

What to do about China?

Dennis Sammut

Dennis Sammut is Director of LINKS Europe. He writes and comments regularly on European and Middle East Security issues, and Europe's relations with its neighbourhood

A few summers ago I was invited to the tiny principality of Liechtenstein, one of Europe's smallest countries, to participate in a conference on the theme "China in Europe", attended by an assortment of Chinese, European and North American diplomats, experts and hangers on. I was somewhat intrigued as to why a conference with such a theme will be held in Liechtenstein, until I realized that a Chinese company had just bought one of the country's leading banks. In the conference Chinese speakers emphasized the benign nature of Chinese investment in Europe, and in the evening we all made our way up to Vaduz Castle to meet the Prince of Liechtenstein, Hans-Adam II and his son Prince Alois. China had arrived in Liechtenstein.

The role of China in the world has been a topic of interest long before the outbreak of the coronavirus pandemic. The realization that China was the emerging superpower of the 21st century was by and large accepted as an inevitability – a competitor for the United States in strategic terms, and for both the US and the EU in economic terms, but not a necessarily a dangerous rival.

China has for some time had the largest growing economy in the world – with growth rate averaging above 6% over the last three decades. It has been investing heavily in many countries across the world. Chinese investments in Europe peaked at above 37 billion euros in 2016, although they subsequently slowed down after that. . Total Chinese investment in Europe, now amounts to over 320 billion euros, and China has acquired more than 350 European companies over the past 10 years. Investments ranged across a whole spectrum of activity, including ports and airports, telecommunication companies and football teams

China in 2013 launched its One Belt One Road (OBOR) initiative, hailed as the biggest global infrastructure project ever. By the time of its completion in 2049, it is meant to connect China with Europe, Africa and Asia through a labyrinth of Chinese funded infrastructure and projects, which are meant to also create prosperity in the host countries. Even though many were concerned about the small print – especially about the risk that many countries will end up owing big amounts of money to China, and that some of the projects could end up being white elephants – these concerns were often dismissed in favour of seeing OBOR as good for connectivity and trade.

Europe preferred to work with China, not to contain it.

At the start of the millennium the overall perception in the west was that China was on a reform trajectory, and that even if the method and packaging of the reforms were somewhat slow and unorthodox, they were significant and appropriate. The emphasis was on how to work with China, not on how to contain it.

But over the last two decades, rather than problems being solved one could detect that problems were accumulating. The Chinese Communist Party did not relax its grip on power, on the contrary it appeared to be using new technology to achieve complete control; Hong Kong, which has since 1997 existed in a sort of twilight zone, saw an increase in the suppression of the voices of those who were ready to challenge Beijing, and in the South China Sea, an emboldened and better armed China started stretching its muscles creating concerns to its surrounding neighbours. The ascent of President Xi, and his subsequent consolidation of power, appeared to make problems more acute. On top of this was China's use of its new economic clout as a geo strategic tool, in a way that to call it soft power would not do it justice.

A lot of the issues in the economic sphere existed long before the pandemic. US President Donald Trump made standing up to Chinese economic expansion as one of the flagships of his foreign strategy, a logical offshoot of the America First policy.

In Europe problems with China were perceived and expressed as “concerns” rather than insurmountable problems. China is the EU's biggest import market, and its second export market. China and Europe trade on average over 1 billion euros a day.

In 2001 China joined the World Trade Organisation, and agreed to reform and liberalise important parts of its economy. The accepted wisdom is that it has done much less than expected, and selectively. Among the issues that continue to concern the EU are the lack of transparency; the uneven playing field that works against foreign companies operating in China, including the role of the state in the economy, especially the dominant role of state owned firms in some sectors, and the uneven access to subsidies and cheap finance; and intellectual property rights, where China is seen to have taken some steps but not nearly enough.

More recently, what upset European officials, and some of the leaders of the larger member states, was China's attempt to circumvent the tough EU Trade negotiating positions by adopting a “sub regional”, approach, ie working with those countries, such as the Visegrad countries who were more receptive to Chinese advances.

Coronavirus has put China under the spotlight, and the leadership in Beijing does not like this.

The Coronavirus crisis has put China under the spotlight, in the sort of way that Beijing really dislikes, with scrutiny not limited to the finer points of this or that trade deal, but of the whole basis of the relationship. This potentially is a game-changer.

The rules that underpin trade relations with China are now no longer of interest to a few bureaucrats in Brussels, but the whole European body politic, as well as many citizens, are now asking uncomfortable questions. The pandemic has let the genie out of the bottle.

The handling by China of the early stages of the pandemic itself is an issue that is likely to be under discussion for years to come, and as we can see also the basis for some law suits. It is not necessarily about how the virus emerged. Even if you dismiss all the conspiracy theories, you are left with questions regarding the way the Chinese government handled the outbreak in the first weeks, when possibly it could have been contained within its borders.

The secretive nature of the Chinese government, its totalitarian one party system and the lack of checks and balances are rightly perceived as having, as a minimum, seriously aggravated the problem. Furthermore questions are being asked as to how China has dealt with the pandemic since its epicenter shifted to Europe and North America. Both the EU and the US have been tracking a process of disinformation that appears to be emanating from Beijing and which tries to shift blame for the spread of coronavirus to other countries. Chinese so called aid to countries suffering from coronavirus is also perceived as being politicized.

Questions are now being asked about the efficacy of doing business with an authoritarian one-party state that rejects transparency, and does not offer a level playing field to its economic partners. People want to know why European countries are so reliant on China for their basic medical supplies; and more broadly Chinese involvement in Europe's strategic industries, such as telecommunications – already a matter of concern before coronavirus – has now taken on an added urgency. Reports that last week Chinese officials may have threatened to disrupt supplies of medical equipment to EU countries in retaliation to criticism that China was encouraging the spread of fake news simply increased the pressure on European leaders to take a firmer approach towards China.

A new worry has now emerged, namely that Chinese companies will swoop in to buy companies and businesses that have been decimated by the sudden shut down of most of the world's economy. China is seen as being well placed, due to its liquidity and its global reach, to do that, and based on past experience, including in the aftermath of the 2008 financial crisis, is unlikely to have any scruples in doing so.

It is easy to dismiss this as simply another example of American and European prejudice and paranoia or Atlanticist arrogance, had it not been that other countries are now concerned about these issues too.

India as a counterbalance to China

A little noticed announcement from New Delhi a few days ago stated that hitherto, any company or individual from “countries with a land border with India” wanting to invest into Indian companies required the permission of the Indian government. These provisions had already existed for Pakistan and Bangladesh – two countries with a difficult relationship with New Delhi, so that left the new regulation applicable to the other five: Nepal, Bhutan, Afghanistan and Myanmar and of course China. You do not have to be a genius to understand that the target of the regulation is not Bhutan or Nepal, but China, and that India is trying to protect itself from Chinese financial predators during a time its economy is reeling under the stress of the pandemic, but had couched the measure in a way to be perceived as least offensive to the Chinese as possible. The revised policy is aimed at “curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic,” said a press release from the Department for Promotion of Industry and Internal Trade. The Chinese government has already expressed its displeasure.

The Indian case is important for a range of reasons. The relationship between India and China is complex. The two fought a war in the 1960s, and India was a strategic friend of the Soviet Union during the Sino-Soviet conflict. There are still tensions on the Himalayan frontiers. India and China have a different understanding of what constitutes their border, and this has the potential to increase tensions at any moment. Responding to what it perceives as increased Chinese transgressions, India in the last days has opened a new all-weather access point to enable faster movement of troops and artillery in the Arunachal Pradesh area, in India’s remote northeast, which has previously seen clashes between the two sides.

But in recent years India has also been a recipient of Chinese largesse. Chinese investment rose from around 1.6 billion USD in 2014, to around USD 26 billion (current and planned). This investment is now across a whole range of Indian economic segments, including banking, energy, pharmaceutical and technology. Chinese investment has gone into more than ninety Indian start-ups, penetrating the high tech tigers on which India puts much hope.

India, on the other hand, is sometimes perceived as a possible counter weight to China. Both the US and the EU have in the last couple of years been prioritizing their relations with India. President Donald Trump’s last overseas trip, before the coronavirus lockdown, was to India in February. The European Union’s foreign policy chief, Josip Borrell’s first visit outside the EU after he took over as High Representative on 1st December 2019, was to India in

January. Although China is never mentioned in the official communiqués, it is easy to understand that it makes a big part of the sub text. Its large population, proximity to China, and readiness to compete with China on a range of issues makes India an ideal counterweight. One can see these relations becoming more important in the future.

Coronavirus has also been a stimulus for reinvigorating New Delhi's relations with Moscow. India's urgent supply of pharmaceuticals to Russia during the pandemic was hailed as a shining example of the friendship between the two countries, and President Vladimir Putin's spokesman, Dimitri Peskov, singled out India to thank when speaking about co-operation with other countries during the pandemic. The virus it seems has helped some of the fault-lines of the past to re-surface. For both the US and the EU, as well as for Russia, India now appears to be the natural counterweight for China, assuming that is, that the Indian economy can weather the pandemic and emerge strong from it.

Beware of awakening the demons of Xenophobia and Sinophobia

Undoubtedly, China has a lot of explaining to do to the world as to its behavior at the start of the pandemic.

It is also right, and indeed long overdue, that the relationship with China will be discussed by countries and groups of countries such as the EU, in a wider context than short term economic benefit or profit. And even when it comes to economics, the shortcomings in the relationship need to be addressed. In Europe, and I suspect elsewhere too, there will be increasing pressure on governments and politicians on these points going forward.

The Chinese themselves must take this new situation seriously! This is not just a "blame game", and it should not be characterized as such as some Chinese diplomats have been suggesting. The pandemic has made people reflect on these, as well as so many other things, and the concerns are now deep rooted. China needs to understand it needs to regain the trust of the world.

The past has shown that Chinese leaders are very uncomfortable with criticism. It would be wise if they adapt to this feature of governance as they have done with so many others.

There will inevitably be a clash of values between Europe and the West, and China. Both sides will need to manage this – searching for common ground if possible.

But there must also be caution in the way the world approaches these issues. The pandemic would have re-enforced – possibly even rekindled in many – deep rooted suspicions of China. Some may be logical and justified. Others may be based on bigotry. We must not allow this situation to develop into outbreaks of xenophobia and sinophobia.

Engaging China, as a partner if possible, and as a competitor if necessary, needs to remain our ultimate goal as nations and communities. And much depends on the Chinese leadership for there is much Beijing can and needs to do in this direction. So far there are only expressions of the usual intransigence. Judging by how Chinese diplomats have been responding to media questions in the last few weeks it seems that Beijing may be seriously underestimating the challenge. Gestures, such as sending boxes of face masks and humanitarian aid are nice, and those communities who receive them should say thank you. But China should not fool itself in thinking this is in lieu of much more serious work that needs to be done. What is at stake here is much more profound, and it requires an equally profound response by China. As the pandemic has shown, mistakes have huge consequences and can pose an existential threat to humanity.

