



CARNEGIE-TSINGHUA
CENTER FOR GLOBAL POLICY

Transcript

CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **Philippe LeCorre**

Episode 129: Xi's Visit to Europe and China as a
"Systemic Rival"

March 18, 2019

Haenle: Welcome to another episode of the Carnegie-Tsinghua Center in China in the world podcast. Today I'm pleased to be with Philippe Le Corre, who is joining the podcast for the first time. Philippe is a non-resident senior fellow in the Europe and Asia programs at the Carnegie Endowment for International Peace. He's had a long and diverse career, which has spanned business, academia, media and government. In government, Philippe served as special assistant for international affairs to the French defense minister and also as a senior policy advisor on Asia within the French Ministry of Defense's Directorate for International Relations and strategy in the private sector.

Philippe worked as a partner with publicists consultants in Paris and Shanghai, random a team of advisers, including participation in consulting to the Shanghai world expo 2010 organizing committee. Before that, Philippe worked as a journalist covering some of the most respected news outlets in the world where he covered China and broader Asia. At Carnegie Philippe's research focuses on Asia and includes China's global rise, China Europe relations and the belt and road initiative. For our discussions today, I'd like to discuss Europe's relationship with China and better understand shifting perceptions across Europe towards Beijing. Philippe, thank you very much for joining the podcast today.

LeCorre: I'm glad to be here Paul.

Haenle: I want to jump in and want to talk with you today about this report that the European Commission published last week. But before we jump into that, President Xi is set to travel at the end of this week to Europe. He is going to visit Rome. He's going to visit Paris. I understand he's going to visit Monaco and I want to get a sense from you what's behind that trip. But he's also turning around shortly after that and in two weeks time visiting Brussels again for the annual China EU summit on April 9th. That's a lot of travel for a Chinese president to Europe. What are the objectives, the aims of the Chinese behind this, and what's the significance of this?

LeCorre: So it's a very interesting succession of events obviously, and they're all going towards the same direction. China and Europe as a whole. So this trip, at the end of this week as you mentioned to Italy and France, it's basically a combination of two bilateral trips, one to Italy and Italy lego would say it has a lot to do with the belt and road initiative. As you know, Italy will most probably be the first G-7 country to sign into the belt and road initiative to Mr. Xi's great pleasure I'm sure.

Haenle: And to the US is chagrin it seems.

LeCorre: You could say that. Then the French leg of the trip will be more about global governance, the Paris accord on climate, the reform of the World Trade Organization, things like that.

Haenle: Around nuclear agreement, I suppose?

LeCorre: Yes, there'll be things on the energy side and a couple of deals, but not a great deal of content to be honest. My impression of that trip I mean especially the French side, it's more giving phase to the Europeans. France with Germany's one of the two key players in the EU Strategy towards China. And has a very complicated government made of sort of far left and left and far right parties.

We don't know how long this government will stay in place as, you know, that many governments in Italy are short lived, but the fact that they've agreed to sign into the BRI is a big deal to the Chinese government and people are now already assuming it's going to be like the AIB, the Asian infrastructure investment bank as you know, and they think the rest of the G-7 or the rest of the world will follow through. I'm not too sure about that but we can go back to [Inaudible 00:04:46]

Haenle: Yes but they're expected to sign an MOU or some agreement that will officially put Italy in the belt and road.

LeCorre: Yes. I mean they've been very good at repeating that. It's only a mou and as we know China, as soon as somebody says they're going to sign into the belt and road their name will appear on the website. And then here we are with another member of the BRI, nobody's quite sure what it means to be a member of the BRI. But everybody knows one thing is the facts Chinese investments towards Europe, our aim at helping the Chinese economy or helping more Chinese exports. It's also helping China to have more influence and more presence in Europe. So the European market is the final destination of the belt and road initiative. That's pretty. Well assuming by most people.

Haenle: Let's come back to the Belt and road and a further point down, but Monaco is also on this trip. What's the significance of that?

LeCorre: So Monaco has always fascinated the Chinese people, those who can afford it [Inaudible 00:06:06] in this particular case, I think the reason for President Xi's visit to Monaco has to do with five G. The governor of Monaco. It's very small place obviously, which is under the French patronage if you want. But they have an independent governor, they have a seat at the UN, but they have agreed to sign in the hallway for the five g technology. As you know, there's a huge debate going on in Europe just like in the rest of the world about whether accepting Chinese technology for five-G.

Now the fact that this tiny country has agreed to do it, obviously it's not going to be necessarily liked by its immediate neighbors. But I think for China, it's very important. Just like the BRI is very important. While we has become an important player in China's sort of global role, certainly in western countries where everybody talks about five-G. In fact, even at European level, people address what to do about five-G networks.

Haenle: So if you had a sort of described the strip, you basically have two huge interests of the Chinese. One is the Belt and road, and that will be dealt with in Italy. Another is five-G and

getting international, gaining international support for five G and then you have Paris on top of it as one of the big players in Europe to give the trips some credibility. Does that sound about that?

LeCorre: That's about right. I think you know President Macron is one of the big players in Europe. He's played a big role in this strategy towards China, towards Chinese investments, which has become a big issue in Europe and to counter Chinese investment in some cases. We'll come to that in a moment, I'm sure. But, you know the other thing is President Macron visited China just about a year ago. And use a pretty strong language about the belt and road. He said it shouldn't be a one way road, that sort of thing. And he made a speech in Shayne, which was-- using pretty strong language, which will kind of make the Chinese side intrigued.

And I have to say he had announced that it would be visiting China every year, but he also-- they went back to the Chinese side and said, look it's your turn. So he's managed to get President Xi to come back before he comes back to Beijing, which I think is fair enough. But sometimes not so obvious in some cases. So that's reciprocity, very complicated word for the Chinese to explain, describe. And there's no quite an equivalent in Chinese language, but to the Europeans that word is so important.

Haenle: So you're referencing or suggesting a hardening to a certain extent of European views towards China. Of course one of the most difficult things about discussing European views, that there of course is not one consensus view in China. European nations of course have different forms of engagement with China. We see that with Italy. Now signing onto the belt and road. You mentioned Monaco on the five G, so perceptions can vary widely, but last week the European Commission released a report entitled EU China, a strategic outlook and that outlined new challenges posed by Beijing.

The report talked about China as an economic competitor in pursuit of technological leadership and a systemic rival promoting alternative models of governance. Of course, the Trump administration last year released the national security strategy and the national defense strategy and labeled China a strategic competitor and revisionist power. And that was seen as a general shift, a hardening of views in the United States. Is that what we're seeing in Europe? What's your sense of this, why the stronger language in the commission's report this year? And I know the last one was published in 2016

LeCorre: Indeed it's really interesting that from the Chinese side they do not like having a transatlantic alliance on anything to do with China. They liked this idea of talking to the Americans on one side to get the Europeans on the other side. And obviously there's not really a dialogue on this between the two sides of the Atlantic, but some contacts, some communication. At the same time...

Haenle: On that. I want to-- you don't think there's a dialogue because when I visited the White House three, four weeks ago in fact one of the White House officials I was talking to was talking about the importance of strengthening the cooperation with your Vis a Vis China. So is that something that's emerging that you see or is it not yet there?

LeCorre: It's emerging, but at the same time you have the US president as you know who sends mixed signals to the Europeans. And so at the lower level, yes, there is this kind of informal discussion going on. It's better than it was; there are all kinds of informal conversations. Some of them more formal, depending which side of the government you're talking about the same on both sides of the Atlantic.

What's really interesting is the fact as you pointed out, Paul that the national security strategy strategy from the US was mentioning the strategic dimension of Chinese investments in Europe and how it could affect US interests. So that's one point. From the European point of view, there is the impression that after the 2008 financial crisis, China sort of targeted certain weaker countries which economies were badly affected by financial crisis, Portugal, Greece, some central and eastern European countries. And that perhaps the EU needed to take action on this, first of all, to be more reactive to what happened during this financial.

Haenle: I remember traveling to the Carnegie Brussels Center and attending an event that talked about China dividing and conquering Europe. And this is the dynamic you're talking about?

LeCorre: Exactly. And then when you look at Greece's case for example, now the Chinese company well known to you, Costco, which is China's largest shipping company, is now running the port of Piraeus in Athens. And they are now sort of taking over fully or partly other ports in Italy, in Spain, in Israel, in Turkey, in on the Mediterranean Sea, which is really interesting because the relationship between the Mediterranean sea and China are not obvious. Marco Polo came to China, but that's quite some time ago. And I don't think many Chinese ship owners came here in the middle age.

So it's a new relationship that's part of China's maritime strategy and certainly part of the maritime Silk Road back to the belt and road initiative. So generally there is the feeling in Brussels and in Berlin and in Paris, which are the main driving forces behind this, that somewhat in the fields of infrastructure and technology, investments from foreign powers, China being the prime country here are to be constraints or at least monitored or at least screened. And as you may know, the EU has put together a screening mechanism which is not as strongest [Inaudible 00:14:24] mechanism in the US but at least there is something now that is about to be implemented.

Haenle: So anxieties emerging in Europe you mentioned these are; Paris, Brussels, Berlin all actually seeing-- you're seeing some shift, the report ultimately called for the EU one to deepen engagement with China. Two, and this is a word you mentioned to seek a more balanced and reciprocal conditions governing the economic relationship. This seems more in line with the US approach and three to look inward and to adapt to changing economic realities and strengthening, strengthen its own domestic policies and industrial base.

Does this sound like the right recommendations to you? Are there others that you would add? How do you see the ultimately the recommendations of the report?

LeCorre: I would add to this action eight to fully address the distortive effects of foreign state ownership and state financing in the internal markets.

Haenle: So here you're talking about subs Chinese subsidies to Chinese companies that create global distortion exactly?

LeCorre: Including in the European markets where as you know, the rule of law matters a lot. And, and there is the feeling that somewhat-- In fact 70% of Chinese FDI in Europe are made by state owned companies or sometime that even private companies receive help from Chinese banks or sovereign banks is considered as an unfair situation while the Chinese market itself, as you know has been more difficult to a number of foreign firms who find it more competitive and more difficult to accept. The word reciprocity of course is critical in this statements, but I would say the most symbolic word is rival, systemic rival that is very strong language coming out of this EU statements of just a few days ago.

Haenle: Philippe, let me ask you to step out of the China EU for a moment and think about the ongoing negotiation from the US and China. President Trump has taken a much more aggressive approach with China and a lot of the things that Robert Lighthizer and minutian the treasury are pushing are included among the things you're talking about now. So much more reciprocity in terms of the economic and trade relationship. The subsidies that you talked about, treatment of SOEs, forced technology transfer, Chinese investment, these are all on the US agenda as well.

And I want to get a sense from you, where is the US enlightenment with Europe on these issues? Where is there not? How are you seeing the ongoing from a European perspective, how do you see the ongoing US negotiations? What is going well and where might the US and Europe, because a lot of the things you're saying are actually included in the list of grievances put forward by President Trump and his team.

LeCorre: So obviously the confrontational tone used by the current US administration is not the kind of language you would hear in Brussels obviously where the sort of EU bureaucrats tend to be more cautious and they have to check with all the members states before putting out a statement. But on the other hand you have this, you have strong words in writing saying, we need reciprocity, we need a less state aid and things like that. And we need also a common EU approach to the security of five G networks.

By the way, this is point number nine. So I would say generally the real problem with Europe is the fact; it's so divided and you have weaker countries in the south or in the eastern part of Europe. Not to mention the Balkans by the way that are outside the EU where you know, China's been investing in a big way just because there's no rule of law in some cases. So that's what China likes to do, is to look at what I called in my paper, build a community of friends with countries that basically do not necessarily want to follow the mainstream way. The one that we've just described.

At the same time, they sign into this, this is a club where you are a member. If the club puts out a statement, you are a member, there's been cases as you know, on the South China Sea or on human rights statements by the UN where a couple of countries went their own way, which of course is much like Greece.

Haenle: I want to ask you about your report, but before I do that, let me just finish up on this US piece, because I run into ambassadors here in Beijing from Europe and they tell me, you know, I don't really like president Trump. I don't like his broader foreign and trade policy, but I'm watching with great curiosity what he's doing with China and if the Trump administration is able to make progress that may benefit us here in Europe as well.

So is it really just a matter of tactics, is it the use of tariffs, his focus on the trade deficit that may be Europe disagrees with, or are there substantive pieces that Europe says, because most of the ones that you've talked about are also the ones; market access, intellectual property, forced technology transfer, state subsidies, those are all on the US agenda. And it sounds like they're also on the European agenda as well.

LeCorre: So I would just point out the case of Germany, which I think is really interesting. As you know Germany's very strong trade partner with China. Almost have a balanced trade, which is very rare anywhere in the world. Chancellor Merkel was a frequent visitor to China. She's on her way out in the next year also. But as you know, a couple of years ago the Chinese bought this company called Cooker, which is [robotics] number one robotics company. That sort of created a new sentiment in Germany from the industrial side of people wondering really where we are heading in terms of German technology. This is really becoming quite different.

On one hand, we have all these investment in China. We've been hiring a lot of Chinese. We've been sending them to Germany. We've been dealing with the Chinese in a pretty, a good way for both sides. But at the same time something is happening. So it's the made in China, 2025 plan. It's basically China encouraging national champions in China and worldwide and basically challenging a country like Germany which has played a key role in this. At the same time, the language is somewhat different.

The fact that that President Xi will be visiting Europe twice in the next month, not even a month and attend for the first time ever the EU China summit in Brussels instead of Prime Minister Li Keqiang, is a sign that the change of tone on the European front means the Chinese side wants to react good. China is looking for friends. It's not that easy. I mean, of course China is a giant, but at the same time there are many problems to discuss and the fact that during the two sessions, obviously the law on foreign investment has been passed almost quickly by Chinese standards to be implemented early next year I understand, is also a sign that we are sort of preempting this kind of statements from the US. I would say Europe is still fairly divided, you know, there are countries...

Haenle: Let's talk about that because you did a great report last year, which looked at China's rise as an economic influencer and it looked at China's role in four different places, Portugal, Greece, the Czech Republic, and Serbia. I thought it was a great report, but how would you describe the similarities and the differences that you find regarding perceptions of China in these four countries? What were the major areas of divergence?

LeCorre: So as I mentioned earlier, most of these countries were badly affected by the 2008 financial crisis. I used to describe China in my book; a few years ago China's offensive in Europe as an opportunistic investor, looking for opportunities that would be the Chinese way, the

traditional way. Let's grab, let's be pragmatic. Let's go fast and all this. But on this particular occasion the sort of post 2008 crisis, I think there was a call from prime minister [Inaudible 00:24:06] to the president of the European Commission say, well, we are here. We can help, we can help for Portugal, we can help for Greece, and we can buy euro bonds.

And of course these countries that were asked by the troika at the time, the IMF, the European Central Bank and the European Commission to privatize in order to raise funds to deal with the high level of debts. They were actually quite happy to find the Chinese state. So that's what happened with Piraeus which by the way is now part of the belt and road. But that was discussed much earlier. Now it's of course a symbol of the belt and road. But that's another story. And then Portugal of course, has sold a number of state assets in the energy sector, in transport, insurance, and all kinds of things slightly beyond what the troika was actually asking for.

Then you have the case of the Balkans with Serbia and other countries where-- I think China is using it as a kind of playing fields. These are candidate countries, countries that might eventually joined the EU, but where things are kind of easier, they don't have to follow EU regulation. They can deal with governments in a very sort of smooth way. I spoke to businessman during my field research. They say basically, well, we are awarded part of the contract, a Chinese contractor would be running the contract for a bridge or anything like that. And then they would award to one of the Serbian companies, part of the implementation. We are fine with it. We're using some of our workers, [China bring some of its workers?] exactly.

So the problem is in terms of transparency in the way things are run, I'm sure the EU would not approve. And that's why the high speed train project between Belgrade and Budapest still hasn't started because on the Hungarian side, the US said, no, we don't want this to happen that way. You guys have to go through a normal transparent process, a competitive process. And of course Hungary being always the country that likes to disagree with the EU. I mean prime minister; Orbán has made it almost habits. They are stuck. I mean they are getting a lot of subsidies from Europe. It's not like they have a choice. They are not planning to leave the EU. So China is not actually a real competitor to the EU for EU member state.

Haenle: And so when you, when you fast forward to 2013 and the announcement of the belt and road is now that divergence that you described in your report, is it also a similar divergence in how European countries look at the belt and road initiative as well?

LeCorre: You could say that, but when you look at Chinese documents describing Europe, it's not like the EU; well of course they recognize you. Chinese president is going to the EU China summit, but it's like the north of China is one part, the south of China, east of China, sorry the east of Europe and they would love to have different clubs that would talk to China directly. The sixteen plus one mechanism being the best example of that.

Haenle: But this kind as well has been quite a bit of controversy.

LeCorre: That's right. And interestingly, there'll be a 16 plus one meeting two days after the EU, China summit in Brussels. That means April 11, couple of days. I don't know whether president Xi will attend or Premier Li Keqiang. But it's happening after the EU China summit unlike last year

where they did the other way around, which honestly wasn't a very good idea. And that sort of thing sort of annoys people in Brussels because they feel well, you know, China is trying to divide us and we don't need that.

Europe has some problems, if the Chinese want to be positive about our economy, if they want, they should first create jobs. They should be positive, they should involve. I was talking to an Italian politician recently. He was saying, well look, yes we welcome Chinese investments and we're happy to do the MOU on BRI. But what we're interested in is really is green field investments, not just Chinese coming in and taking, buying a stake in one of our energy companies and things like that. Why are not the Chinese creating jobs in the Italian economy, which is not in good shape?

Haenle: Now you have also recommended for leap that Western countries should engage in creating an alternate, an alternative model to the Belt and road that connects people and countries while preserving international order, including high level standards for infrastructure and economic development. What's behind that recommendation?

LeCorre: So it's happening already in a sort of slow way, but there is something called the EU Asia connectivity platform that was announced. This is in a way a European response to the belt and road. Many of these countries where I research last year basically were saying the same thing. Where was the EU, where was Germany, where was France, where were the US by the way. And we were left alone after the financial crisis. And the only plan in town is the belt and road initiative, which is not entirely true because there's always been European funds available for infrastructures.

I mean Europe is supposed to be quite good about infrastructure; railways, highways, we never sort of waited for the Chinese to come and build the infrastructure. It sounds a little bit strange, although of course in the Balkans they are really in need of new infrastructures. But the fact that China is now running so many harbors and airports in Europe is obviously its part of a Chinese strategy and it's helping the Chinese economy. It is obviously also helping some of these cities. They're going to sign in to two more ports in Italy, Genoa and Trist. And then you're there.

All the other cases I mentioned, but at the same time European interests need to be preserved both on the maritime side and the land side which as you know the belts elements of the Belt and road, which is going through Central Asia, all the caucuses and so on. So I think from the Eastern European side in particular that people are hungry for European alternatives and how to connect countries with each other and technology is part of it. The digital silk road. There should be a response or European response to the digital silk road.

Haenle: It seems we should broaden out the discussion beyond the Belt and road to global infrastructure needs and the deficits that currently exist and have a discussion about what countries are doing to address it, not just the belt and road when we focus just on the Belt and road that discussion can be complicated and political. And as you say, Europe has a lot to offer in terms of global infrastructure. I think the United States does as well. When we have our colleagues in Carnegie Moscow Center, they talk about Russia, what Russia is doing. I think it would be better off to broaden that discussion.

Before we close, I do want to talk to you about technology. You mentioned one of the reasons that President Xi is going to Monaco is the five G issue. You've got debates in Europe over Belt and road. You have a growing debate about how to engage with and integrate Chinese technology, in particular around the 5-G .systems. In your view, how should the EU balance the security concerns posed by Chinese technology while also trying to maintain a positive relationship with China overall? How does that happen? Is it possible?

LeCorre: So obviously over the past few months, there's been a lot of debates about hallway, about this particular company was the case of [Inaudible 00:32:50] who is in Vancouver, was the daughter of [Inaudible 00:32:55] founder and there have been the repercussion on some Canadian citizens in China. And in Europe, obviously Huawei and ZTE, other Chinese firms have been building positions for quite some time for about a decade. And many countries, including the UK for example, have been pretty open about it. And BT, Vodafone, many of these companies have actually done business with Huawei and now if it depends-- each country would have a sort of defense and security establishment that have pretty strong views about this, pretty negative in general.

Then you would have part of the business community and usually sometime the foreign ministries are slightly more open about it. So I would say generally those sort of the core members of the EU are pretty reluctant to allow Huawei to build five G infrastructure networks. At the same time, Huawei of course as invested in its brand a lot. And so it's now selling a lot of devices, tablets and phones, which give it a different reputation which-- before they were just doing infrastructures.

So in the general public [Now there are products] Yes you have a lot of people say, look, I have a Huawei phone that's working and what's wrong with Huawei? And I said well, maybe you might look at the other reasons, the other things behind it and the fact infrastructures and that's quite different from having just a phone. After all getting access to government procurements to building equipment for some of the of the government departments that may be quite big step for a country to allow a foreign manufacturer considering the links between Huawei and the Chinese state and the Chinese security establishment which they deny.

But you know, a lot of people are saying otherwise. So I think we will end up with a kind of compromise situation with some countries and particularly concerned about the UK, which is about to leave the EU. Although things change pretty much every week these days. But we'll have to find new friends, new investors, and it looks Huawei we'll have a good spot there.

And then there are other places where [Now you are determined] including Italy and possibly even Germany have not decided what's going to happen. But what's interesting is really the European response, which at the end of the day will solve all kinds of problems of these divisions in Europe where having a sort of EU, joint approach on technology, maybe helping some of the European telecom companies like Ericsson or Nokia to come up with an alternative to the Chinese five G technology where of course they've invested a lot of money for many years. But why shouldn't they be alternatives to this?

Haenle: Well, it'll give us a lot more to talk about going forward for leap. And I hope that we can get you back to the China in the world podcast. It's been a pleasure to talk to you. Thank you very much for your insights, especially so closely to President Xi's trip.

LeCorre: Indeed. Well, thank you very much. It's great to be back in Beijing.

Haenle: Thank you. Thank you for joining the China in the world podcast. Be sure to check out more content from the Carnegie-Tsinghua center on our website. www.carnegietsinghua.org.