

Europe's China Chimera

BY PETER ROUGH

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Cover: French President Emmanuel Macron accompanies Chinese President Xi Jinping and German Chancellor Angela Merkel after their meeting at the Élysée Presidential Palace on March 26, 2019 in Paris, France. (Chesnot/Getty Images)

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TABLE OF CONTENTS

Executive Summary	6
Chapter 1. Europe's China Delusion	7
Davos Man	7
Capitalism with Chinese Characteristics	8
China's European Kingdom	9
Bullying, Blackmail, and Britain	10
Chapter 2. The Current Dangers	12
Europe's Asian Awakening	12
The Big Four	14
The Poisoned Chalice	16
17 Plus 1 Equals BRI	17
Sino-Russian Hard Power	18
Chapter 3. The Way Ahead for Europe	19
The Transatlantic Future	19

EXECUTIVE SUMMARY

When Xi Jinping, the chairman of the Chinese Communist Party (CCP), dreams of global domination, he worries about one thing above all else: a hostile United States backed by its allies—and on the Eurasian landmass, the US has no more important ally than Europe. As a result, Xi has worked to weaken the transatlantic alliance through a two-pronged economic stratagem. First, under the guise of globalization, China has insinuated itself into the European economy, creating dependencies. Second, Beijing is manipulating those dependencies to hollow out and supplant Europe's advanced economies. To give this deception cover, China has built a vast political network across Europe, from basic sympathizers to outright spies.

Until recently, barely anyone took notice, but the financial crisis and forever wars of the past two decades, culminating in the election of Donald Trump as president of the United States, lured the self-confident Xi out into the open. During the coronavirus pandemic, China revealed an aggressive attitude toward Great Britain's former colonies that shocked the United Kingdom. In

the span of mere months, London shifted from cooperation to confrontation. In July, it became the first country in Europe to block the Chinese telecommunications giant, Huawei, from its next-generation networks.

Germany, the continent's most important country, still sees China as key to post-pandemic recovery and economic growth, however. Xi has exploited this attitude to strike an investment agreement with the European Union (EU), the chief purpose of which is to forestall a transatlantic approach under the new US president, Joe Biden. Together, the United States and Europe have unparalleled advantages against any competitor. Now is the time for cooperation, before Xi's dreams become our collective nightmare.

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CHAPTER 1. EUROPE'S CHINA DELUSION

Davos Man

Acquiring the blueprint for Xi Jinping's plan to undermine the transatlantic alliance does not require stealing a classified intelligence briefing or grooming a mole inside the Politburo in Beijing. It does not even require a command of rudimentary Mandarin.

All one must do is consult Xi's January 2017 remarks to the World Economic Forum (WEF), delivered for all the world to hear and **translated** into English by his own officials. Xi's choice of the WEF to give his speech was telling: each year, international problem-solvers and Western leaders gather in the Swiss mountain town of Davos to discuss how to create a better world and deliver better lives for their peoples.

That last clause was uttered by Xi Jinping himself in his remarks, **titled** "Jointly Shoulder Responsibility of Our Times,

Promote Global Growth." It is emblematic of his speech, which brims with praise for global governance. It oozes odes to multilateral decision-making. Xi even caps his *piece de Davostance* with a straight-faced appeal to join Europe in defending the liberal international order against, one infers, the scourge of nationalist excess.

In all its verbiage and politesse, the speech is notable not for what Xi proposes, but for the language he uses to make his pitch. It is illuminating because it demonstrates Xi's mastery of Sun Tzu's dictum: to know your enemy, you must become your enemy.

Photo Caption: Chairman of the Chinese Communist Party Xi Jinping (L) delivers a speech on the opening day of the World Economic Forum, on January 17, 2017 in Davos. (Fabrice Coffrini/AFP via Getty Images)

The transmogrification Xi demonstrates in his address served at the time as a culmination of his party's decades-long efforts to insinuate itself into Europe by dangling the promise of political cooperation and access to China's domestic market before the eyes of Europeans committed to the cause of multilateralism and the promise of globalization.

These efforts, cloaked in language crafted for Western ears, serve Beijing's long-term strategy of turning Europe into an unwitting network of Chinese tributary states. The master strategists behind it envision Europe as a Switzerland-on-steroids: economically relevant but politically non-aligned. This would leave the United States alone in resisting China as Xi and his successors remake the world from astride the Eurasian landmass.

The transatlantic alliance is essential to preventing this outcome because Europe possesses neither the strength nor the ability to resist China independently. Just take the issue of hard power. The prospect of an American military withdrawal from Europe, with which President Trump rattled his allies, shocked some European countries into improving their militaries. Still, no major European country transformed itself into an independent, capable actor during the Trump presidency. Even under the rosier projections, it will take Europe's wealthiest country, Germany, nearly twice the amount of time to hit its defense spending targets as it took to fight both world wars. Collective continental defense, the transnational **alternative** to German strength proposed by French President Emmanuel Macron, remains even less likely to succeed, based as it is on a deracinated identity—a bond too weak to command painful sacrifice over a significant period of time.

Thus, the transatlantic alliance remains the only viable option for ensuring the defense of Europe. Even Angela Merkel, the most powerful leader on the continent, **concluded** as much last year, when she said, "Europe can't defend itself on its own. We are reliant on this transatlantic alliance."

One can only make sense of Xi's Davos address in light of this strategic reality: he seeks not to become the *beau ideal* of international values, but to adopt the language of Davos, of multilateralism and support for European autonomy, in order to undermine, neuter, and ultimately split the Atlantic alliance. He is a wolf in a globalist's bespoke suit.

His foreign minister, Wang Yi, recently tipped China's hand while enthusiastically **endorsing** European "strategic autonomy," telling his French counterpart that China supports Europe's push "to stand on its own as a pole of the world. This is not a temporary thought of the Chinese side, but a consistent strategic thinking."

To consummate its strategy and pull Europe away from the United States, much as wolves separate a wayward sheep from its flock, China is prosecuting a multi-pronged offensive, centered on an economic stratagem that targets the continent's chief vulnerabilities. This focus on economics preys on one of capitalism's chief strengths, openness, to infiltrate the European economy with the ultimate goal of Finlandizing the continent. Over time, China aims to establish a position so strong that political resistance is deemed futile. "Hide your strength, bide your time", as Deng Xiaoping conceived it. While this stratagem has several parts, it begins with establishing leadership in the strategic industries of tomorrow.

Capitalism with Chinese Characteristics

China knows Europe's economic foundation is brittle. While Europe is star-studded with talent of all stripes, its innovation ecosystem lags behind those of the United States and China. Of the world's 15 largest digital firms, not a single one **is** European. Unsurprisingly, therefore, Europe **trails** badly in the race to develop the technologies of tomorrow, such as artificial intelligence and quantum **computing**. It is true that Chinese **spending** on research & development (R&D) has surged, **growing** five-fold to reach a quarter of global outlays since 2000, but Europe has also invested and still accounts for one-

fifth of the world's R&D. The difference is that while European **efforts** are fragmented and bureaucratic, China acts with ruthless purpose across key areas deemed essential for the economy of tomorrow.

The defining feature of the Chinese model is the synergetic relationship between the official organs of the state and its corporate champions. In China, there is no such thing as a truly private sector. While the leadership in Beijing is happy to indulge the West's penchant for solipsism by repeating the lie that its businesses are independent of public control, its actions give away the game.

Not only does China heavily subsidize its companies, but it also outfits them with huge amounts of intellectual property stolen from abroad. Often this takes the form of outright theft. Sometimes it manifests in subtler ways. Corporate surveys show that large numbers of European firms in China are **forced** to **transfer** their technologies in order to maintain market access, especially in strategic sectors like pharmaceuticals, chemicals, and petroleum. In other instances, China lures European firms into joint ventures in order to gain access to proprietary information. Because China's priority is to gain knowledge rather than earn profits, its agents can undercut the market and issue highly attractive offers to cutting-edge firms abroad. At the start of the century, Chinese foreign direct investment into Europe was negligible. By 2016, it had **reached** \$42 billion, including the shocking **takeover** that year of Germany's prized robotics firm, Kuka.

Thus by subsidy, theft, coercion, partnership, and acquisition, the CCP is **attempting** to rapidly modernize its manufacturing base in ten high-tech industries over the next five years, establishing its companies as leaders in the industries that will decide the future of the global order. This so-called "Made in China 2025" plan aims to surpass the West in all the key industries. Once this milestone is reached, Beijing plans to reduce its dependency on foreigners and promote Chinese manufacturers around

the world. Beijing's goal is for its champions to dominate the world by 2049 at the latest, the centennial of the founding of the People's Republic. It plans to mark the anniversary not by celebrating interconnectedness but by showcasing autarky, with Europe taking the **place** of consumer, rather than producer, of high-end products.

This poses an existential **threat** to European, specifically German, manufacturers and automakers accustomed to dominating high-end markets from Europe to Asia. Already, Beijing is beginning to unleash its champions onto the world.

The recent experience with Huawei, the Shenzhen-based telecoms giant, is merely a harbinger. Because it benefits from state support that its competitors in the private sector lack, Huawei can offer fifth-generation telecom networks to European providers at artificially low prices. China is eager for Huawei to control these networks and therefore spur the next digital transformation. If Huawei succeeds in Europe, it will become in tech what Gazprom, the Russian gas giant, is in energy: a point of **leverage** in service of blackmail against America's closest allies.

China's European Kingdom

China's stratagems engender two basic reactions in global actors who confront them: dismay or dismissal. Xi has a playbook for dealing with each. When resisted, Beijing's emissaries browbeat opponents with the cold facts of China's economic might. Chinese diplomats have resorted to this tactic so often as a tool of diplomatic action that it has even acquired a catchy name: "Wolf Warrior" diplomacy, named after a jingoistic Chinese blockbuster movie. China's ambassador to Sweden, Gui Congyou, has proven especially willing to bare his fangs. Ambassador Gui **compared** the Swedish press to a lightweight boxer who "refuses to listen" and breaks into the home of a heavyweight fighter. "What choice do you expect the heavyweight boxer to have?" he asked. In one two-year stretch, the Swedish foreign ministry **reportedly** summoned him more than forty times.

In another interview, Mr. Gui **explained** to his hosts, “We treat our friends with fine wine, but for our enemies we have shotguns.” The wine comes in several vintages, but it flows abundantly to European elites who share the appropriate view of the People’s Republic. David Cameron of Great Britain and Dominique de Villepin of France are two Davos men—not to mention former prime ministers of their respective countries—who have **embraced** closer ties with China in sensitive economic sectors. Today, Cameron **chairs** the UK-China Fund, which raises money for economic joint ventures. Villepin is a reliable supporter of Sino-EU ties and **heads** the advisory board of the Shanghai-based China Europe International Business School. Both are championing the Belt and Road Initiative (BRI), of which Cameron’s fund is a **part** and whose single most important goal is the reduction of Europe to tributary status.

China embeds itself at the institutional level, too. The prestigious France China Foundation regularly features the very top of French business and politics, including former prime minister Laurent **Fabius**, and forges next-generation ties through its Young Leaders program. China boosters in Berlin **established** the “China-Bridge” one year ago with the aim of furthering ties between elites in both countries, modeling their program after the exclusive “Atlantic-Bridge” nongovernmental organization for German-American relations. All these efforts are part of Xi’s blueprint to dampen criticism of the CCP and clear the way for China’s economic penetration of the continent.

When China encounters European organizations with pro-Western values that it is unable to replace, it seeks instead to infiltrate them. China pours huge sums of money into a maze of partnership structures, especially with universities, that aim to **proscribe** criticism of the CCP and recruit new talent to the cause. In fact, four European countries—Germany, the UK, France, and Sweden—all **rank** in the top ten globally for Chinese talent recruitment operations. China also **sponsors** nearly 200 Confucius Institutes at schools across the continent and funds events, **media**, and even political **party** conferences.

The PRC also **coordinates** the Chinese **diaspora** to great effect. Today, there may be only a few million Chinese nationals living in Europe, but many occupy influential positions. In Germany alone, Beijing’s United Front has **established** hundreds of diaspora organizations, ranging from professional clubs for science and technology to German-Chinese friendship societies, all for the purpose of stealing proprietary information, advancing Chinese propaganda narratives, or surveilling Chinese nationals living abroad. A crucial part of this effort is the recruitment of students. By offering financial assistance to young people during their stays in Europe, smoothing their transition into a foreign culture, promising a lucrative career back home, and appealing to patriotic duty, Chinese officials have built a network of informants and spies across the continent. One Chinese Students and Scholars Association known to have operated in Belgium **consisted** of “hundreds of Chinese spies working at various levels of European industry.” That organization was uncovered fifteen years ago.

Bullying, Blackmail, and Britain

Those Europeans brave enough to object to China’s methods quickly find themselves staring down the barrel of reduced market access. China has been leveraging its economic power for political goals in Europe for at least a decade. It raised eyebrows in 2010 after it downgraded trade with Norway when the Norwegian Nobel Committee awarded its peace prize to Chinese human rights activist Liu Xiaobo. Only after Oslo **pledged** in a one-sided declaration six years later that it would “do its best to avoid any future damage to bilateral relations” did China **normalize** ties.

As China slowed its import of Norwegian salmon during the spat, the fortunes of the Faroe Islands’ fishermen **soared**. However, so pervasive is Chinese pressure that they, too, faced a stark choice. In November 2019, China threatened to scuttle favorable terms for Faroese salmon if Tórshavn did not **choose** Huawei for its telecoms network. In both cases, Chinese officials sought to leverage market access to force concessions. Fifty

thousand hardy inhabitants strong, the Faroe Islands is only a bit player in Europe, but China has not shied away from threatening Europe's powerhouses, including the United Kingdom.

That China could deem such strong-arming necessary with its interlocutors in London would have seemed implausible as recently as a year ago. As much as any major European country, Great Britain has long sought harmonious relations with Beijing. In 2015, David Cameron **spoke** of "a golden era" in Sino-British ties. That same year, the UK became the first major Western country to **join** the Asian Infrastructure Investment Bank (AIIB), China's challenge to the US-led World Bank and International Monetary Fund. Chinese investors **took** major stakes in strategic British industries, from Heathrow Airport, National Grid, and Thames Water to North Sea oil production, the Hinkley nuclear power plant, and British Steel. Meanwhile, British universities and independent schools welcomed large numbers of Chinese students and the tuition they brought with them.

British companies have also been active in China, albeit on a smaller scale, with banks like **HSBC** and Standard Chartered using their longstanding presence in the former British colony of Hong Kong to launch operations across Asia. Today, both banks **derive** the bulk of their profits from the region. It was therefore unsurprising that Boris Johnson, upon taking over as prime minister in July 2019, **declared** himself "pro-China" and "very enthusiastic about the Belt and Road Initiative."

However, cracks in the relationship began to appear by the time of Johnson's election. In February 2019, Gavin Williamson, then the defense secretary, announced that the aircraft carrier HMS Queen Elizabeth would deploy into the Asia-Pacific region to deter countries that "flout international law." Beijing correctly read the statement as a rebuke of its activities in the South China Sea and responded by **canceling** trade talks with Philip Hammond, the powerful chancellor of the exchequer.

At the time, influential voices in Great Britain, led by Hammond, criticized Williamson rather than China for the incident, casting it as a needless provocation of an important trading partner. "This is entirely premature," Hammond **said** of the announcement, before adding that "a complex relationship ... hasn't been made simpler."

Today, after a matter of months, the UK's approach toward China has shifted dramatically both in form and in substance. Last April, a group of members of Parliament **established** the China Research Group (CRG) to "promote debate and fresh thinking about how Britain should respond to the rise of China." Lest any doubt exists about the fruit of that fresh thinking, the Group's latest research paper is **titled** "Defending Democracy in a New World" and offers ideas "to counter human rights violations and breaches of international law in China." To back it up, HMS Queen Elizabeth will **sail** for waters near Japan this year after all.



CHAPTER 2. THE CURRENT DANGERS

Europe's Asian Awakening

Support for a more hawkish policy toward China now spans the political spectrum in Britain. How to explain this burgeoning consensus? Start in 1989.

As the Berlin Wall fell and the Cold War wound to a close, American power seemed unassailable. Chinese leader Deng Xiaoping surveyed the landscape and argued that to survive the CCP needed to embrace the mantra “hide one’s capabilities and bide one’s time.” Instead of confronting America, Deng hoped to manipulate it into supporting his country’s rise. This proved all too easy as the defeat of the Soviet Union turned Western confidence into hubris.

Victory in the Cold War confirmed the American bias that market economics inexorably lead to political liberalization. As China embraced elements of capitalism to grow its economy and

generate jobs, successive US administrations believed a new middle class would rise and demand change. The market would turn dictators into democrats, tyrants into technocrats, and communists into capitalists—either that or the whole system would come tumbling down. One way or another, globalization would transform China into a responsible stakeholder of the international order. Little wonder, then, that the West helped China unlock its enormous potential, including by admitting it into the World Trade Organization (WTO).

The CCP had other ideas. While the party pocketed Western support it strove, *sotto voce*, to replace rather than emulate the

PHoto Caption: An advertisement for Huawei wraps around the scaffolding of a bell tower at the Kaiser Wilhelm Memorial Church in Berlin, Germany. (Bildagentur-online/Universal Images Group via Getty Images)

liberal democratic order. Eventually, thought Politburo thinkers, China would assume its rightful place atop the world, from where it would dismantle the American-led system of sovereign states and replace it with a Sino-centric hierarchy of vassals. Communist Party strategists understood what a succession of American presidents overlooked: economics alone does not predict a country's development. Politics and culture count too. Since Deng's time, the CCP has had great success in bending the iron laws of the market to its own political and cultural considerations.

But the arrival of President Trump interrupted Beijing's plans. China interpreted Trump's victory in 2016 as a confirmation of American decline, coming as it did in the aftermath of the war in Iraq and the global financial crisis. For all his faults, Trump, more than any other American leader since the fall of the Berlin Wall, saw through China's hide-and-bide stratagem for what it was and launched an economic counterattack before the trap could spring shut.

Trump lambasted Beijing and ordered an investigation into its unfair trade practices, previewing the hundreds of billions of dollars in tariffs he would levy on Chinese products during the course of his presidency. Over time, the president also moved to deny China the advanced technologies it needs to modernize its economy, focusing his fury on Huawei more than on any other company.

This combination of perceived American weakness and Trump's aggression had an unforeseen consequence: it baited the self-confident Xi into abandoning "hide and bide" prematurely. In October 2017, Xi **announced** a "new era" in his report to the CCP's 19th Congress. China would now take "center stage" in global affairs.

By the time the coronavirus pandemic struck Wuhan around two years later, Xi, the most ambitious Chinese leader in

decades and the most important since Deng, had moved with a steel fist to transform the CCP into a terror-infused hierarchy. City and regional officials were so fearful of upsetting the boyars in Beijing that a local outbreak turned into a national pandemic. Meanwhile, Xi's diplomats, eager to propel China onto "center stage," displayed a callous disregard for the outside world and the World Health Organization, thereby allowing a national pandemic to metastasize into a global crisis.

When criticism of China's handling of the pandemic arose, Beijing responded less like a wolf and more like a tightly wound rattlesnake ready to strike at any perceived slight. Chinese diplomats flooded Twitter, **opening** large numbers of accounts as part of a broad disinformation campaign. In a breathtaking display of gaslighting, the Chinese even blamed their own mishandling of the crisis on the United States. "It might be US army who brought the epidemic to Wuhan," the spokesperson of the Chinese foreign ministry **tweeted**. "Be transparent! Make public your data! US owe us an explanation!" The Chinese embassy in France claimed that local nursing home employees had **abandoned** their stations and left their elderly wards to die.

China reinforced its lies with a cynical display of "mask diplomacy." By the time the coronavirus had spread to Europe, hitting Italy first and hardest, China began to assert some control over the virus at home. This "first mover" advantage allowed it to shift from hoarder to exporter of critical equipment. However, as EU High Representative Josep Borrell **recognized**, China's "politics of generosity" hid "a geopolitical component including a struggle for influence." Notably, Beijing **showered** equipment on the very same countries it had identified as beachheads in the Belt and Road Initiative, including Italy, Hungary, Greece, and Serbia. It also cynically targeted the Netherlands as the Dutch prepared for its 5G auction last summer.

The most significant **shift** brought upon China by the coronavirus, however, has occurred in its geographic near abroad. In 2014, and again in the months leading up to the

pandemic, Beijing wrestled with how to contain major protests in Hong Kong. At the end of June, Beijing seized on the pandemic to press ahead with a new national security law for the city, effectively curtailing free speech and extinguishing anti-government protests.

London was incensed at the Chinese move, which constituted a **breach** of the 1984 Sino-British Joint Declaration that governed the handover of the city from Crown colony to Chinese protectorate. Prime Minister Johnson swiftly denounced Beijing's heavy-handedness, suspended the UK's extradition treaty with Hong Kong, and pledged a pathway to British citizenship for millions of Hong Kong people.

Still, China didn't stop there. After Hong Kong, it turned its wrath on Australia. As an outpost of the West in China's neighborhood, Australia has had a front-row seat to China's activities in the region. Its unwillingness to stay silent over Chinese malfeasance placed it squarely in Beijing's crosshairs. China reacted to Canberra's call for an independent investigation into the origins of the pandemic with crackdowns on Australian exports, including barley, beef, wine, timber, and lobster. "China is angry. If you make China the enemy, China will be the enemy," a Chinese government official **told** a reporter in Canberra last November after delivering a 14-point list of grievances. Among Australia's sins are standing for international law in the South China Sea, protecting its universities from United Front operations, and publicizing China's hack of its Parliament.

The Big Four

In Great Britain, China's unveiling of its charge sheet against Canberra put the lie to the multilateralist gloss of Xi's Davos remarks. Once again, Beijing lay bare its disregard for nearly every **principle** Xi had professed in his speech as the basis for modern relations: respect for international law, non-interference in domestic affairs, and mutual respect as a basis for cooperation. By last summer, London had made its decision; the "golden era" with China was over.

On July 14, 2020, the British government became the first in Europe to announce that Huawei would not be granted a role in building its next-generation 5G network, reversing a decision taken in January. Liu Xiaoming, the Chinese ambassador in London, met the decision with acid. "The UK has poisoned the atmosphere," he **said** in a fiery press conference, before warning that it would "pay the price." For its part, Chinese state media **threatened** "retaliatory responses."

The UK's about-face rippled across the Channel—but so did China's threats. In France, Macron negotiated a tight rope, declining to characterize his policy as an outright ban of Huawei in order to sidestep the wrath of Beijing, which he has wooed for other priorities, including the environment. Consistent with his goals for Europe, French authorities **informed** operators last summer that they planned to phase out the company and **push** for a Scandinavian alternative: Finland's Nokia and Sweden's Ericsson. "The period of European naivete is over," Macron **said** at a 2019 news conference in which he bemoaned Chinese acquisitions of European ports.

Instead, France has pursued commercial ties with its eyes wide open. China is a rapidly growing luxury retail and tourism market for France—sectors that will prove important to France's post-pandemic economic recovery. Last year alone, China's personal luxury market **grew** nearly eight percent, even as the global market contracted by 20 percent. Sensing an opening, Beijing is upping the stakes, confident that Macron's guidance on Huawei is not the last word on Sino-European relations. In December, news **reports** emerged that Huawei would build a major manufacturing plant in eastern France, the first of its kind in Europe.

That self-assurance stems from China's relationship with France's powerful neighbor, Germany. In late 2019, China's ambassador to Germany, Wu Ken, **warned** of "consequences" for Germany if it were to disqualify Huawei as a vendor. This is where European resistance, as it exists, begins to disintegrate.

Unlike Britain and, to a certain extent, France, China's threats to Germany have proved potent.

This is in part because Germany's political class has cultivated China for years; Angela Merkel herself has visited the country a dozen times during her 15 years as chancellor, often with high-profile business delegations in tow. China has greeted them with open arms, grasping them in a steely embrace from which it would be painful to escape. "We should increase the dependence of international supply chains on China," Xi Jinping **instructed** his officials last year, "and establish powerful retaliatory and menacing capabilities against foreign powers that would try to cut supplies." Not only is China now Germany's top **supplier**, but it is also Germany's top trading partner. In 2019, Germany **accounted** for over half of the EU's exports to China, the fourth year in a row in which China has **supplanted** the United States atop Germany's trade rankings.

The situation in Germany demonstrates how China is outmaneuvering the US in politically influential industries. The Chinese market accounts for such a significant share of Germany's recent export growth, especially in high-value products like chemicals, machinery, and automobiles, that it is widely seen as the key to Germany's post-pandemic economic rebound. Today there are 5,200 German companies **active** in China, many of them industry leaders. **Volkswagen**, the biggest car company in the world, **sells** 40 percent of its cars in China, and Daimler (Mercedes) and BMW now **sell twice** as many cars in China as in the United States. In fact, a Chinese investor has **held** the largest equity stake in Daimler since 2018, while another Chinese stakeholder **reportedly** considered surpassing him. To cement the relationship, Beijing announced plans in 2018 to transform the German city of Duisburg into a Huawei smart city, **selecting** it as the BRI's European railhead.

This strategy has borne fruit. On sensitive matters like Tibet and Taiwan, Western businesses, from the **Marriott** hotel chain to **Daimler**, kowtow to Chinese political demands for fear of losing

markets. Some of Germany's **greatest companies**, from BASF to Siemens to VW, have even established operations in Xinjiang, giving China cover in a region where it is committing what the United States **considers** to be genocide.

The German government has taken its cue from industry, **facilitating** China's rise in high-tech standards-making fora. At last year's Munich Security Conference, influential Germans were openly citing their economic dependence on the Chinese market to explain Berlin's hesitation to institute a ban on Huawei. Unsurprisingly, when Germany's intelligence services authored a report documenting China's growing influence in the country, a senior German official reportedly **suppressed** its release for fear of damaging business ties. All this taken together has led to the **allegation** that in her relationship with China Merkel is putting car sales above all else.

Is this fair? The coronavirus has brought a basic contradiction to the fore. At the very moment, German exporters needed it most to jumpstart an economic recovery, China revealed its true colors for all the world to see. German industry was growing ever more dependent on China just as forces hostile to the nation were beginning to stir in German politics. Yet despite Berlin's efforts to diversify its approach by emphasizing trade and connectivity with like-minded countries in the region—especially Japan, with an approach it **codified** through an Indo-Pacific strategy last September—its dependency on Beijing remains.

Merkel has sought to cut this gordian knot by embracing trade as a political strategy. "I still believe that change can be achieved through trade," **argued** Peter Altmaier, her close confidante and minister of economic affairs, last summer. Merkel has doubled down on her faith that capitalism can bring about change in China just as the Anglosphere has been renouncing it.

As of this writing, the German government has finalized a decision, to be ratified by the Bundestag, that would **avoid banning** Huawei. Instead, key German agencies and ministries

are to be granted technical and political oversight of the company, including veto powers, while allowing it to operate within the country. This is quintessentially Merkel: to keep Germany's options open for as long as possible.

The problem is that Germany's telecom operators are not waiting. On the ground, they have already begun partnering with Huawei to install 5G infrastructure, essentially daring Berlin to exercise its veto. The upshot of such an intervention, the operators loudly trumpet, would be higher costs and delays for consumers. The message is clear: better to accommodate Huawei.

The German sensitivity to China is also reflected in the ethos of the fourth major actor on the European continent: the EU. In 2019, the European Commission officially **labeled** China "a cooperation partner ... an economic competitor ... and a systemic rival" that requires a "flexible and pragmatic" European approach. How to reconcile these three seemingly opposite labels is anybody's guess. In practice, it has meant **statements** and improved **coordination**, especially for screening inbound investments, but without binding effect on the member states. Margrethe Vestager, the powerful commissioner charged with overseeing European competition policy, has taken **aim** at China for its market-distorting foreign subsidies, and the EU also moved in June to **impose** tariffs against Chinese **producers** of glass-fiber fabric who had received state aid. More recently, the EU established a sanctions mechanism to target human rights abusers, a tool that could be employed against China. For most of the past year, however, European officials have toggled between criticism and cooperation, unwilling to risk markets and unsure of how to proceed in light of Germany's hesitation.

The limited appetite in Brussels for outright confrontation with China was on display this spring when EU officials allowed China **twice** to **censure** public statements relating to the pandemic in the span of mere weeks. Shortly thereafter, Josep Borrell **conceded** that Europe's approach had been "a little naïve." It

seems that the EU, and its leading power, Germany, have decided to give Sino-European relations every chance to succeed.

The Poisoned Chalice

No issue demonstrates this better than the comprehensive agreement on investment (CAI) that the EU and China have negotiated for the past six years.

Over 35 **rounds** of negotiations, Europe made bold proposals to level the playing field on issues ranging from subsidies and state-owned enterprises to market access, intellectual property rights, and labor rights. Last September, in the final year of her chancellorship and while Germany held the presidency of the EU, Merkel had hoped to meet Xi in the city of Leipzig to sign a completed deal.

When the summit was postponed due to the coronavirus, most observers considered the negotiations dead. Against this backdrop, the United States went to the polls and elected a new president who voiced a strong preference for America's traditional allies in Europe. The prospect of a Biden administration forging a common front with Europe deeply unsettled Beijing. The day after Joe Biden's first phone call with Angela Merkel as president-elect, Xi Jinping **followed-up** with a conciliatory call to Berlin of his own. The **purpose** of his intervention? To give the CAI fresh impetus and split Europe from the United States.

Xi is offering Germany's industrial **sector**, long the backbone of the European economy, a poisoned chalice. In the short run, the investment agreement may strengthen Germany, but in the long run, it **poses** a real danger to its health. It does not address China's underlying transgressions because it **undercuts** the transatlantic approach, which is the only way Europe can marshal the **strength** to enforce any agreements' commitments.

Enforcement will be key because Xi adorned the CAI with several shiny **jewels** most **experts worry** are **fakes**. In the

waning days of the German presidency of the EU, however, Merkel found them attractive enough. It would have been child's play for German leaders to huddle with the Biden administration and bond over their mutual contempt for Trump's unilateralism toward China. Instead, just before the New Year, the order went out from Berlin to the member-states saying it was time to **make** the deal.

The truth is that the CCP will never be able to satisfactorily fulfill the EU's demands because its economic model is inherently predatory. China is interested in Europe as a means toward self-sufficiency, not interdependence. No matter how many speeches Davos Xi might give, or how many steps he might take to calm and distract Europe—from dispatching **envoys** to **issuing** climate pledges—Beijing Xi holds the reins of power, and of this there is little doubt.

In January 2019, the Federation of German Industries (BDI) **sounded** the alarm with a sharply critical paper that described China as a “systemic competitor.” At the same time, a cross-party coalition of China skeptics, led by the prominent chairman of the Bundestag's Committee on Foreign Affairs, Norbert Röttgen, has led the charge against Chinese malfeasance and Huawei. Ironically, however, the coronavirus pandemic has given Merkel the opportunity to showcase her managerial talents, causing her political fortunes to soar—and with it, those of the CAI.

17 Plus 1 Equals BRI

Merkel is the now most powerful leader in the EU, but beyond Berlin, Beijing has experienced uneven luck of late. This is owing to the shortcomings of its signature vision for Europe, the Belt and Road Initiative. The BRI is the key to understanding China's methods in Europe. It serves as the financial backbone of China's major European diplomatic initiative, the “17-plus-1” format of 17 Eastern European countries and China. The overarching purpose of the initiative, which included regular meetings until the coronavirus pandemic canceled this year's

gathering, is to use infrastructure to establish a Chinese physical presence, and corresponding sphere of influence, in Europe. Its crown jewel is the port of Piraeus, the largest in Greece, which the Chinese shipping firm Cosco acquired in 2016 and which Xi promised to **turn** into Europe's biggest port during a visit three years later. Over time, China claims it will link Piraeus to its proposed rail line between Belgrade and Budapest, where goods can be disbursed throughout Europe. It is no exaggeration to say that China is on the cusp of becoming a Mediterranean power.

In 2019, Italy became the first G7 country to join the BRI. After decades of economic struggle, Rome was open for economic assistance from China, including investments in the dilapidated **port** of Trieste, strategically located at the top of the Adriatic Sea. Italy's decision gives cover for the weaker economies of Europe to do the same, yielding political dividends for Beijing. Greece has **blocked** EU criticism of China; Hungary **objected** to criticisms of China's claim on the South China Sea; and Russia's historic partner in Europe, Serbia, profusely **praised** China's response to the coronavirus pandemic.

The coronavirus appears to have placed the already weakened 17-plus-1 format on life support. A number of countries have grown somewhat disillusioned with the format, including America's historic allies in Eastern Europe. In 2016, during a visit to Prague, Czech President Miloš Zeman told Xi that he hoped his country would become “an unsinkable aircraft carrier of Chinese investment expansion,” but the investments have not **flowed** as **promised**. Even before the pandemic hit, Czech public opinion had **soured** on China. The mayor of Prague made Taipei a sister-city and proudly **displayed** the flag of Tibet over city hall. In August, he joined the president of the Czech Senate, Miloš Vystrčil, as **part** of a large delegation to Taiwan. The Chinese foreign ministry **responded** by threatening Vystrčil with “a heavy price for his short-sighted behavior and political opportunism.”

Sino-Russian Hard Power

Will such threats work? China's strategy is already shaping German and European policy today, even as its command of key technologies is not yet complete. Through its alignment with Russia and Iran, other tools of Chinese power come into focus, too.

The EU places great value in diplomacy but shirks hard power. In Syria, Russia and Iran have preyed on this asymmetry by bombing refugee columns toward Europe with little fear of reprisal, stressing Europe's mainstream political parties to the breaking point. From Libya to Syria, Russia remains a major player in every conflict on Europe's periphery. Now, along the Mediterranean coastline, from Northern Africa to Southern Europe, China is joining the fray, establishing economic positions that are already yielding growing political influence. It should surprise no one if China chooses one day to convert its investments on the doorstep of Europe into military footholds.

Xi is already moving to exert military leverage over Europe's major outlets in the world. In 2017, China **established** its first overseas military base in Djibouti. Russia followed suit with an **agreement** to build another outpost in nearby Sudan. These bases stand sentry over waterways that may mean little to the average European but connect the Gulf of Aden to the Suez Canal, one of the world's key transit points. Meanwhile, the Chinese BRI corridor through Pakistan ends at the port

of Gwadar, positioned just off the Gulf of Aden and at the strategically vital Strait of Hormuz, the most important oil chokepoint in the world.

Europe may be less dependent on the Strait of Hormuz than Asia is, but China's bases raise the specter of a new Sino-Russian condominium throughout the Middle East. In 2018, more than 58 percent of EU-27 energy consumption **depended** on imports, with Russia and the Arab world as prominent sources. Today, Russia, Algeria, Saudi Arabia, Iraq, Libya, and Qatar **supply** the EU with more than 40 percent of its imported oil and 60 percent of its natural gas. China is also **investing** heavily in nearby Turkey, which is the gateway to Asia and controls passage into the Black Sea. Turkey is already under pressure from Russia, which is working assiduously to split Ankara from the West. If China and its junior partner, Russia, replaced the United States as the dominant power in the region, Xi would hold a sword of Damocles over the European economy.

A one-two **punch** of Russian and Chinese action carries the potential to pose a major challenge to Europe as an independent actor. Were this challenge to manifest more fully, Europe would find itself in a world in which the costs of supporting the United States—or of opposing China, Russia, and Iran—would increase considerably. Under such circumstances, would Europe have the political strength to say no?



CHAPTER 3. THE WAY AHEAD FOR EUROPE

The Transatlantic Future

It is beyond denial that China faces a European audience less receptive to its allure and more skeptical of its promises than the audience that listened attentively to Xi's speech at Davos four years ago. At the very least, that audience has developed an awareness of Xi's blueprint for the continent. The Trump presidency and Xi's missteps have sounded the alarm bell across the West. The open question is whether those in the corridors of power are sufficiently alarmed to tip the scales for the transatlantic alliance.

If so, they will find that the United States and Europe together have unparalleled advantages against any competitor. As a bloc, the democracies of Europe constitute the **wealthiest** economic zone in the world. Trade across the North Atlantic **outstrips** all other international commercial relationships by hundreds of billions of dollars annually. To protect this relationship, the US

and Europe maintain a military alliance commonly regarded as the world's most formidable. Moreover, rare is the US foreign policy initiative that does not include consultations, if not outright coordination, with Europe's major capitals. Because of its democratic character, great wealth, trading importance, and military alliance with the United States, Europe still poses a real obstacle to Beijing's designs on Eurasia—if it wishes.

Merkel's eagerness to strike an investment deal with China and grant Huawei access to Germany's digital networks is worrying. Meanwhile, Greece and Italy sit as the soft

Photo Caption: German Chancellor Angela Merkel speaks with US Vice President Joe Biden at the start of their meeting at the Chancellery on February 1, 2013 in Berlin, Germany. (German Government Press Office/Steffen Kugler-Bundesregierung-Pool via Getty Images)

underbelly of Europe. A Europe unconvinced of the value of transatlantic bonds is a plum ripe for China's picking. Long-term, US strategy should therefore seek to maneuver Europe into positions of strength.

The recent **adoption** of an EU mechanism for the screening of foreign direct investment, modeled on the Committee for Foreign Investment in the United States (CFIUS), is a perfect example of how American policymakers can model for their counterparts in Brussels how to strengthen their bulwarks against incursions from the East. Screening of Chinese investments, if implemented thoroughly, will ensure that Beijing is not able to use its economic might as a Trojan horse to weaken Europe from within. The Three Seas Initiative is yet another example of creative diplomacy that links together American allies and partners in Eastern Europe. Washington can also continue to advocate for the diversification of European supply chains so the continent does not become

reliant on the People's Republic for its essential goods and on the Kremlin for its energy. Such steps are a good start, but more will need to be done, especially if hedging becomes a marker of Europe's approach. The goal of American policy should be to ensure that Europe is free enough to partner with its natural ally, the United States, against pernicious Chinese actions around the world.

Although French and British freedom of navigation operations in the Indo-Pacific are helpful, Europe's response to China need not be a large demonstration of hard power far from the continent. Europe maintains **formidable** strengths in economics, politics, and technology. It should leverage these and, with American support, work to improve its position toward China. Whether Europe seizes that advantage will depend on whether it is willing to see Xi's high-gloss Davos pitch as the blueprint for ruin that it is.

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