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Can Europe Restrain China's Influence?

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EXECUTIVE SUMMARY: In recent months, Germany and France have expressed skepticism and raised security concerns about the implications of Chinese investments in Europe. The 2017 State of the Union speech by the President of the European Commission, Jean Claude Juncker, reflected those voices, marking the beginning of a new period in Sino-European relations. The EU seems determined to be more careful about welcoming future Chinese business interests and is devising a screening model. However, it remains to be seen whether or not the new European strategy will be efficient, as the EU needs foreign cash and investment.

The more China grows, the more its presence is felt in the West. The new landscape is marked by the acquisition of companies by Chinese state-owned or private enterprises, Chinese investments, the buying of treasuries, and tough competition from cheap Chinese products. Alarm is growing over the potential political and geopolitical gains that could accrue to Beijing as a result of the Belt and Road Initiative, which is being dynamically rolled out. The US is insisting that "China should be kept out," and the EU is embarking on a few belated steps to manage Beijing's growing influence.

On the initiative of German Chancellor Angela Merkel, the EU has grown more cautious about approving business deals with China. In October 2016, the German government withdrew its approval for the takeover by China's Grand Chip Investment GmbH of Aixtron SE, which supplies equipment to the semiconductor industry. Beijing saw American interference in the thwarting of the deal and openly criticized Washington.

Whether the US was involved in that instance or not, signs of a rift in Sino-European relations had already become evident. Last June, France's newly elected president, Emmanuel Macron, encouraged his European partners not to be naïve about global trade.

President of the European Commission Jean Claude Juncker took the position of Berlin and Paris into account in his 2017 State of the Union address, in which he proposed a new EU framework for investment screening. Without directly referring to China, he talked about the need for transparency, scrutiny, and debate when "a foreign, state-owned company wants to purchase a European harbor, part of energy infrastructure, or a defense technology firm." Despite the relative lack of understanding in transatlantic relations during the first months of the Trump presidency, the EU and the US share similar concerns vis-à-vis Chinese investments. The day of Juncker's speech found Trump blocking the takeover of the American semiconductor maker Lattice by a Chinese consortium.

The most important tool in the EU's effort to restrain China's involvement is the organization of tenders to prevent the direct awarding of contracts to foreign companies. This means that if no competition is taking place, no public contract should be assigned by an EU member state.

This mechanism is yielding some results. The European Commission is currently blocking an important Chinese plan aimed at constructing a high-speed railway between Budapest and Belgrade. The probe is looking into the financial viability of the $2.89 billion project, and is making the contention that Hungary is in breach of European law by not having initiated a proper public tender.

The screening of investments can create delays, but is not sufficient to cancel the plans of Chinese public and private companies. These companies are slowly acquiring Western investment know-how and are patiently aligning their business strategies with Western norms and participating in public competitions. The natural question is what happens when a Chinese company submits a bid that is higher than that of a Western company, or when its competitors withdraw or show no interest. The Greek experience is telling: in 2016, COSCO Shipping managed to buy a majority stake in the Piraeus Port Authority as it was the only player in the privatization.

The EU is searching for an efficient patch for this flaw. To prevent overdependence on China, it is counting on strengthening the transatlantic relationship and enhancing coordination among the national governments of the EU member states. While the first will depend greatly on the idiosyncrasies of Donald Trump, the second is an entirely European affair. Member states participating in the '16+1' format are stigmatized for acting outside the European framework. Others, such as Greece and Hungary, are warned not to handle China alone, which could lead to their being its Trojan Horse in the West. When Macron visited Athens in September, he made a point of telling

Greek Prime Minister Tsipras to preserve Greece's independence from non-European investors.

Germany, which sets the tone in the EU, sees China not only as a partner and competitor but also as an adversary. Foreign Minister Sigmar Gabriel went further, saying that if the EU fails to develop "a single strategy towards China, then China will succeed in dividing Europe." The Beijing administration was "shocked" at this comment.

Sino-German and Sino-European discussions are expected to be difficult after the formation of the new German government. The German ambassador to China, Michael Clauss, wrote an article in the Global Times arguing that occasional disagreements do not diminish the progress that has been achieved between the two countries over the past decades – but the honeymoon is over.

After Juncker's State of the Union address, the EU – under German leadership – is opening a new chapter in its relationship with China. It does not necessarily have the upper hand, though. Europe lacks the foreign policy power and prestige of the US. Also, it could see its demand for reciprocity and openness within China weaken as it opts for a special type of protectionism for security reasons. More significantly, the EU is targeting China and attempting to apply strict rules during a period when it needs foreign cash and investments as well as synergies with Chinese banks and financial institutions.

Time will tell if the EU will improve its bargaining position vis-à-vis China with its developing new strategy and aggressive rhetoric. The symptoms of previous foreign policy failures do not allow for much optimism. The Commission's reaction to China's business expansion was long delayed and, unsurprisingly, finds the EU unable to speak with a single voice.

The EU is not looking at the root of the problem and seeks only to mitigate consequences. China's critical advantage remains its ability to persuade politicians and societies to enter into "win-win" partnerships and investments in fields where the EU, the US, and Western companies are absent.

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