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Discussion Paper

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EU-China Relations in the Era of Donald Trump

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Two unexpected political events in the last two years have changed the global landscape/international environment: First, the referendum in the UK about leaving the EU has added a new dimension to the many crises the EU has been facing. And second and more importantly, the election of Donald Trump as the 45th President of the United States has created new uncertainties not only about the future course of US politics, but also about the future of the international order.

The first event had a major impact on the reputation and image of the EU, including in China: The former positive image of a successful economic and political entity that created peace, stability and prosperity for its members and therefore attracted new aspirants for membership was replaced by concerns about a domino effect of populist movements and further defections from the Union, possibly even leading to an eventual disintegration. While this negative scenario has failed to come true, the EU has yet to overcome its multiple internal crises and external challenges.

The second event has already fundamentally changed the perception of the US role in the world. Donald Trump's nationalist, anti-globalist and at times isolationist rhetoric – even if not consequently translated into policies – has spread doubts concerning the reliability of the US as an alliance partner (in Asia as well as within NATO) and as a provider of global public goods.

Both developments have an impact on EU-China relations. Since Chris Hughes' paper addresses the Brexit question, I will focus in the following on the election of Donald Trump and on two (related) debates that have been unfolding within the European Union, namely on foreign direct investments from China in Europe and on the Belt and Road Initiative.

The Trump factor in EU-China relations:

Some observers (e.g. Garcia-Herrero/Xu 2016; Casarini 2017; Esteban 2017) saw the developments in the US as an opportunity for the EU and China to step up their cooperation on issues like globalization, free trade or climate change. Soon after the election of Donald Trump, Xi Jinping gave a speech at the Davos World Economic Forum in which he presented China as a defender of free trade and globalization (Xi 2017). This speech was praised as “historic” and represented a strong contrast to Donald Trump's inauguration speech. Trump's decisions to withdraw from the Trans-Pacific Partnership (TPP) and from the Paris agreement on climate change demonstrated that the US might no longer be a partner to rely on – at least for the period of Donald Trump's presidency. It would therefore make sense for the EU and China to pool their strength to support international

institutions that have benefitted them over the last decades and work together to make sure that the goals set in the Paris agreement on climate change can be achieved. They can also step up efforts to address regional crises and flash-points together. From a European view, two frequently cited precedents for constructive cooperation between the EU and China are the E3/EU+3 negotiations with Iran over its nuclear program and the anti-piracy mission in the Gulf of Aden. Dialogues and regular exchanges on other issues that go beyond their bilateral relationship like Afghanistan or African countries have been started.

However, so far it seems that the bilateral issues between China and the EU, mainly in the economic field over trade and investment, stand in the way of actual steps towards a broader and stronger coordination and cooperation, even though both sides rhetorically underline their willingness to do so.

Economic issues: trade and investment:

In terms of economic relations, long-standing issues between the EU and China have become more entrenched or have heated up. Despite all dialogue formats, there does not seem to be a lot of progress in resolving any of the contentious questions. In 2016, the debate focused on whether the EU would grant Market Economy Status to China. On this matter, China filed a complaint at the World Trade Organization (WTO) against the EU and the United States (WTO 2016). The EU hopes to finalize a new framework of trade defense instruments by the end of 2017.

With respect to China's announcements to further opening up its economy, Mats Harborn, president of the EU Chamber of Commerce in China, speaks of "promise fatigue" on the European side (Martina 2017). Other observers note that while China has started to address some of the issues criticized by the Europeans, for example by reducing the negative list for foreign investments in China, new barriers are being erected at the same time nonetheless.

First, vast areas of the economy remain off limits or highly restricted. Even the companies that are now invited to invest risk running up against China's industrial policy targets. After all, the clearly stated goal within the Made in China 2025 strategy is to help Chinese competitors catch up and increase their domestic market share. It is reasonable to assume that when push comes to shove in any area of strategic interest, foreign companies will face discrimination. (Zenglein, 2017)

Meanwhile, the question of Chinese foreign investments in Europe has become a hotly debated topic in member states and at the EU level. In February 2017, the economic ministers of France, Germany and Italy wrote a letter to Trade Commissioner Malmström suggesting a mechanism for screening investments in EU member states. In his State of the Union speech on September 14, 2017, the Presi-

dent of the EU Commission Jean-Claude Juncker announced a new screening mechanism for foreign investments:

Let me say once and for all: **we are not naïve free traders.**

Europe must always defend its strategic interests.

This is why today we are proposing **a new EU framework for investment screening**. If a foreign, state-owned, company wants to purchase a European harbour, part of our energy infrastructure or a defence technology firm, this should only happen in transparency, with scrutiny and debate. It is a political responsibility to know what is going on in our own backyard so that we can protect our collective security if needed. (Juncker 2017)

Such a screening mechanism would of course apply to all investments coming from outside the European Union. In a press release on September 14, 2017, the European Commission outlined in more detail what steps the EU plans to take (European Commission 2017). The Commission plans to set up a coordination group with member states to identify concerns and solutions and to conduct a detailed analysis of the foreign direct investment flows into the EU by the end of 2018. The new mechanism, which has to be approved by European Parliament and the EU member states in the Council, will build on existing national review mechanisms. So far, only 12 member states of the EU have such an investment review mechanism in place.¹

Not all EU member states are in favor of stricter screening mechanisms. Spain, the Netherlands, Ireland, the UK and the Nordic states are reported to have spoken out against introducing such a mechanism. It is expected that in the end the decision on any foreign direct investment will stay with the respective member state.

The EU and the Belt and Road Initiative

The Belt and Road Initiative is another area where some skepticism has developed within the European Union. The main concerns are only in part economic in nature. If EU member states or aspirants for membership (some of which are members of the 16+1 mechanism) get loans from China for infrastructure projects which might turn out not be feasible, this can affect the financial stability not only of the country in question but ultimately also the EU more generally. Beyond such economic considerations, the adherence to European norms and standards, for example on public tenders, environment and labor, needs to be enforced by the EU. In the case of the high-speed railway connection between Belgrade (Serbia, not yet a member of the EU) and Budapest (Hungary), the EU Commission has launched an investigation in 2017 whether EU regulations on public tenders were

¹ Austria, Denmark, Germany, Finland, France, Latvia, Lithuania, Italy, Poland, Portugal, Spain and the UK.

infringed (Kynge/Beesley/Byrne 2017). But European concerns also extend to what effect China's economic engagement in some of the poorer EU member states has on European cohesion. For example, Greece blocked a statement which the EU had prepared for the Human Rights Council in Geneva in June 2017 criticizing China for its crackdown on activists and dissidents (Smith 2017). Countries that have become economically dependent on China or hope for Chinese investments or loans might not be willing to support China-critical positions of the EU anymore.

While several European heads of state² attended the Silk Road Summit or Belt and Road Forum held in May 2017 in Beijing, France, the UK and Germany sent representatives at minister level and the EU itself was represented by Jyrki Katainen, the Vice President of the European Commission. While European leaders attending the summit did sign the Joint Communiqué of the leaders' roundtable (Xinhua 2017), according to press reports, the EU and member states were not prepared to sign a joint statement on the Silk Road's trade initiative which the Chinese side had prepared for concluding the summit (Phillips 2017), asking for guarantees from Beijing on free trade, environmental protection and working conditions.

While Katainen underlined the EU's interest in "working with China and other partners on improving connectivity among us" (Katainen 2017), he also listed some principles that should be adhered to:

- It should be an **open initiative** based on market rules and international standards.
- It should include **all modes of transport**, as well as digital and energy and people-to-people contacts.
- It should **complement existing networks and policies**. In the EU's case, we have decades of experience with the Trans-European Networks, which are now being extended into our neighbourhood, East and South.
- European and Asian infrastructure should not be designed in isolation. We need to build a **true network and not a patchwork**.
- Infrastructure networks must be **interoperable**. We want to bring down barriers, not create new ones.
- **Transparency** on our plans and activities must be the basis for our cooperation, and all partners should have a fair say about where the priorities lie. Multilateral frameworks like ASEM, should be used wherever possible.

² Czech Republic, Greece, Hungary, Italy, Poland, Spain. From the 16+1 also Serbia.

- **Sustainability** is essential: projects must be economically viable, fiscally and socially responsible, as well as climate and environment-friendly.
- We must use the **wisdom of the multilateral banks**, whose decades of experience makes them an invaluable partner for new institutions such as the Asian Infrastructure Investment Bank.
- Finally, we should ensure that **there are real benefits** for all stake-holders. Not only for countries, but also for economic operators, who should have a fair chance to compete for business through open, transparent and non-discriminatory procurement procedures. A level-playing field for trade and investment is a critical condition if we want to maintain the political momentum and support for better connectivity between Europe and Asia.

This speech reflects what is important from the EU perspective for a successful and fruitful cooperation on the Belt and Road Initiative.

Conclusions/Perspectives

The election of Donald Trump in the US should have provided an extra incentive for the EU and China to look into closer coordination and cooperation in many areas – these range from global issues like climate change, migration and multilateral institutions to regional crises (Afghanistan, Middle East, Africa, Korean Peninsula) and to economic issues like defending economic globalization and free trade. While a dialogue between China and the EU on many of these issues has been brought on the way prior to Trump's election, closer exchanges and cooperation seem more important and more urgent now.

However, it is exactly in the area of economic issues, where links between the two sides have been closest, where we see the least movement. China and the EU seem to insist on their respective positions without a real willingness to negotiate and compromise. Even worse, the entrenched positions sometimes seem to turn into obstacles even for signaling closer cooperation in other fields where the interests of both sides are more aligned. The fact that in two consecutive years now the EU-China summit has not produced a joint statement can at least be interpreted in this way.

But there might also be some more fundamental problems manifesting themselves here: For the European Union it has become more important than ever to stay committed to a rules-based international order. And while it is prepared to discuss these rules with China as a partner and make room for modifications that reflect the changing international environment, the question is whether China still considers the EU as a serious economic and political counterpart and cooperation partner.

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