the global political, economic and technological fields, then it would try to determine the rules of the game in international institutions, and establish "*illiberal sphere of influence*" around the world.²⁶ From the U.S. perspective, China no longer poses simply a regional challenge, but a global one as well. Today, both the United States and China are the leading economic and military (super) powers. The EU and Japan are economic powers, but not military powers; Russia is a military power, but not an economic power.

Graham Allison explained the new phenomena²⁷ and the impacts of the power shift with a debatable thesis called *The Theory of Thucydides*.²⁸ This theory can partly explain the possible outcome of the present shift in the balance of power from the United States to China, but cannot account for all of the dynamics. The theory gives the impression that the transition of power would lead from a regional conflict to global hegemonic conflict, with the final destination potentially ending in a worst-case scenario; namely global war.

There is clearly a technological race between these two countries and the United States and China are both conscious that the main aim is to achieve technological superiority over other competitors, which is the prerequisite for economic and military dominance and to secure their role in global politics.²⁹ As a result, the focus of the dispute between the two countries is moving away from trade to technology transfer and the trade war has been converted into a tech war.³⁰ As a final statement, to borrow the words of Paul Krugman, "... at this

24. President of the United States, National Security Strategy of the United States, Washington, D.C., Dec. 2017, p. 25.

25. Peter Rudolf, "The Sino-American World Conflict, *ibid*, p.13.

26. Ely Ratner, 'Defanging' China: how to counter Beijing's 'illiberal sphere of influence', *Democracy Digest*, National Endowment for Democracy, November 27, 2018.

27. Graham T. Allison, "Destined for War: Can America and China Escape Thucydides' Trap?" Boston 2017. Robert Gilpin, "The Theory of Hegemonic War," in *The Origin and Prevention of Major Wars*, ed. Robert I. Rutberg and Theodore K. Rabb (Cambridge et al.: Cambridge University Press, 1989), 15–37.

28. Chi Hung Kwan. "The China–U.S. Trade War: Deep-Rooted Causes, Shifting Focus and Uncertain Prospects," Asian Economic Review Policy, September 16, 2019. Thucydides' Trap was used by the ancient Greek historian Thucydides to describe the war between Athens and Sparta in 500 B.C. The war continued for 30 years and ended in the demise of both city-states. Thucydides pointed out: "What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta. When a rising power threatens to displace a ruling one, the most likely outcome is war."

29. Marianne Schneider- Pet singer, Jue Wang, Yu Jie and James Crabtree, "U.S.–China Strategic Competition: The Quest for Global Technological Leadership," Chatham House: Asia-Pacific Programme and the U.S. and the Americas Programme, November 2019: p. 2.

30. "...On this, the US-Japan negotiation on semiconductors in the 1980s provides a relevant precedent. At the time, Japanese firms boasted half of the world's semiconductor production, and US manufacturers heavily relied on Japanese semiconductors. On a national security basis, the United States insisted strongly that Japan should stop its dumping and industrial policies that protected its semiconductor industry, and the agreement in 1986 obliged Japan to secure 20 percent of its domestic semiconductor market for foreign producers. This was the most contentious issue in the US-Japan trade war in the 1980s. I believe that technology will be a significant challenge to the settlement of the US-China trade war as well..." See "Disentangling China's Grand

rate, we may have to wait for a new president to clean up this mess, if she can ..."³¹

2.5. New President at the White House:

China has an overall goal to become the leading country in the world, the wealthiest country in the world, and the most powerful country in the world. That is not going to happen on my watch.... "

President Joseph Biden, March 25, 2021.³²

One of the most important topics of the presidential elections held in the United States on November 3rd, 2020, was the focus on U.S.-China relations. As a result of the Trump Administration's strategy of using populist rhetoric that directly targeted China during the election campaign, the American public became increasingly more critical of China.

According to a Pew Research Centre study conducted between mid-June 2020 and mid-July 2020, this negative trend is continuing to grow: 73% of Americans have a negative view of China. Nearly four-fifths of respondents blame China for the global spread of the COVID-19 virus. A quarter of Americans see China as a competitor; a strong competitor for nearly three-fifths and only 16% consider China a partner.³³ Today, about two-thirds of Americans have a negative view of China.

Even after Joe Biden's election as president, the problems with China are not expected to disappear, but within a new climate of trust, bilateral relations are expected to develop in a more constructive direction and both sides have given the impression that a satisfactory compromise could be reached.

President Joe Biden gave the first sign when he focused on China in his first speech to Congress: "*What has he achieved in 100 days?*" President Biden underlined the highlights of his policy towards China. In his speech, Biden paid more attention to China than any other foreign policy issue.

The following are some remarks from President Biden's speech on China:³⁴

"...China and other countries are closing in fast. We have to develop and dominate the products and technologies

Strategy": Interview with Yoichi Funabashi, *Harvard International Review*, 20. April 2020.

31. Paul Krugman, "Trump's China Shock," New York Times, August 5, 2019, <https://www.nytimes.com/2019/08/05/opinion/trumps-china-shock.html>.

32. Marvin C. Ott, April 1, 2021 "Asia Program, Foreign Policy Research Institute, Biden Takes on China - Foreign Policy Research Institute" (fpri.org). <https://www.fpri.org/article/2021/04/biden-takes-on-china/>

33. Laura Silver, Kat Devlin, and Christine Huang, "Americans Fault China for Its Role in the Spread of COVID-19," July 30, 2020. <https://www.pewresearch.org/global/2020/07/30/americans-fault-china-for-its-role-in-the-spread-of-covid-19/>

34. See Alex Fang, Nikkei, Asia, "We are in a competition with China to win the 21st century," April 29, 2021. <https://asia.nikkei.com/Politics/International-relations/Biden-s-Asia-policy/Biden-We-are-in-a-competition-with-China-to-win-the-21st-century>

of the future: advanced batteries, biotechnology, computer chips, and clean energy... “. Biden has repeatedly identified “competition with China as the greatest foreign policy challenge the country faces.” He also underlined to “Chinese President Xi Jinping that the United States will maintain a strong military presence in the Indo—Pacific “just as we do for NATO in Europe – not to start conflict – but to prevent one”. He has been urging “lawmakers to pass a sweeping bipartisan package of legislation now making its way through the Senate that would press Beijing on human rights”. He added that “...in my discussion with President Xi, I told him that we welcome the competition - and that we are not looking for conflict. But I made absolutely clear that I will defend American interests across the board...”

Even if the American public’s views on China are negative, a differentiated policy towards Beijing can be expected under President Biden. Taking Biden’s statements and the Democratic Party’s election manifesto as an indicator, the U.S. rivalry with China is continuing,³⁵ but we can expect less confrontational rhetoric and more conciliatory policies. As Ryan Hass argued,³⁶ “... under the Biden administration, the Sino-American relationship is “moving gradually from sharp confrontation to deep competition.” Joseph S. Nye defined the U.S.-China relationship as a “cooperative rivalry.”³⁷

It is interesting to note that the U.S. Senate Foreign Relations Committee officially announced “The Strategic Competition Act of 2021” in April of that year. The Act defines China as a strategic competitor and focuses on issues with China in the field of trade, technology, and security. The Strategic Competition Act of 2021 may be regarded as a broad summary of ongoing public discussion on China in the United States.

Finally, former Secretary of State Henry Kissinger participated in a debate at a special session of the China Development Forum in Beijing in March 2020. According to him, “cooperative and positive relations are essential to global peace and prosperity between the major industrial and technological countries in the world, and between China and the United States.”³⁸

All debates on China in the United States show that the U.S. policy towards China is moving away from confrontation towards cooperation. It is a common belief that the United States is aiming to stop the further political, economic and technological expansion of Chinese influence in the world, simply because different interest groups in the United States are convinced that China’s rise is a threat to U.S. economic and military dominance in the global arena.³⁹

35. Yang Kuang-shun, The diplomat, <https://thediplomat.com/2020/07/team-bidens-policies-on-china-and-taiwan>

36. Ryan Hass, a former National Security Director for China, Taiwan and Mongolia and now a senior fellow at the Brookings Institution, a Washington D.C. think tank See, Alex Fang Nikkei staff writer April 29, 2021 Biden: ‘We are in a competition with China to win the 21st century’ - Nikkei Asia.; Reporting by Patricia Zengerle; editing by Kieran Murray and Richard Pullin), Biden talks tough on China in first speech to Congress | Euro news.

37. Joseph S. Nye. „**The Logic of U.S.-China Competition**,“ Project Syndicate, May 6, 2021; <https://www.project-syndicate.org/commentary/joe-biden-us-china-relations-cooperative-rivalry-by-joseph-s-nye-2021-05>. He defined this concept as ... the success of US President Joe Biden’s China policy will depend on whether the two powers can cooperate in producing global public goods such as climate change and a pandemic, while competing in other areas.”

38. Kissinger added that “China and the U.S. are two great societies, with a different culture and different story. As a result of this fact they can have different opinions. But at the same time, modern technology, global communications, and the global economy require that the two societies begin ever more intensive efforts to work together.” Co Desheng. “Global peace, prosperity depend on China-U.S. ties, says Kissinger.” China Daily, March 20,.2021, <http://www.chinadaily.com.cn/a/2021/03/20/WS605582e7a31024ad0bab06f2.html>

3. From the Chinese Perspective: Conflict Syndromes

“...The Chinese people are striving to fulfil the Chinese dream of the great renewal of the Chinese nation is about prosperity of the country, rejuvenation of the nation, and happiness of the people. It reflects the ideal of the Chinese people of today as well as the fine tradition of relentlessly seeking progress that we have had since ancient times. The Chinese dream requires balanced development and mutual reinforcement of material and cultural progress. Without the continuation and development of civilization or the promotion and prosperity of culture, the Chinese dream will not come true...”

Speech by H.E. Xi Jinping President of the People's Republic of China at UNESCO Headquarter (2014-03-28)

Next, we intend to discuss how China perceives the United States.⁴⁰ How do the Chinese government and official media respond to critics from the United States? For two reasons, criticisms and individual opinions cannot be easily debated, but can only be interpreted from the Chinese perspectives. First, freedom of speech in China is tightly controlled and there is often only a single voice which is the official statements made by the CCP. Second, most academic publications are either concerned with self-censorship or reflect and justify the government's official positions and points of view. The source of some other opinions on the conflict with the United States can be followed by publications from political scientists and economists in the Chinese Diaspora.

From the Chinese point of view, these arguments justify that the United States is trying to maintain its global supremacy by isolating China geopolitically and seeking to curb its economic, technological, and military development.⁴¹ Beijing is absolutely convinced that its success story of the last four decades is primarily down to the hard work and stalwartness of the Chinese people; the commercial skills of its companies, and a wise far-sighted policy from Beijing's leaders.⁴² In this respect, China defines itself as the largest developing country in South East Asia and as a development model, but not systemic rival to the United States. According to Zhang

39. Peter Rudolf, "Amerikanische Chinapolitik und transatlantische Beziehungen," SWP Aktuell, Nr. 68. September 2020, pp.1-4.

40. For a detailed analysis on the Chinese perspective see Minghao Zhaa, "New Cold War Inevitable? Chinese Perspectives on U.S.–China Strategic Competition," *The Chinese Journal of International Politics*, Volume 12, Issue 3, (autumn 2019): pp. 371–394, <https://doi.org/10.1093/cjip/poz010>.

41. Chi Hung Kwan has brought forward the following counter arguments against criticisms from the U.S. administrations and the media. See Chi Hung Kwan, "The China–U.S. Trade War: Deep-Rooted Causes, Shifting Focus and Uncertain Prospects, Asian Economic Policy Review JCER), September 16, 2019 and "Why Has the U.S. Waged A Trade War Against China?—Protracted Confrontation Inevitable, RIET, and December 4, 2018.

“...In the past, the United States started what came to be known as the Cold War against the Soviet Union, a powerful country with an entirely different ideology, and contained and attacked it at every level.”

“Targeting a rival has consistently been U.S. strategy since the United States became the global No. 1 in GDP size in 1894. The United States always views a number-two country which threatens its global supremacy as a rival and makes every possible effort to contain it.”

“For the United States, China has become a threat to the “America First” principle. China is now the world’s second largest economy. Being an economic elephant, China cannot make itself invisible even if it keeps a low profile.”

“. The United States has adopted two ways of countering this new rival. One is mobilizing the American people’s political support through the “Make America Great Again” slogan. The other is containing China at every level.”

42. Hanns Günther Hilpert, Gudrun Wacker, "Chinesische Narrative über die USA," Strategische Rivalität zwischen USA und China, SWP, February 2020 Berlin: p.12.

& Feng, the United States' policy against China is based on three pillars: "cracking open China's market, curbing technology transfers to China, and reforming and rebuilding the international trading system against China."⁴³

From the Chinese point of view, the importance of its economic success is nothing other than the re-birth of its former global economic power.⁴⁴ However, in this transformation China is not just another emerging economy. Rather, China sees itself as a former economic power regaining its historical status of the fifteen and sixteen centuries when the country was regarded as a leading economy and its share accounted for nearly 30 percent of the world's production.⁴⁵

China's historical memories of the "Century of Humiliation" in the nineteen and early twentieth centuries are kept fresh in people's minds (Opium Wars, Boxer Rebellion, British and Japanese occupation) and play into Chinese policy debates. It is one of the key arguments of modern China's grand narrative against the United States and the West.⁴⁶

During the "Century of Humiliation," China was often described as having suffered three kinds of losses in the period between 1839 and 1949: a loss of territory, a loss of political and economic sovereignty and a loss of national and human dignity.

Singapore's former president Lee Kuan Yew, a graduate of Cambridge University, described Chinese policies appropriately by arguing as follows:⁴⁷

"...China will never be a liberal democracy: China is not going to be a liberal democracy; if it did, it would collapse... To achieve the modernization of China, her communist leaders are prepared to try all and every method, except for democracy with one person and one vote in a multi-party system. Their two main reasons are their belief that the Communist Party of China must have a monopoly on power to ensure stability; and their deep fear of instability in a multiparty free-for-all, which would lead to a loss of control by the center over the provinces, with horrendous consequences, like the warlord years of the 1920s and 1930s...."

China's foreign policy is broadly founded on five main pillars⁴⁸: (1) Beijing expects other nations to recognize its "One China" policy. It opposes the recognition of Taiwan as a separate state: (2) China advocates recognition of

43. See Zhang, Y & Feng, W. (2018). "From Engagement to Deterrence: Motive of the United States' China Strategy and Four Scenarios of China-U.S. Gamesmanship." *Tsinghua Financial Commentary* and Chi Hung Kwan, ibid.

44. Bahri Yilmaz, "**To Where Is China running? Challenges and perceptions after 40 years of Chinese reforms, transformation, and integration into the world economy,**" ibid.

45. Seung-Youn Oh, "**China's Reform and Opening: 40 Years and Counting,**" The Diplomat, June 1, 2018, <https://thediplomat.com/2018/06/chinas-reform-and-opening-40-years-andcounting>.

46. Alison A. Kaufman, "**The "Century of Humiliation" and China's National Narrative,**" Testimony before the U.S.-China Economic and Security Review Commission Hearing on "China's Narratives Regarding National Security Policy," March 10, 2011: pp. 1-2.

47. See Lee Kuan Yew, **The Grand Master's Insights on China, the United States, and the World** (Cambridge, MA: MIT press, 2013): pp.14-15.

48. For further information on China's international relations, see Henry Kissinger, *On China* (New York/London: Penguin Books, 2011); Henry Kissinger,

its national sovereignty and non-interference: (3) The Chinese government is trying to avoid being unresponsive to issues such as human rights, freedom of expression and speech, and events in Xinjiang and Hong Kong. It hesitates to be publicly involved in any discussion of the democratization process and human rights issues: (4) Beijing wants to develop and deepen economic relations through trade, investments and the Belt and Road initiative (BRI), regardless of whether the countries with which it has relations are based on democratic values or not: (5) Beijing is aware of the United States' security and military powers and recognizes Washington's political, economic, and security interests worldwide. China also anticipates the United States' role in the Indo-Pacific region. Therefore, China will avoid any military conflict involving the United States regionally and internationally.

As a result of all these factors, the following conclusion can be made: China has always looked at the United States and former colonial powers with deep suspicion. According to official statements and media reports in Beijing, the demonstrations in Tiananmen Square in 1989 have been supported by the U.S. Congress and administrations.⁴⁹ Until today, there has been no substantial indication that Beijing would change or reconsider its political attitude and official position against Washington.

Special Case: Technology War Gains Momentum⁵⁰

The conflict between the United States and China is playing out in the technological sphere. Both countries want to win the technological race and make use of all the advantages of the 4th Industrial Revolution in the digital age, in which artificial intelligence will play an important role. China wants to catch up to the United States in the field of advanced technology. The United States, on the other hand, wants to curb China's rapidly increasing economic and technological development. One of the main goals of the U.S. administration is to not lose its present technological dominance over China by implementing a "selective decoupling" policy against it in the fields of advanced technologies and the digital sphere.⁵¹ At the same time, Washington intends to deepen China's digital isolation and curb Beijing's ability to spy and sabotage. These include banning *TikTok* and *WeChat*, known as Chinese Apps.

At the centre of this policy is the control of *Huawei*'s workspace and access to advanced technology. Consequently, if companies in other countries working with *Huawei* use American technology to produce computer chips and want to supply chips to *Huawei*, they have to apply for an export license. The chip is manufactured in a production method that Chinese companies cannot easily access. Only a few manufacturing countries - the United States,

World Order (New York/London: Penguin Books, 2014), 213-233; Helmut Schmid, "Nachbar China; Econ Publishing Company. 2006; Martin Jacques, When China Rules the World (New York/London: The Penguin Group, 2012)

49. Gunther Hilbert and Gudrun Wacker, *ibid.* 2020: pp. 13-16.

50. See a detailed analysis for the Chinese Technology Policy, "Evolving Made in China 2025: China's industrial policy in the quest for global tech leadership," Max J. Zenglein | Anna Holzman, Merics, No: July 8, 2019.

51. Keith Johnson, Robbie Gramer, "The Great Decoupling," *Foreign Policy*, May 14, 2020

<https://foreignpolicy.com/2020/05/14/china-us-pandemic-economy-tensions-trump-coronavirus-covid-new-cold-war-economics-the-great-decoupling>. Washington is pressing for a post-pandemic decoupling from China. But the last big economic split brought on two world wars and a depression. What is in store this time?

Japan, and the Netherlands account for 90% of market production - have the necessary equipment for chip production.⁵²

Huawei is not the only Chinese company targeting the United States. For example, Washington is trying to dissuade EU countries from contracting with *Nuctech Co.*, which produces screening systems for goods, luggage and passengers at airports, ports and at the border crossings between European countries.⁵³ Ninety percent of the screening devices at seas and fifty percent screening at airports are from the Chinese company *Zahlen*. The U.S. Transportation Security Administration banned Chinese-made devices at U.S. airports in 2014.⁵⁴ The development of new transformative technologies such as 5G and AI will continue to be a critical source of tension between the United States and China. Washington wants other countries to be equally stringent when it comes to tightening their restrictions. For example, the U.S. State Department has initiated a process called “Multilateral Action on Sensitive Technologies (MAST)” that wants to bring together government representatives from 15 industrialized countries.⁵⁵ The aim is to form “coalitions of caution” with regard to export restrictions, investment controls, visa screening and the risks arising from international scientific and technological cooperation with China.⁵⁶ EU member states are caught between two powers and have not taken joint action against Huawei’s activities in the EU.⁵⁷

Currently, the United States and China are dominating digital technology. Other countries, including the EU, seem unlikely to compete with these two countries in the field of advanced technology policies. Since the EU countries cannot produce their own technologies internationally, they have become dependent on U.S and China countries and are entering the political domain.

The members of the EU have two options to cooperate with one of these two global powers:⁵⁸ Firstly, third countries can more strategically use existing interdependence by selecting technologies in both domains. For the EU, which is currently caught between two technological global powers, this route is the most likely. But for this symbiotic partnership to become truly strategic, Europe does not need to side with one of them. The most

52. Peter Rudolf, . “Washington has already begun attempts to persuade and pressure the Netherlands to ensure it does not sign contracts with Chinese companies. The Dutch government has also refused to allow ASML to deliver its special machines to China”, Amerikanische China Politik, ibid. pp 4-5.

53. O’Keeffe, Hinshaw, Michaels. 2020, ibid.

54. Peter Rudolf, ibid.p.5

55. Peter Rudolf, ibid.p.5

56. See Jane Perlez, “F.B.I. Bars Some China Scholars from Visiting U.S. over Spying Fears, *The New York Times*, April 14, 2019. “There is another way to reduce the transfer of knowledge by Chinese students and scientists in the United States. This includes restrictions on granting visas to Chinese students who are involved in research that is considered sensitive. Chinese scientists who, in the opinion of the FBI, maintain relations with Chinese intelligence services will be denied visas.”

57. Matthias Schulze and Daniel Voelsen, “Digital Spheres of Influence,” in SWP Berlin Strategic Rivalry between United States and China, April 2020, pp.30-34.

58. Matthias Schulze and Daniel Voelsen, ibid. p.33.

difficult part of this option is to maintain the balance between the two producers in technology transfers. The second option is for the EU to reduce its dependence on individual technology sectors by developing its own technologies. This seems to be the best way for Brussels to establish a “Common Strategy of Advanced Technology.” With the help of this strategy, the EU can develop and produce its own technologies to reduce its dependence on the United States and China and to compete with them on a global scale.

4. Europe in the midst of U.S.-China Rivalry: Which way will Europe go?

“...Europeans must deal with the world as it is, not as they wish it to be. And that means relearning the language of power and combining the European Union’s resources in a way that maximizes their geopolitical impact. To avoid being the losers in today’s US-China competition, we must relearn the language of power and conceive of Europe as a top-tier geostrategic actor...”

Josep Borell, High-Representative/Vice-president, European Union, Brussels⁵⁹

Finally, we want to discuss the attitude of the EU to the conflict between China and the United States and explore answers to the following questions: Where does Europe stand between these two super powers and which way will Europe go? What trajectory will Europe take in the future?

4. 1. Historical Background

Relations between the EU and China commenced in 1975. China and Europe are long-time trading partners based on a strategic partnership formed in 2003. Since 2013, the “EU-China comprehensive strategic partnership” has been extended and modified with the EU-China 2020 “Strategic Agenda for Cooperation.”⁶⁰

The United States, the EU and China are three of the largest trading economies in the world. China is now the EU’s second-largest trading partner behind the United States and the EU is China’s largest trading partner. Bilateral trade represents approximately 3.3 percent of the EU’s GDP and close to 6 percent of China’s GDP, underlining the large interdependence of China and the EU in terms of trade.⁶¹ Europe is China’s most important economic partner in addition to the United States. Over the past 20 years, the cumulative flow of EU/27 in FDI from the EU/27 to China has increased to over €148 billion. China’s FDI to the EU/27 has reached almost €117 billion.⁶²

59. Josep Borell, “Embracing Europe’s Power,” Project Syndicate, February 18, 2020.

60. See State of Play of EU- China Relations, Briefing, European Parliament, Summary,
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI_\(2019\)633149_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI_(2019)633149_EN.pdf).

61. Vincent L. Morelli, “The European Union and China,” Congressional Research Service, April 1, 2019, <https://fas.org/sgp/crs/row/IF10252.pdf>.

62. EU-China, Comprehensive Agreement on Investment: Key Facts and Figures;
https://trade.ec.europa.eu/doclib/docs/2021/march/tradoc_159481.pdf

As a reaction to China's economic offensive as already outlined, on March 18, 2019, the EU High Representative for Foreign Affairs and Security Federica Mogherini expressed her "full support" for the EU's new stance towards China, describing it as a "systemic rival."⁶³ The EU started to follow the so-called hard-liner policies against China and EU member states supported a tougher stance towards it.⁶⁴ Brussels' new policy against China started with the publication of the report from the Federation of German Industries' (BDI), Germany's main business lobby, describing Beijing as a "systemic competitor."⁶⁵ Paris and Berlin then decided to design a more preventive European economic strategy, protecting European high-tech industries ranging from telecoms to heavy engineering.

Finally, the Franco-German initiative, again with the help of the BDI, started to apply pressure on Brussels to reconsider and reformulate its relations with China. As a result, on April 9, 2019, the EU and China agreed on a joint statement setting out the direction of EU-China relations in the coming years. But for all of that, Brussels is deeply interested in improving economic relations with China on the basis of a "shared understanding of reciprocal and mutual benefits."⁶⁶

4.2. EU- China Summits 2020

"...Engaging and cooperating with China is both an opportunity and necessity. But, at the same time, we have to recognize that we do not share the same values, political systems, or approach to multilateralism. We will engage in a clear-eyed and confident way, robustly defending EU interests and standing firm on our values..."

Remarks by Council of Europe President Charles Michel after the EU-China summit on June 22, 2020.⁶⁷

The outbreak of the COVID-19 pandemic has disturbed global political, social, economic and financial structures. Even under these unusual circumstances, the EU and China held their 22nd bilateral summit via video conference on June 22, 2020. The summit focused on three important areas:⁶⁸ The first was the economic consequences

63. Jorge Valero Macrón, "Merkel and Juncker to meet China's Xi on Tuesday", | EURACTIV
<https://www.euractiv.com/section/economy-jobs/news/macron-merkel-and-juncker-to-meet-chinas-xi-on-tuesday/>

TUESDAY/FOREIGN AFFAIRS COUNCIL March 18, 2018, <https://www.consilium.europa.eu/media/38534/190318-fac-background-brief-en.pdf>

64. Jorge Valero, Euroactiv, March 22, 2019.
<https://www.euractiv.com/section/economy-jobs/news/member-states-support-tougher-stance-toward-china-despite-warnings/>

65. BDI, "China: Partner and Systemic Competitor," 2019:

66. Anna Saarela, "A new era in EU-China relations: more wide-ranging strategic cooperation?" Directorate -General for External Policies of the Union, Policy Department, European Parliament, and European Union 2018. DGEXPO/B/PolDep/Note/2018_04+105 EN July2018-PE570.493: p.12.

67. "EU-China Summit: A complex and vital partnership", European Commission, Press Release, June 22, 2020, Brussels, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1159.

68. President of the European Council, Charles Michel, and President of the European Commission, Ursula von der Leyen, accompanied by High Representative Josep Borrell, held Summit meeting with Chinese Prime Minister Li Keqiang followed by exchanges with Chinese President Xi Jinping. "EU-China Summit..." European Commission, June 22, 2020.

and recovery from COVID-19. The second was the EU-China relationship. The third was Hong Kong and the important issue of human rights.

On September 14, 2020, a virtual summit was held between senior EU and Chinese leaders: Council of Europe President Charles Michel, European Commission President Ursula von der Leyen and German Chancellor Angela Merkel held a video conference with Chinese President Xi Jinping. This summit was supposed to take place in Leipzig, Germany, but due to the COVID-19 pandemic, this summit was held online. According to the President of the Council of Europe, “four important topics” were discussed at the meeting:⁶⁹ (1) climate change, (2) economic and trade issues, (3) international relations and human rights, and (4) COVID-19 and economic recovery.

At this virtual meeting, Xi Jinping proposed four new principles to guide China-EU relations: (1) peaceful coexistence, (2) openness and cooperation, (3) multilateralism and (4) dialogue and consultation. Instead of trying to definitively resolve its problems with the EU at the summit Instead of trying to definitively resolve its problems with the EU at the summit, the Chinese government gives the impression that Beijing preferred to generalize the topics and spread developments over time.⁷⁰

If the declarations of the EU-China summits over the past few years were to be compared to each other, it would be fair to say that there are no fundamental differences both in the contexts and topics of the declarations. They mostly include fixed goodwill wishes and desirable aims. The parties have not committed to taking decisive action to convert the proposals into concrete goals.

Besides the rhetoric and populist statements of European politicians, the EU does not seem to have any unified and determined common policy position against the great Chinese economic offensive in Europe. Brussels repeats itself exclaiming that “...we made clear that we need to resolve concrete problems such as market access, subsidies, regulatory issues, public procurement, forced technology transfers, a level playing field and WTO reforms.”⁷¹ It is evident that there is no remarkable sign of progress.

The only exception to this is the *China Comprehensive Agreement on Investment (CAI)*. Late last year, the EU and China completed their negotiations on a difficult and wide-ranging investment agreement that began in

69. Remarks by President Charles Michel after the EU-China leaders' meeting via video conference: “(1.) The EU strongly emphasized the need to advance negotiations for an ambitious EU-China Comprehensive Investment Agreement that addresses the current asymmetries in market access and ensures a level playing field; (2) The EU stressed that the development of new digital technologies must go hand in hand with the respect of fundamental rights and data protection. The EU also raised outstanding issues on cybersecurity, disinformation; (3) Leaders had a substantive discussion on climate change. China is the EU's partner under the Paris Agreement, but needs to commit to decisive and ambitious domestic action to reduce emissions in the short term; (4) EU leaders also expressed their concerns at steps taken by China to impose national security legislation in Hong Kong, as well as on the deteriorating human rights situation, including the treatment of minorities in Xinjiang and Tibet, and of human rights defenders, as well as restrictions on fundamental freedoms; (5) The EU also expressed its willingness to sign the EU-China Agreement on Geographical Indications in the coming weeks and see its entry into force in nearest future”, Council of the European Union, September 14, 2020, <https://www.consilium.europa.eu/en/press/pressreleases/2020/09/14/remarks-by-president-charles-michel-after-the-eu-china-leaders-meeting-via-video-conference/>

70. Shannon Tiezzi, “**China, EU Leaders Hold ‘Intense’**”, Virtual Meeting, the Diplomat, 15 September 2020.

71. “Remarks by President Charles Michel after the 22nd EU-China summit, European Council Statements and remarks,” European Commission, *Press Release*, June 22, 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/06/22/remarks-by-president-charles-michel-after-the-22nd-eu-china-summit/>.

2013, signed December 30 2020 the *EU-China Comprehensive Agreement on Investment (CAI)*.⁷²

Europe is China's most important economic partner alongside the United States. Over the past 20 years, the cumulative flow of EU direct FDI from the EU/28 to China has exceeded €140 billion. In turn, China's FDI to the EU has reached almost €120 billion.

The “*Comprehensive Investment Agreement (CAI)*” signed between Brussels and Beijing on investment will go down in history as the most ambitious agreement China has ever made with a third country.

German Federal Minister for Economic Affairs and Energy, Peter Altmaier explained the importance of the signed agreement:

“The EU-China Investment Agreement is a milestone in trade. After almost seven years of negotiations, a breakthrough was achieved today. This is a great achievement and also an expression of the unity of Europe. The agreement regulates reciprocal market access for European and Chinese companies and aims to restore transparency in economic relations between China and the EU. For European companies, the agreement means access to more markets and more legal rights and a better competitive environment in China.”⁷³

The CAI was the first agreement covering and regulating the obligations of public economic enterprises, transparency rules, mandatory subsidies, and commitments to sustainable development. In the agreement, “China has committed to ensuring fairer treatment for EU companies, allowing them to compete on a more level playing field in China. These commitments cover state-owned enterprises, transparency of subsidies and rules against forced technology transfer.”⁷⁴

What does the CAI hope to achieve?

The EU-China Investment Agreement is an investment agreement aimed primarily at strengthening the rights of foreign investors in China. In the first phase, the agreement covers issues such as finance, telecommunications, environment, health and logistics services for EU companies in China and aims to ease access to the market for EU companies. The EU Commission also stresses that the CAI provides better access to Chinese markets in sectors such as automotive, financial services, real estate, and leasing, and that issues such as workers' rights,

72. For more information see “CAI: EU-China Comprehensive Agreement on Investment: Milestones and documents,” [EU-China Comprehensive Agreement on Investment: Milestones and documents - Trade - European Commission \(europa.eu\)](https://ec.europa.eu/trade/policy/market-access/agreements/eu-china-comprehensive-agreement_en). “EU-China Comprehensive Investment Agreement,” *China Briefing* <https://www.china-briefing.com/news/eu-china-comprehensive-investment-agreement/>. “China opens up to European companies China opens up” [bundesregierung.de](https://www.bundesregierung.de))

73. Peter Altmaier: “EU-China Investment Agreement is a Milestone in Trade Policy”, Press release: *Handelspolitik*, December 30, 2020. <https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2020/12/20201230-altmaier-eu-china-investitionsabkommen-ist-handelspolitischer-meilenstein.html>.

74. EU-China Comprehensive Agreement on Investment, European Commission, Brussels, 30 December 2020, [EU and China reach agreement in principle on investment - Trade - European Commission \(europa.eu\)](https://ec.europa.eu/trade/policy/market-access/agreements/eu-china-comprehensive-agreement_en)

compulsory technology transfers and unfair competition, are included in the agreement.⁷⁵

The agreement, however, requires the ratification of the European Parliament. Surprisingly, the European Parliament did not ratify the CAI in March 2021. Thus, the agreement could not enter into force. It is common wisdom in the EU that China benefits from an open and free European market economy, while Europe is divided and inhibited by Chinese expansionary economic policy. The CAI agreement is a political and successful achievement for China. It was signed between Brussels and Beijing before the Democratic Biden administration took office. With this agreement, President Biden's administration is also curtailed from forming a new common transatlantic approach and from fostering cooperation between Washington and Brussels against China. Chinese President Xi Jinping has been giving the impression that he wants to prevent the United States and the EU from being on the same front in an emerging power contest, thus strengthening economic ties between the EU and China. The EU is primarily in favour of the continuation of existing economic relations and on other issues it only expresses its expectations and criticisms.

To Sum up:

All these facts indicate that a solution to the political and economic conflicts between Washington and Beijing is not in sight and that for the time being there is no common ground to reach such a solution.

A critical question arises for the EU: If the systemic competition between the United States and China were to continue and become the permanent status quo it seems inevitable that this would lead to the bipolarization of the international system and the breakdown of multilateralism. In other words, under such circumstances other countries would be forced to take the side of one of these two superpowers. The critical questions for Europe are whether, to what extent and under what conditions, it should support the United States in its rivalry with China? As Josep Borrell, the High Representative for Foreign Affairs and Security underlined, the EU must decide "whether it wants to be a global player or just a playground for other powers."⁷⁶

The answer to this question was addressed by the European Parliament's in-house research department and think tank - that noted "...The Trump Administration considers China a strategic competitor to confront, rather than a country with which to engage. The EU, on the contrary, refers to China as a strategic partner and, despite persistent and considerable differences in position in some areas, continues to engage..."⁷⁷

The question is still pending as to whether all EU member states should support the decoupling and containment policies along with the trade and technological war against China declared by the former U.S. President Donald Trump and continued by President Biden. Biden has also indicated his position in moderate words that "...America

75. EU and China reach agreement in principle on investment, News Archive, European Commission, 30 December 2020. Brussels.

76. Carl Bildt, "Which Way for Europe on China?" *Project Syndicate*, December 12, 2019.

77. "State of play of EU-China relations: Summary," Briefing, European Parliament, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI\(2019\)633149_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633149/EPRS_BRI(2019)633149_EN.pdf).

will stand up to unfair trade practices that undercut American workers and American industries, like subsidies to state-owned enterprises and the theft of American technology and intellectual property...,”⁷⁸ Or should the EU continue to follow its own independent economic policies against China without regard to Washington’s attitude against Beijing as they try to find a middle ground between engagement and containment?

In plain language, “The trade War” has forced EU members to take a side between Beijing and Washington. Some EU members are important trading partners with China and would thus not want to be involved in any conflict with Beijing. In the meantime, the United States is an important economic and security partner for the EU states.⁷⁹ Interestingly, the United States wants to bring the EU into line with its position without leading any strategic dialogues with the EU on the points of the conflict.

4. 3. How Europe Can Cooperate with China

“...The COVID-19 pandemic and a number of major bilateral and multilateral challenges show clearly that the EU-China partnership is crucial, be it in terms of trade, climate, technology, and the defense of multilateralism. But for our relations to develop further, they must become more rules-based and reciprocal, in order to achieve a real level playing-field...”

EU- Commission President Ursula von der Leyen, Brussels, June 22, 2020⁸⁰

In the last four years one of the topics dominating the international agenda has been the “trade war” between China and the United States. The basic question is: How will the European Union be able to create a space to advocate its own political and economic interests between these two super powers. It is a fact that with its rise as an economic power in the twenty-first century, China will become an increasingly important part of the global economy in the coming decades. It seems to be inevitable that China will yield new challenges for the United States and, in particular, for Europe.

It cannot be ignored that the EU is China’s largest trade partner and China is the EU’s top trade partner after the United States, with bilateral trade of almost € 1.1 billion per day.⁸¹ As matter of fact, as long as Washington continues to be alone in its pursuit of escalating confrontational policies against China without any input from the EU to try to reach a solution with Beijing, then the United States may not be regarded as a reliable and

78. Alex Fang, Nikkei, Asia, April 29 2021

79. The European Think Tank Network on China (ETNC) report underline the current opinion of Europeans for future relations with China as follows: “They (EU members) all consider the US their most important ally and they all depend on its military protection, but they also want to do as much business with China as possible. With this balancing act, the common European objective is to avoid a bipolar system in which EU member states are forced to take sides”. See: Mario Esteban and Miguel Otero-Iglesias along with Una Aleksandra Bērziņa-Čerenkova, Alice Ekman, Lucrezia Poggetti, Björn Jerdén, John Seaman, Tim Summers and Justyna Szczudlik, “Europe in the Face of US-China Rivalry,” European Think Tank Network on China, January 2020: 5. http://nias.asia/sites/default/files/news_files/etcn_report_2019_0.pdf

80. EU-China summit, European Council Statements and remarks June 22, 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/06/22/remarks-by-president-charles-michel-after-the-22nd-eu-china-summit/>

81. Countries and Region: China: [China - Trade - European Commission \(europa.eu\)](https://china-trade.ec.europa.eu/)

likeminded partner for Europe concerning China policy.

4. 4. What stands in the way of the EU becoming a strong and united economic power to compete with China?

The President of the BDI, Dieter Kempf, has invited the German Federal Government and the European Commission to take the initiative making the EU highly competitive against China. He stated that:

“...At the same time, Germany and the EU must invest significantly more in research, development, education, infrastructure and future technologies. The EU needs an ambitious industrial policy for its leading companies that focuses on innovation, intelligent regulation, social partnership, infrastructure and free trade...”⁸²

The statement made by Kempf could be interpreted as a target-oriented proposal and it indicates future-prospects particularly for German Industry. For the time being, this statement sounds merely like wishful thinking rather than a realistic strategy. If we look at the EU's current macroeconomic indicators, it seems to be difficult to achieve these tasks in the short term. The reality is that the EU, and in particular some EU countries namely, Germany, the Netherlands, France, and Italy are the main beneficiaries from their trade relationships with China while other EU countries are not. The sharing of economic gains is one of the main economic disputes within the EU.

Now we will discuss the economic disparities and obstacles for achieving united and strengthened intra-European coordination. In fact, not only should EU institutions be strengthened, but also the cohesion of all member states with China must be established.

The EU is the second largest economy in the world. The heart of the EU's economy is Germany and it produces almost 24.7 percent of total real GDP in the EU followed by France (17.4 percent), Italy (12.8 percent), Spain (8.9 percent) and the Netherlands (5.8 percent) in 2019.⁸³ The so called 5 big economies represent around 70 percent of the EU's total real GDP. The rest of the 22 medium and small economies of the 27-member states contribute all together just 30 percent to the EU's total Real GDP. The EU has been divided between more advanced members and relatively semi-and less developed states.

According to the per capita income statistics, EU members can be divided into three main groups: high income, medium- income and low-income countries.⁸⁴ The average per capita income in terms of Euros is 31,080 in the EU and 35,000 in the Eurozone. In 2019 per capita income in terms of Euros in Luxembourg was 102,000, whereas in Bulgaria it was 8,728. Income inequality among the member states is one of the EU's most challenging issues.

82. BDI, “China: Partner and Systemic Competitor,” 2019: ibid, p 1.

83. “Which Member states contributed the most to EU GDP? European Commission, Eurostat, 08/05/2020. <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200508-1>

84. Economy of the European Union, https://en.wikipedia.org/wiki/Economy_of_the_European_Union: High -income countries consist of 10 member states of which per capita income is higher than 31,000 Euro: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands and Sweden. Medium income countries are those whose per capita income is between 31,000 and 15,000 Euros:

It indicates that there is income inequality among the member states along north-south and east-west lines. As long as the regional income gap is not narrowed, mutual consensus on sustainable and common economic policies against non-member states, such as China, cannot be achieved.

Another main point of contention for the EU is on the one hand, the strong and relatively advanced economies following stable macroeconomic policies and adjusting their business cycles in a timely fashion in the northern part of Europe. On the other hand, the weaker and unstable economies such as Greece, Italy and Spain, are facing serious economic problems which include a low growth rate, relatively high unemployment rates, excessive budget spending and very high national outstanding debt ratios.⁸⁵

Global powers tend to follow their own interests and China will make use of its economic power to achieve its political goals. Simultaneously, EU member states must strengthen their economies through replacing unproductive and inefficient labour-intensive industries with new innovative industries to compete with China. Only an economically strong EU acting in unison can defend its interests and values against China's new emerging power.

Another problem lies deeply in the structure of economic policies. The Treaty of Maastricht founded the European Monetary Union (EMU) and the European Central Bank (ECB) which is in charge of monetary policies. But only 19 out of 27 states are members of the EMU. The rest are neither ready to fulfil membership conditions nor wish to join the EMU. This group of countries is allowed to follow independent monetary policies. Thus, the EU has no common and harmonized monetary policies covering all members.

That said, the Treaty of Amsterdam established the Stability of Growth Pact (SGP) aiming to control and to fine "excessive budget policies." If one looks at the experiences of the SGP in the past, Brussels has not been able to coordinate the fiscal policies of member states and interestingly, until now, no member states were punished due to irregular excessive budget policies. This is because the EU has no common and centralized fiscal policies. Each country is allowed to conduct its own independent fiscal policy.

The Economist drew Europe's attention to this topic in its article "China's design on Europe."⁸⁶ It argued that China is increasingly using its economic power and has accumulated huge amounts of official reserves through large investments (e.g., infrastructure projects financed by low-interest loans from Chinese banks) to achieve its political goals. It is the opinion of some experts in Brussels that China is following a strategy of "divide and rule" in order to increase its power on the continent.⁸⁷ In fact, China is expanding its political influence by using its economic weight in Eastern, South-eastern and Central Europe and in the EU. China aims at redesigning not only

85. Ibid. The unemployment rate in Greece is 18.2%; Italy 10.1% and 14.2% in Spain. In 2018, public debt in the EU was 80% of GDP, with disparities between the lowest rate, Estonia at 8.4%, and the highest, Greece at 181.1%, followed by Italy 132.2%, Portugal 121.5%, Spain 97.1 percent and Belgium 102.2%.

86. *The Economist*, October 6, 2018:11, pp. 17-19

87. Fraser Cameron argues that "The EU has never been a fan of the 17+1 group of East European and Balkan countries established by China to pursue common development aims. In the eyes of Brussels, the set-up is a scarcely veiled effort at divide and rule." See Fraser Cameron, "**2020 will be a decisive year for the EU's relations with China**", By: EBR - Posted: Friday, December 27, 2019.

the world economy but also challenging Europe under the 17+1⁸⁸ and the Belt and Road Initiative.⁸⁹ Doubtless, China's growing influence over Europe and neighbouring countries could weaken Brussels' ability to implement a cohesive political strategy vis-à-vis China⁹⁰.

It goes without saying that the less advanced countries in the EU need more investment and expect economic and financial solidarity from the larger and richer economies rather than mere rhetoric such as "A strong united EU" and "the abandonment of isolated national courses of action" or "Improve the branding of the EU,"⁹¹ meant to satisfy and encourage. The 12 EU member states of the 17+1 believe they are a part of the EU and due to solidarity among the member states, are expecting large amounts of capital inflow in the form of FDI and/or financial capital from the surplus countries in the EU. As a matter of fact, if this group of countries were not sufficiently supported by surplus countries, they would be forced to receive the needed financial help from China and the United States. This would lead to one-sided economic dependency and would be enforced subject to political pressure on borrowers. It should not be overlooked that Germany's exports to other EU member states account for over 50 percent of its total exports, whereas China and the United States each account for only about 10 percent.

One of the priorities of the BDI report was to increase the investments in research development, education, infrastructure, and future technologies. This goal can only be achieved if the ratio of research and development expenditures to GDP would increase. In order to improve the EU's international competitiveness, the EU has decided to increase the Research & Development (R&D)/GDP ratio to 3 percent by 2020, which was one of the main goals of the Europe 2020 strategy.

In 2017, the member states of the EU spent all together almost €320 billion on R&D. The R&D ratio, i.e. R&D expenditure as a percentage of GDP, stood at 2.07 percent in 2017, compared to 2.04 percent in 2016. Ten years earlier (2007) R&D was 1.77 percent.⁹² In comparison to other major economies, R&D in the EU was much lower than in South Korea (4.22 percent in 2015), Japan (3.28 percent in 2015), the United States (2.76 percent in

88. China is expanding its political influence by using its economic weight in Eastern, Southeastern, and Central Europe and in the EU. China signed memorandums with all 17 Central and Eastern European (CEECs), 12 EU members and five Balkan countries. Twelve EU member states (Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and five Balkan countries (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, and Serbia).

89. The Belt on Road initiative is an international collaboration project based on China- sponsored infrastructure and connectivity links. BRI aims to improve economic integration along the ancient Silk Road connecting Europe, Asia, and Africa on land and sea. One of the other aims of BRI under the "Go Global strategy" is to secure China's energy demand by diversifying and extending its export market around the world. See for more information on BRI: "Anna Saarela, "**A new era in EU-China relations: more wide- ranging strategic cooperation?**" Directorate-General for External Policies of the Union, Policy Department, European Parliament, and European Union 2018. DGEXPO/B/PolDep/Note/2018_04+105 EN July2018-PE570.493:42-43. And OECD Economic Survey China, Paris April 2019, p. 111.The Economist, October 6 2018, pp.11 and 17-19

90. Felbermayr: "stalemate" in the trade dispute, the EU and the USA, All info. July 22, 2019.

91. BDI, Report, ibid., p.11

92. . Eurostat, see "First estimates of Research & Development expenditure R&D expenditure in the EU increased slightly to 2.07 percent of GDP in 2017," *Eurostat- News release*, January 5-10, 2019.

<https://ec.europa.eu/eurostat/documents/2995521/9483597/9-10012019-AP-EN.pdf/856ce1d3-b8a8-4fa6-bf00-a8ded6dd1cc1>.

2015), and in China (2.06 percent in 2015).⁹³

All these results indicate that less developed economies within the EU are not able to intensify their R&D expenditures and satisfy the expectations underlined by the BDI in the short term. It is obvious that the EU is going to be sharply divided into central economies and peripheral economies. Therefore, this should pressure the Brussels administration to remain competitive at the global level.

5. Recommendations: Policy Options

The EU and China are facing new challenges and opportunities. Brussels and Beijing should no longer put off preparing and putting into force a compressive bilateral strategy to extend and deepen their economic relations. This means that both sides should improve and update the existing EU-China 2020 Strategic Agenda for Future Cooperation. They should also attempt to adhere to a well-functioning free trade established on the rules-based multilateral trading system.

One could ask the question which way the EU should go to achieve constructive engagement on issues with China. If the main dispute topics between China and the EU are examined, both sides may take steps to consolidate their economic relations which could lead to the EU reaching a “*constructive economic partnership*” with China based on shared understanding of reciprocal and mutual benefits and transparency that would also help it to compete with Beijing.⁹⁴

1. Open negotiations on establishing an EU–China Free Trade Agreement (FTA)

By definition, Free Trade Agreements (FTAs) aim to abolish trade barriers between members, but each country is allowed to follow independent trade policies against third countries. China regards itself as a part of the multilateral trading system, and it uses the advantages of comprehensive Free Trade Agreement strategies at the regional, bilateral and international levels.

The 16th Round of Negotiations of the China-Japan-South Korea FTA restarted in Seoul in 2018. China and South Korea signed a bilateral FTA in June 2015 and bilateral FTA between China and Switzerland was signed in July

93. In the same year, the highest R&D was recorded in Sweden (3.33 percent) and Austria (3.16 percent), followed by Denmark (3.06 percent) and Germany (3.02 percent), all with R&D expenditure above 3 percent of GDP, whilst Finland (2.76 percent), Belgium (2.58 percent) and France (2.25 percent in 2016) registered R&D expenditure between 2.0 percent and 3.0 percent of GDP. Contrarily, eight low-income member states recorded R&D below 1 percent: Romania (0.5 percent), Latvia (0.51 percent), Malta (0.55 percent), Cyprus (0.56 percent), Bulgaria (0.75 percent), Croatia (0.86 percent), Lithuania and Slovakia (both 0.88 percent). See Malta's R&D intensity third from bottom in EU stakes, January 17, 2019, <https://www.independent.com.mt/articles/2019-01-17/business-news/Malta-s-R-D-intensity-third-from-bottom-in-EU-stakes-6736202193>.

94. Professor Joseph Nye of Harvard University describes today's bilateral relations between the United States and China as “cooperative rivalry” (Nye, 2018). See Nye, J. (2018) “The Cooperative Rivalry of US-China Relations.” Project Syndicate. November 6, 2018.

2013.⁹⁵ The EU has recently signed trade agreements with major partners, including Canada, Japan, and, in principle, Mercosur.⁹⁶

With the trade agreement signed by the *Regional Comprehensive Economic Partnership* (RCEP) on November 15, 2020, ten ASEAN countries, together with Japan, China, South Korea, Australia and New Zealand, are establishing the world's largest free trade area. In terms of its size of 2.2 billion people, this represents about 30 percent of global production and global trade. For the first time, RCEP also includes the Northeast Asian G20 countries Japan, China, and South Korea in a trade agreement.⁹⁷

2. The Establishment of the “China-EU Council”

It seems to be an appropriate action to establish an official and permanent “China-EU Council,” which may consist of representatives from both sides who would be responsible for the coordination of economic relations and for overseeing a monitoring and cooperation instrument providing dispute settlement mechanisms. The EU Commission could be empowered by the Council to negotiate for a multilateral court for the settlement of trade and investment disputes with China. The joint committee ought to meet regularly to follow up commitments that have been made, to ensure that the agreements work smoothly, and to discuss new agreements that may be needed.

3. Cooperation for dispute settlement within the OECD as a Policy Option

Though China is not a member of the OECD, economic conflicts with China at the global level may be negotiated and re-designed under the OECD roof. This attempt would create a substantial opportunity to strengthen the multilateral trading system with the active participation of United States, the EU and China. It would also offer common ground to engage with China in other fields such as on competition, connectivity, digital technology, cooperation on energy security and climate change, and in science, technology, and innovation (STI) policies. It is a fact that the U.S.–China “trade war” has had negative impacts on third and developing countries, which are not directly involved in the tariff war and are not a party to the conflict.⁹⁸ Thus, the active participation of Washington, China and the EU in the OECD rounds of dialogue may help to soften the “trade war “conflict between China and the United States.

95. FTA between China and Switzerland covered the following points: “The General Agreement on Trade in goods and services, strengthens intellectual property protection, and establishes clear rules of origin, trade remedies and transparency in government procurement. It also provides for a monitoring and cooperation mechanism that can improve the agreement, including by providing dispute settlement mechanisms.” See Uri Dadush, Marta Dominguez-Jimenez and Tianlang Gao, “The State of China-EU Economic Relations,” *Working Paper*, Bruegel, November 9, 2019: 20.

96. The EU has also been engaged in the on-and-off negotiations of an FTA with the United States for at least the last six years, during which 15 rounds of negotiations of the Transatlantic Trade and Investment Partnership were concluded. On April 15, 2019, the negotiations were declared “obsolete and no longer relevant” by the European Commission.

97. See more detailed analysis on RCEP. Hanns Günther Hilpert, “New Trade Agreements in Asia Liberalization in Times of Geopolitical Rivalry”, SWP Berlin, April 25, 2021, https://www.swp-berlin.org/fileadmin/contents/products/comments/2021C25_TradeAgreementsAsia.pdf.

98. Sonali Chowdhry, and Gabriel Felbermayr, “The U.S.- China Trade Deal and its Impact on China’s key trading partners”, *Kiel Policy Brief*, Kiel Institute for the World Economy, No:134, February 2020: pp.1-6.

4. Common U.S.-EU China Policy

Dialogue can undoubtedly be necessary and useful for the mutual interests of the United States and Europe with regards to China. According to a European Commission document dated March 2019, Brussels also considers China a “collaborative partner,” “economic competitor” and “systemic competitor,” depending on its policy area.⁹⁹ However, China’s rise as a new emerging power affects the United States and Europe differently. The new U.S. administration has many common goals with its European allies, such as climate and trade policy or arms control. But there is also a potential for conflict: “attitudes towards China, burden-sharing in defense policy, trade tariffs, and the unilateral use of sanctions – there are differences of opinion on all these issues, especially with Germany.”¹⁰⁰

The United States views China from security, economic and ideological perspectives. However, there is no status conflict between Europe and China, nor does the EU claim to be a global superpower. A security policy for Europe in its relations with China is not a priority; only economic interests are indispensable items on its agenda. It is true that the COVID-19 pandemic has increased the apparent economic dependence on China in Europe. However, the main goal for the EU is not to diverge with China, but to reduce its dependence on China through diversification of supply chains and production facilities.¹⁰¹

G 7, the U.S. and EU Summit Meeting: A new attempt by President Biden to create common ground for transatlantic cooperation against China

“...leaders don’t deliver on their promises. They like making symbolic statements, not solving problems. Worse, they give the appearance of solving global problems, while really leaving them to fester...”¹⁰²

Jeffrey D. Sachs, Colombia University

President Biden’s overseas trip to Europe since taking office at the White House have included a visit to the United Kingdom and participation in the G-7 Summit in Cornwall titled “**Recovery for all.**” China was one of the most important topics on the agenda at the G7 Summit as the leaders strived to build a strong alliance against China to challenge its growing influence at the global level.¹⁰³

99. European Commission and HR/VP contribution to the European Council EU-China – A strategic outlook March 12, 2019. European Commission. <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

100. Laura von Daniels, Johannes Thimm, “Neustart in den USA – Eine Bilanz der ersten 100 Tages”, WP-Podcast 2021/P April 07, 2021, <https://www.swp-berlin.org/publikation/neustart-in-den-usa-eine-bilanz-der-ersten-100-tage/>.

101. As expected, the European Commission proposed new defensive economic measures against China and decided to cut its dependency on Chinese and other foreign suppliers in six strategic areas including raw materials, pharmaceutical ingredients and semiconductors, under an industrial action plan.

102. Jeffry D. Sachs, “We Don’t Need the G7.” Project Syndicate, June 16, 2021.

103. A spokesman for the Chinese Embassy in London strongly criticized the G7 summit meeting and said in a statement that “...The days when global decisions were made by a small group of countries are long gone, all states, whether large or small, strong or weak, rich or poor, are equal. “Global political matters should be regulated by the consultations of all countries...,” G7 summit: China says small groups do not rule the world” BBC News. June

The following main conclusions may be drawn from the press release and final statement of the G7 Summit:¹⁰⁴ (1). Under the label of “**Build Back Better World**,” the G7 will pay more attention to “collective approaches to challenging non-market policies and practices which undermine the fair and transparent operation of the global economy; (2) The G7 will pressure China “to respect human rights and fundamental freedoms, especially in relation to Xinjiang and those rights, freedoms and a high degree of autonomy for Hong Kong;”¹⁰⁵ And (3) the G7 countries want to raise billions for investments in developing countries and offer them a transparent partnership in contrast to China’s Belt and Road Initiative.

The main question still remains: how will the new infrastructure partnership be implemented and the financial burden of funds be shared among the G7 given that the U.S. administration insists on realizing an “alternative to the BRI.” German Chancellor Angela Merkel said, “The group was not yet at a stage to release financing for its initiative.”¹⁰⁶

The EU- U.S. Summit

On June 15, 2021 the EU and the U.S. held a summit bringing together European Commission President Ursula von der Leyen, Council of Europe President Charles Michel and U.S. President Joe Biden in Brussels. Based on the summit statement, the following outcomes were achieved: ¹⁰⁷

1. “The establishment of a high-level EU-U.S. Trade and Technology Council (TTC). The fundamental aim of the council is to facilitate coordination on technology and trade policies as well as a cooperation with like-minded countries.
2. Both sides agreed to consult and cooperate on their respective China policies, pursuing a multi-faceted approach that includes “cooperation, competition and systemic rivalry.”
3. The EU and the U.S. plan to work jointly on updating the WTO rulebook to address “industrial subsidies and the unfair behaviour of state-owned enterprises.”
4. Transatlantic cooperation will advance democratic values and uphold the “rules-based international order.” Both sides “reject authoritarianism in all its forms around the globe” and “plan to enhance cooperation on related sanctions.”

At this stage, Brussels and Washington appear to be satisfied with a vague statement as they have not reached

14, 2021.

104. [Carbis Bay G7 Summit Communique \(PDF, 430KB, 25 pages\) \(g7uk.org\)](#).

105. ibid. paragraph.49. Pp.16-20.

106. G7 summit: Spending plan to rival China adopted, BBC News, June 12, 2021

107. EU-China Weekly Review: International summits focus on China,
<https://mail.google.com/mail/u/0/#search/merics/FMfcgzGkXmhwGKFCwngmrFqrblrtJkDx>.

a consensus yet on a decisive common China policy. Chancellor Merkel has tried to find the middle ground. She said that “*of course, China cannot simply be negated, but you can't overestimate it either. You just have to find the right balance. China is a rival on many issues, but also a partner for many issues.*”¹⁰⁸

All debates on China in the United States indicate that the U.S. policy towards China is oscillating between cooperation, collaboration and confrontation. With regard to China, US Secretary of State Tony Blinken described this approach in his first programmatic speech at the beginning of March 2021 as follows: “Our relationship with China will be competitive when it should be, collaborative when it can be and adversarial when it must be.”¹⁰⁹ Both sides have not yet decided whether or not to call China a partner, a systemic competitor, strategic threat, or a rival.

The final statement indicates that the EU will follow a two-track approach with regard to China. On the one hand, Europeans want to show their solidarity with Washington by sharing the U.S. view on “respect for human rights, fundamental freedoms, rule of law, an effective multilateral system based on principles of openness, transparency and accountability, protection of minorities regarding Xinjiang, Tibet and autonomy in Hong Kong.”¹¹⁰ On the other hand, the EU wants to avoid conflict with China, because some of its members, especially Germany, are heavily dependent on trade relations and investments in China and Germany is the greatest economic beneficiary among the EU member’s states. At this stage, we can describe the present situation by quoting Erich Maria Remarque’s famous novel “All Quiet on the Western Front. In German: Im Westen nichts Neues”.¹¹¹

In conclusion, as long as transatlantic relations cannot be successfully based on a well-defined agreement covering trade and investment issues and disputes between Washington and Brussels, common strategic cooperation between the United States and the EU vis-à-vis China seems to be unattainable in the near term.

6. Conclusions

“...*The People's Republic is establishing its own political, economic and social model, and the country has entered into systemic competition with liberal market economies such as Germany. This development must be realistically accepted by the EU and a realistic response must be developed...*”

BDI President Dieter Kempf¹¹²

108. Nato-Gipfel: Merkel spricht von Neuanfang - China im Fokus, Kölnische Rundschau, June 15, 2021

109. US Department of State, »A Foreign Policy for the American People«, Speech by Antony J. Blinken, Secretary of State, 3.3.2021, <https://www.state.gov/a-foreign-policy-for-the-american-people/>

110. EU-US summit statement: “Towards a renewed Transatlantic partnership,” European Council Statements and remarks, June 15, 2021.

111. The novel was first published in November and December 1928 in the German newspaper Vossische Zeitung and in book form *Im Westen nichts Neues*, [lit.](#) ‘Nothing New in the West’) in late January 1929.

112. BDI “Strengthen the European Union to better compete with China,” *BDI Paper*, October 1, 2019 <https://english.bdi.eu/article/news/strengthen-the-european-union-to-better-compete-with-china/>.

China has not had an economic order based on Marxist principles for a long time, though the country has been ruled by an authoritarian Leninist party since 1949. The CPC is the centre of decision making in every field of daily life. The West had held a somewhat naive and optimistic view that China would be democratized immediately after its accession to the WTO in 2001. This has since been accepted as a misperception.

China has been sharply criticized by different circles in the United States as a country that will export its own model of “state capitalism under the rule of an authoritarian regime” to other developing countries.¹¹³ Meanwhile, EU leaders have also criticized policy actions taken by China “to impose national security legislation in Hong Kong, the deteriorating human rights, treatment of minorities in Xinjiang and Tibet, as well as restrictions on fundamental freedoms.”¹¹⁴

It is undeniable that China is not a democratic country based on the values of Western political systems. By contrast, it is historically acknowledged that overall, the states of East Asia have prioritized economic development under existing authoritarian regimes over inclusive political and economic institutions. This began with Japan before the Second World War, followed by South Korea, Taiwan, Singapore, and today China.¹¹⁵

China in contrast with Russia: Two Different Development Strategies and Two Different Success Stories

In the beginning of the 1990s the communist regimes in Eastern Europe toppled one after another. The Soviet government believed that the political reforms they introduced would prompt the restructuring of the community systems of perestroika and glasnost. Russia and the other former Eastern European communist countries followed the classic and well-known policies for a new economic regime recommended by the International Monetary Fund (IMF) and the World Bank. They tried to restructure their economies with the help of “shock therapy” turning their command economies into free-market economies. Both Russia and the other former Eastern European communist countries started with privatizing state-owned enterprises (SOE) and implemented the imprecisely defined rules of the free market economy without preparing the necessary ground for it. The new shareholders and owners of SOEs were largely the former members of the political class and KGB, termed “New Russians/Oligarchs.” The political, economic, and social consequences of the so called “Shock Therapy” strategy was dramatic. The Russian economy immediately collapsed and the country faced very serious economic and social problems in its late history: mass unemployment, galloping inflation, dramatic

113. Mr. Pompeo stated that “China wants to be the dominant economic and military power of the world, spreading its authoritarian vision for society and its corrupt practices worldwide,” Edward Wong and Catie Edmonson, “**Trump Administration Plans to Sell More than \$2 Billion of Arms to Taiwan**”, *The New York Times*, June 6, 2019. And Blog Post by Elizabeth C. Economy, “Yes, Virginia, China Is Exporting Its Model”, Council on Foreign Relations, December 11, 2019.

114. EU-China summit via video conference, June 22, 2020, https://eeas.europa.eu/delegations/china/81342/eu-china-summit-video-conference-22-june-2020_en.

115. According to Ha-Joon Chang, “...instead of pursuing the so-called Washington Consensus policies of inflation-focused macroeconomic policy, liberalized international trade and investment, deregulation and privatization, the East Asian economies and China, with the exception of Hong Kong, used interventionist trade and industrial policies, often through large public enterprise sector, backing it up with pro-investment macroeconomic policy. They used institutions and policies such as business groups with interlocking ownership, relation based contracting and a bank-based financial system, which do not conform to the Anglo-American ideal of free-standing enterprise ruthlessly pursuing shareholder values in a stock market-based financial system...” See, Ha-Joon Chang, *ibid*, p.2.

increases in poverty, worsening of income distribution, capital withdrawal and flight, collapse in exchange rate regimes, and difficulty in paying debts.¹¹⁶ As a result of these facts, the former communist states in Russia and Eastern-and South-eastern Europe were unable to create neither well-functioning democratic systems based on European values nor a solid nor well-operating free market economy in the last 30 years.

On the other hand, China prioritized economic reforms and kept its political system intact, with initial and gradual reforms focusing on land, education and privatization; following the global-market development strategy. In this way, Beijing adapted a pragmatic approach, which is reflective of Chinese wisdom: “crossing the river by feeling the stones”¹¹⁷ and learning from the experiences of other countries by following a more realistic trial-and error approach.¹¹⁸

Let us assume what would have happened if China would have followed the same strategy as Russia and other former communist countries in Eastern Europe by prioritizing political reforms? In a poor and underdeveloped country with a per capita income of US\$ 276 in 1976; a country that had existed for more than 4,000 years and had been isolated from the rest of the world for a number of centuries. With the exception of the 1912 Revolution, China has never faced nor experienced so-called Western democratic values during its history.

Imagine, a country with a population of 1.4 billion. If the Chinese government were to have decided to implement a Western type of democratic system based on the principles of the primacy of political and economic institutions, as a first step, it would have had to prepare a constitution that would have had to be largely accepted by the Chinese people. Meanwhile, hundreds of parties would have been established in different regions according to religious beliefs, race and ethnicity. After the first free election, the members of parliament would have erected and elected a new government, perhaps a coalition. Then, it would have taken a lot of time to reach a consensus on the economic policies and reforms in the subsequent years. If China had made political reforms its first priority, disregarding radical economic changes as Russia did - it would be hard to argue that China could have advanced to the status of the new economic and rising power of the 21st. century.

Despite some country specifics, China’s growth pattern is quite similar to the East Asian Tiger economies. Firstly, large nations such as Japan, South Korea and later China started with land and education reforms, then they built their own industries and (temporarily) protected them from foreign competition. Afterwards, they put in force export-focused industrialization strategies to open industries to international competition. This development strategy implemented by East Asian countries is called the “East Asian Economic Development Model.”¹¹⁹ Contrary to more optimistic views, China may not transform itself in a radical way and fully implement the fundamental values of Western democracies in the foreseeable future. Overall, the states of East Asia have been able to establish stable democratic institutions after they have completed all the stages of economic

116. Economic consequences of the policies see. Yegor Gaidar, “The Collapse of an Empire” Lessons for Modern Russia, the Brookings Institution, Washington DC, 2007, 115-155.

117. It is generally attributed to Deng Xiaoping, <https://medium.com/balderton/cross-the-river-by-feeling-the-stones->.

118. Bahri Yilmaz, “Why has China Succeeded? China’s Success Contradict Acemoğlu and Robinson’s Thesis in “Why Nations Fail?” June 2018, p.17.

119. Bahri Yilmaz. Ibid.

development. China may gradually transform its political structure and adopt democratic values to some extent. The more expected progression would be for Beijing to turn into a nation with democratic values yet somehow retain its “Chinese Heritage,” by holding onto its cultural national identity with Chinese characteristics.

As former President of Singapore Lee Kuan Yew pointed out “...*the Chinese people will be exposed to other systems, cultures, and know other societies through travel, through the internet... One thing is for sure: the present system will not remain unchanged for the next 50 years ...*”¹²⁰

It is true that over the last 40 years, millions of Chinese students have studied at U.S. and European universities and most of them have returned back home to China- a country, which forms part of the international value chain adhering to a global -market oriented development strategy. In 2018, 149 million Chinese tourists spent \$130 billion on overseas trips.¹²¹ Naturally, China cannot isolate and protect itself from the political and economic changes taking place around the world. In other words, other countries can no longer avoid meeting China’s economic challenges and competing with China. Still, the interest of foreign companies in investing in China is very high.¹²² In short, everyone has to accept this as a fact of life. China is an economic power. The economic, scientific, and technological rise of China cannot be stopped by containment and misguided policies declaring “the conflict with China as an ideological one or even as a conflict of civilizations.”¹²³

As former Federal Chancellor Helmut Schmidt pointed out, instead of complaining, accusing, and teaching Chinese people how to behave and what they have to do, the only way seems to accept China as a new economic power and deal with it as it is.¹²⁴ The basic question is how we will align the interests of China with the interests of the world. The only realistic way to deal with China is to cooperate and collaborate with it in a peaceful coexistence.¹²⁵ It is also inevitable - and there is no alternative but for China to open itself to foreign companies, abolish discrimination and unfair trade regulations, and adjust itself to international trade regulations and the

120. Lee Kuan Yew: *ibid* 14.

121. Chinese tourists spend \$130 billion overseas in 2018, *China Daily*, Xinhua, August 5, 2019, <https://www.chinadaily.com.cn/a/201908/05/WS5d479988a310cf3e35563e6d.html>

122. On June 8, the European Chamber released its annual Business Confidence Survey based on responses from 585 European companies operating in China. Only nine percent of them are considering offshoring from China (lowest ever recorded), while 60 percent plan to expand their operations in China given the recent optimism about the growth of the Chinese market. 27 percent of participants plan to increase their ownership within their joint ventures, while over 25 percent aim to onshore their supply chains which would minimize the impact of potential international political tensions. See Merics, EU-China Weekly Review, June 9, 2021.

123. Peter Rudolf, “The Sino-American World Conflict” SWP Research Paper, German Institute for International and Security, 3 February 2020, Berlin, p.14 and Daniel Wagner, “America’s Conflict with China is Ideological and so much more”, *Diplomatic Courier*, August 2, 2020. 1-3.

124. Helmut Schmid, “Nachbarn China”, im Gespräch mit Frank Sieren, Econ, 2006, p.11.

125. Chris Patten wrote that “... George Schultz, a former US secretary of state told me in his long experience in business and government, Chinese communists always tried to define other countries’ relationships with them entirely on their own terms. They wanted the rest of us to regard our ties with China as the political equivalent of a beautiful and priceless Chinese vase. They would allow us to look at or even touch it, provided we didn’t risk dropping it by saying or doing anything that they believed should disqualify us from the honour of Middle Kingdom’s favour...” Chris Patten, the last British governor of Hong Kong and a former EU commissioner for external affairs, is Chancellor of the University of Oxford., “China’s One-Way Diplomacy”, Project Syndicate, June 1, 2021

rules of the game.¹²⁶ At the same time, Chinese rulers should take some gradual steps to improve human rights and freedom of speech in the country by accepting the rules-based international in order to be respected by the international community. As a parting word, we remain hopeful that the United States, the EU, and China will be able to create new opportunities for dialogue restarting the serious negotiations process of strategic engagement.

126. Bahri Yılmaz, Working Paper China-EU trade relations: Is China an economic partner, competitor or rival? Working Paper, No. 2010 Provided in Cooperation with: Koç University - TÜSİAD Economic Research Forum, Istanbul, p.14



Berlin
Bosphorus
Initiative