

Europe's Pushback on China

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Paris, June 25, 2020 - Facing the failure so far of talks aiming at policy changes from China, the European Union has just used a direct virtual meeting with Xi Jinping and Prime minister Li Keqiang on June 22 to point out their many divergences. This “frank and intense” talk by Europeans is a new start. It is now up to Europeans to make their own interests and values China-proof.

In the policy paper *“Europe’s Pushback on China”* published today by Institut Montaigne, François Godement, Senior Advisor for Asia to the think tank, explains why Europe, which had started a number of defensive policies but remained indecisive in its negotiation strategy, is now challenging China to take action before the end of the year.

“My advice to the European Union is to abandon illusions of cooperation with China. It is now crystal-clear that China is avoiding legally binding commitments and trying to gain time. Instead of waiting around hoping that China will take a step towards us, which it won’t, Europeans would be better off improving self-reliance and cooperating with our other partners: thinking long term, capitalizing on competitive strengths, turning to our knowledge, tech and capital”, François Godement explains.

In the eyes of Chinese leaders, “there is no such thing as a democratic ally”

This policy paper examines how abstract European wishes for “strategic autonomy” and independence are interpreted by China as a rift with the United States. The more chaos is fueled inside the democratic camp, the more China uses it to obtain our compliance with a long list of interests and goals. Neither Europe nor the United States have anything to win from mutual neglect. Other partners of China experience the same difficulties with an increasingly rigid Chinese government.

“Yes, there are differences between democratic states, and even within Europe itself. Not everyone agrees with what exactly the European brand stands for”, Godement adds. *“But in the end, Europe gains no traction if it speaks to China with a weak, fragmented voice. There is no denying our presently limited hard power and geopolitical capacity. But it’s time to accept that it makes fundamentally far more sense to rise above our differences between Member States and with other democracies, than to attempt cooperation with an authoritarian giant.”*

Why 2020 was likely to be a lost year for EU-China relations

The European attempt at cooperation comes in a specific context for 2020. China is in no urgent need for a deal with the EU. Why grant to Europe concessions that would need to be matched or extended with the United States? This was likely to be a missed year for EU-China relations

because of the wait for the November elections in the United States. If Joe Biden wins, China would focus even more its attention on obtaining a policy shift from the US. Should Donald Trump win a second term, European leaders might hope that China's interest could at last focus on a genuine trade and investment deal with Europe, to counter the risk of a US-led decoupling.

An evident desire for the status quo

Digital and medical exports boost China's trade recovery (according to China Customs Statistics, its export value in euros of textile yarn and fabric products increased by 52.46% YoY in April and by 93.53% YoY in May and a similar trend is observed in the export of medical devices), while China absorbs much less imports from the rest of the world: its trade surplus hit a record of 62 billion USD in April 2020. Contrary to Europe which expects to take years to absorb the financial cost of countering the great pandemic recession, China has avoided new debt as much as it could. Its advanced economic sectors are healing rapidly from the damage. Beijing is certainly aware of the risk of investment flight from China: it speaks directly to foreign companies, with sweetheart deals and a sudden attention to their complaints. But for all the talk, investment from Europe into China actually increased last year. It is no surprise that Chinese leaders think the relationship with Europe is fine as it is. Except for more compliance with China's slogans, "no change" is the preferred option in Beijing when dealing with Europe.

Our policy recommendations for Europe facing the absence of results from engagement with China

- **Diversify strategic supplies, assess the priorities and costs of reshoring at home**

In the long term, policies to diversify critical supply chains away from China make sense for Europe, as does reshoring for some manufacturing. But it costs far more to ship containers across the Mediterranean than from Chinese ports to European shores. Ensuring the security of critical supplies and technology does have a cost. Extending the scope of reshoring requires either large productivity gains, or a reduction in labor costs, or protectionism at the expense of our standard of living. Priorities need to be defined.

- **Move whenever possible towards binding rules for Member States**

Investment screening, a halt to predatory take-overs, an EU instrument to sanction state subsidies to non-EU companies or using third country bases for dumping, a unified approach to telecom and digital network security are all commendable. Europeans should accept that these policies must become more binding towards Member States. Europe is only as strong as its weakest link, given our goals of integrating even more deeply the continent. Similarly, these ambitious defensive moves require more resources and staff : as is the case with innovation or industrial policies, there is a need for coordinated resources at the European level.

- **Turn to democracies without aiming for identical views**

Europe needs to stop focusing on trying to convince China, and turn much more to democracies instead. In a world that is shaken by resurgent nationalism, by many internal challenges to the democratic process, it is important for Europeans to choose the least aversive partners, without aiming for identical views. Pure and perfect multilateralism does not work if one is its only practitioner. In the end, rising above those differences makes more sense than trying to cooperate with an authoritarian giant.

Our most natural partners – the United States, Japan and other East Asian states, India, Latin American nations, many African states, are far from sharing the entire compact of European values, which have provided an unprecedented safety net to almost all individuals. Yet claiming equidistance between them and China or other autocracies only serves to fragment democracies, to accelerate their crisis, and to help the advocates of authoritarianism. Calling out China is useful.

An imperfect, incomplete or contested democracy is still safer in terms of commitments and international law than a system which subordinates policy to one party rule and respect for international law to its own interests of the moment.

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