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Transcript

CHINA IN THE WORLD PODCAST

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Guests: **Pierre Vimont, Tomáš Valášek**

Episode 131: Reassessing China: Europe
Sharpens Its Approach

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Haenle: Welcome back to the China in the World podcast. My name is Paul Haenle. I'm the director of the Carnegie-Tsinghua Center here in Beijing, China, and today I'm fortunate to be joined by two of my Carnegie colleagues from the Carnegie Brussels office, our Europe Center Ambassador Tomáš Valášek and Ambassador Pierre Vimont. They are both here this week in Beijing for our Carnegie Global Dialogue focusing on China-European issues.

We've been discussing EU relations with China, and of course the US dynamic and how that plays into it. Ambassador Tomáš Valášek is the Director of the Carnegie Europe Center. He served for four years as the Permanent Representative of the Slovak Republic to NATO. Ambassador Pierre Vimont is a Senior Fellow at Carnegie Europe. Prior to joining Carnegie, Pierre had a 38-year diplomatic career with the French Foreign Service, which included service as the French Ambassador to the US, French Ambassador to the European Union, and Chief of Staff to three former French Foreign Ministers. Welcome to both of you to the China in the World podcast and to Beijing.

Pierre, we're talking just a few weeks after the report was published by the European Commission and the European Union External Action Service. It was a report that looked at China. This is called the "Strategic Outlook of China" and caught the attention of many that thought there was some tougher language in the report. Namely, the report talked about China as an economic competitor, and as a systemic rival. It also called on EU countries to present greater unity when dealing with China. I wanted to get a sense from you how were you surprised by the language? Do you see a shift in perceptions from Europe, and in terms of how the EU wants to approach China?

Vimont: The report was done on purpose for the European Council. It was cited that before we have the next summit between the EU and China, it would be good for the EU leaders to discuss together. Therefore, this paper came out as a basis for that conversation between the EU leaders. Of course, it was also the opportunity for the Commission and the External Action Service in Brussels to look at the three years of strategic partnership, to look at what was good there and what still needed to be improved, and this was the basis of the paper.

The paper, in a very broad way, tries to picture the two or three different angles of that relationship where things are moving in the right direction in terms of cooperation, and it's mostly about how both sides could work together on some of the global challenges we're facing today.

Climate change, for instance, is a very good example. The issues where we are competitors and where the Europeans think that the Chinese have not delivered as we were hoping to, namely the whole issue about the "level playing field," the trade rules, and where we think in terms of transparency and reciprocity, more should be done.

The third field was about the systemic rivalry, which was about human rights, to some extent, and also the whole issue of global governance. Where the Europeans are concerned is all the recent initiatives taken by China, where we tend to think that maybe China is slowly building up their own multilateral order which may not be exactly the same as the one the Europeans are looking at, hence the need to clarify and to try to see how far we have common ground there, and how we can work together on this.

Haenle: It's very interesting because of course the language coming from the Trump Administration has taken a tougher tone, calling China a "revisionist power" and a "strategic competitor." One of the differences I noticed in the European Commission report is that it does emphasize cooperation and the desire to work together on areas like climate change and others, and to engage China on this multilateral order, and to see what China has in mind in that regard. Tomáš, how do you see the United States, both the transatlantic relationship, and also the U.S. shift in how it's dealing with China, has that impacted on European perceptions and the language that we see in this report?

Valášek: Yes, in two ways. One, just to remind the listeners, the European Union and the United States are in a sort of a mini trade war of their own. The United States has raised tariffs on the steel and aluminum. There's a decent possibility there may be new tariffs coming on European cars. That's had an interesting effect on the psychology in Europe. Realization has sunk in that the cooperative worlds of ever greater exchange of goods and services, and ever greater trade liberalization, is probably not going to be happening. They were probably living more of a zero-sum competitive world, but then we had assumed only a few years ago and we are deafening up, so to speak, to better cope with the with the new circumstances.

The new tone in EU-Chinese relations is partly a product of the effect that the United States' new tone with Europe has had on the thinking in Europe. There's also another way that the Trump policy has played into the EU-China relationship, namely that the U.S. president, by presenting China with the tough demands and imposing tariffs, has scored all of China's attention. There was a bit of a sense in Europe of being neglected, being ignored, left behind, taken for granted almost.

Europe has always had a long laundry list of things that we had wanted from Beijing. Some of it is very similar to what the United States wants. Some of it is different, but there's been a sense lately in Europe that because of the of the U.S.-China trade disputes taking up all of the energy, that we are being taken for granted, being seen as sort of "junior partners" to the United States. What you see in a paper is also an attempt to grab back attention.

Haenle: Is there a possibility that we will come to the conclusion that to get China's attention, to get progress on the areas where we may have grievances, we've got to be tougher, we have to use tougher language, we may have to use tougher tactics to get some progress?

Valášek: That's clearly the conclusion we appear to be drawing, and it's hard to disagree with the sense that the U.S. policy is working to some extent. The Chinese government seems ready to make concessions on trade, buying more U.S. goods, which respective of the merits of the decision, we would not have done had the U.S. government not chosen the tone and the approach that it has. So yes, the reading in Europe is that the tougher approach has worked. I think part of it is reflected in Europe's own tone with China.

Haenle: Also during your visit here, we saw President Xi's trip to Europe conclude. He wrapped up his trip to Italy, to Monaco and in France. It was an important trip for the Chinese President: Italy became the first G7 country to formally join onto the Belt and Road Initiative; Monaco reaffirmed its commitment to using Chinese 5G technologies. Both of those are big issues with the Chinese. In Paris, President Xi and President Macron signed \$40 billion dollars in business deals, including an agreement to purchase 300 airbuses, but also had tough discussions, I think more difficult discussions in France. President Macron invited to his meeting Chancellor Merkel and President Juncker.

What are your immediate takeaways, Pierre, from the trip? How did President Xi fair? Talk about the significance of President Macron's invitation to Chancellor Merkel and President Juncker.

Vimont: Once again, one has to understand that this bilateral visit took place a few days after the European Council meeting, where all the leaders discussed the relationship with China. I think all agreed there was a need for stronger unity among the member states. That doesn't mean that Macron got his idea out of that meeting, because I think he had it already, but he thought that definitely there was a need to go ahead with this idea of inviting Angela Merkel and Jean-Claude Juncker, the President of the European Commission, to give a sense of unity and cohesiveness among the Europeans towards the Chinese President.

This idea that if China is thinking about dividing the Europeans, playing one against the other, may not work as it has worked in the past, because we have seen Central and Eastern European states were somewhat attracted by this idea of working on their own. I think this idea of division and each member state playing on its own is slowly disappearing, maybe because some of those member states who have played that game have discovered that there was not much resolved after all, others because they have been insisting that we would be stronger if we were united. So far we're moving in that direction.

The bilateral trade, either in Italy or in Monaco or in Paris, emphasis has been put on the Belt and Road Initiative and a Memorandum of Understanding. What I find quite striking is that not one single member state in the European Union is being dismissive about the Belt and Road Initiative. Everybody think it's a rather good idea and it could be helpful. Many member states that have financial problems are looking for, you know, after 10 years of austerity and difficult economic policy due to the financial crisis, to have this possibility of new financial resources coming from China is something that you don't just disregard all that easily.

We're talking about it not only in France, but think about Greece and Portugal, and other countries. There is sort of a common understanding that something can be done with the Belt and Road Initiative. Should it go as far as the Memorandum of Understanding, some member states are ready to go along. Italy has done that, and a few others have done that. Others like Germany, France or Britain are more reserved. This is not the real issue.

The real issue is that we're all eager to see how we can work with China on the Belt and Road Initiative, admitting and accepting the fact that this should not lead to a sort of new Multilateral Order guided, inspired, and tailor-made for Chinese interest in terms of transparency

and reciprocity. But more than that, in terms of also the way we're going to manage the future, public debt of the countries that have accepted loans from China.

If we should end the day by having a parallel multilateral system working with what we have already with the IMF, the World Bank, or other in multilateral institutions, that could become a problem. Therefore, we need to discuss with China about all this.

Haenle: Tomáš, I want to talk to you about the Belt and Road because I know this is something that you have, in your own research, been covering.

Italy signed on to the Belt and Road initiative, and it got the attention of a lot of people. As Pierre says, the EU in general is not dismissive of the Belt and Road, and I think that's a distinction from the U.S. side. You get the sense that U.S. side is much more skeptical and negative and critical of the Belt and Road than in Europe. Countries that have signed on to the Belt and Road in Europe, you hear that it hasn't in many cases amounted to a lot. Just one example, if you look at this trip that President Xi took, of course Italy signed onto the Belt and Road, took some criticism for doing that, even internally within its own political coalition. They reach 2.5 billion dollars' worth of deals during President Xi's visit, but in France, where he got a tougher reception, they reached 40 billion dollars' worth of deals. How important is it to sign on to that MOU and to join the Belt and Road, and what are you hearing from countries in terms of their own experiences?

Valášek: There is virtually zero correlation between the amount of Chinese investments you can secure and your signature, or the absence thereof, on an MOU. The countries that received the most Chinese investment in Europe tend to be the largest, most prosperous West European States: France, Germany, the United Kingdom.

For the reasons the Central Europeans sign on to the to BRI, you've got to go back a little bit in history. The idea of the not just signing on to BRI, but actually forming this quasi-political group, 16+1, that's 11 mostly Central European members of the EU plus five countries outside the EU: Serbia and mostly West Balkan countries. The idea for them came out at the height of the Eurozone crisis, when their economies were frankly in shambles. They were looking at the possibility of a default and eventually did turn to the IMF and the European Union's own bailout fund. When China came in at that point with an offer of money, not a bailout, but an infusion, some infusion of cash, that was an offer that was hard to refuse. Did China use the moment to its own advantage? Yes it has. By signing the 16+1 agreement, it at least created the impression, if not the reality, of a wedge shoving a division within the European Union. It has not gone down well in parts of Western Europe.

One of the interpretations of why President Macron invited Chancellor Merkel and Commission President Juncker to the visit in Paris was to send a message to the Central Europeans in some way. You can buy off the weak in Central Europe, but you're not going to be buying off the other countries that really matter, the big ones in further west.

It's caused divisions within Central Europe, between Central Europe and Western Europe, and it hasn't amounted to much. The strange thing is that Poland has exactly zero projects under

Belt and Road, this despite being a very early signatory of the Memorandum of Understanding. You almost get a sense there may be a bit of a buyer's regret in Central Europe over having signed onto this thing. It's caused a lot of grief. In European relations, it hasn't actually brought any more money in comparison to other EU member states that have been able to do better, brisker business with China without any such document. Without the pain of signing an annual communiqué with all of the negotiations, they're going to the 16+1 conversations with China.

Haenle: We heard today from one of the Chinese experts that we engaged with that the Chinese are now trying to adapt their approach on the Belt and Road to European countries and beyond, not just going from principles which the MOUs to date have included, but also a programmatic aspect so that there would actually be concrete items in there.

They're trying to make it a two-way street, so it's not just as President Macron says, "a one-way road." Have you seen that evolution yet? We heard a little bit about that from Italy, but is that the direction that you think will help to alleviate some of the things that you're talking about?

Valášek: Well you need more than one, a new MOU to see a trend or a direction. It's too early, but it would be logical. If there's one experience to be learned from, the 11 MOUs that were signed with the Central European members of 16+1 it's that it takes more than a vague general MOU. Perhaps you need bit of a nutshell, bit of a steer, towards what it is that needs to be funded. It would not be illogical if that were the direction.

You also sense from the Chinese side that if there was earlier in their thinking an element of, "Well, let's see if we can use 16+1 perhaps to divide the EU," that that's being de-emphasized a little bit.

The message has sunk in. As one of the EU leaders apparently told his Chinese counterpart, that perhaps it's time to start with a "One-Euro Policy."

Haenle: Where the Chinese like people to abide by the One China Policy?

Valášek: Exactly. That was the reference, that was the illusion and of course, the hint was, "Stop trying to divide EU member states," and it appears to have been received. We have seen and heard over the last three days what appeared to be a concerted effort to make sure that 16+1 isn't seen as an attempt to divide, which makes sense if we're going to be serious and have conversations on issues such as global governance, Iran, and climate change. It makes no sense and is wholly inconsistent with China trying to play silly games in dividing Central Europe from Western Europe.

Haenle: Pierre, you're in a unique position as a former diplomat because you served as Ambassador both to the U.S. and to the EU. I just want to step back and get from you your general sense of where the United States and the EU have common cause or common approach with China, and where we are different.

We both seem to be re-evaluating our engagement, interaction, approach, and policies towards China. Many might come to the conclusion seeing this Commission report that we're very aligned because the language is toughened up, but I get the sense that there's a lot of areas that are different and I wanted to get your view on that.

Vimont: What we have in common is that one should not be naïve with China. On both sides there is this recognition and this idea that we need to be tougher in order to get something delivered on behalf of the Chinese. We have been asking for transparency and reciprocity for a long time. So far, according to our enterprises that are working at the moment in China, this has not come. There is a need to insist that we are serious about this and that something should be done in order to get it delivered.

Where I think we disagree with our allies in Washington is that we have a different sense of where we want to go with China. It seems to me that for the American administration, it's mostly about a face-to-face confrontation and the need to bring back China to a position where it will not be any more a dangerous competitor or an adversary.

Haenle: Do you mean to say it's more about America's position in the world and how China threatens that?

Vimont: I would say according to President Trump, it's about Americans staying America first, head of the league to some extent. I don't think the Europeans are looking for that. They're looking for cooperating with China, being in a real partnership of equals, with this idea that all together we need to re-emphasize the importance of multilateralism, which is certainly at the moment something that distinguishes the Europeans from the Americans, definitely. It's this idea that we can't start looking at different poles of power fighting each other and trying to move ahead of the other one, be it on economic terms, even on political terms to some extent. It is only by working together that we can find a way out of our difficulties at the moment.

Haenle: Is there also a sense in Europe that you can construct a relationship with China which will be beneficial to Europe, as well as being beneficial to China? I don't see that right now in the U.S. We may get there, but I see much more the confrontation.

Vimont: If you think for one second about what multilateralism means, it means a win-win, whereas what we detect today in the American way of doing diplomacy, it's much more the transactional attitude, a zero-sum game. This is certainly very, very far away not only from the Europe of today, but European DNA.

We have been from the start a multilateral organization, and we have been the main promoter of multilateralism. We very much stick to that position which makes us quite different from the Americans at the moment.

Haenle: One of the things I find when I talk to European ambassadors here in Beijing is that they'll tell me they don't see much they like about Trump's foreign and trade policy, but they will give President Trump and his administration credit for getting China's attention.

They say on the structural issues, the market access and intellectual property, if the Trump Administration be can be successful, that will benefit Europe. I assumed that's a common set of grievances that we have with China as well. Do you agree with that?

Vimont: Yes, and I very much think that we have proposed several times to the Americans that we could work together if we wanted to with regard to China, but from what I understand the American administration has preferred the individual bilateral flavor rather than trilateral.

Here again, the whole point about the Europeans is we need to have a tougher language with regard to China and on this we agree with the Americans, but for what purpose at the end of the day if we should come out of that kind of confrontation with blood being spilled all over and bad feelings all over the place? We will not go very far.

We need to add to that kind of strong dialogue and more open dialogue for something where we could all find some benefits, some added value, a win-win situation as I was saying earlier. This is really what the Europeans are looking for. I don't think they find themselves in that position where, because of what America represents in terms of global power, which is not the case for the Europeans today, we don't see ourselves in a confrontational competition for the Number One rank in the world with regard to China. We see very much a possibility of clear collaboration. That may be the main difference.

Haenle: You know, I've also advocated closer U.S.-EU transatlantic cooperation on China, because I think especially on those areas where we agree, we haven't seen that from the U.S. and I think that's unfortunate.

Tomáš, the one area where the U.S. seems to really want to engage Europe now is on this question of 5G and whether or not Huawei should be allowed into 5G networks. Where the U.S. has been reluctant to engage with Europe on other issues, on this one, I understand there's a lot of trips by American government officials to Europe to try to convince Europe to do what others like Australia and New Zealand have done. It looks like there's still a debate in Europe. How do you see that issue playing out?

Valášek: The efforts have been far less subtle than you present. We have the testimony of the Chairman of the Joint Chiefs of Staff, who essentially told the Germans and other allies they're going to be cut off if they start using Huawei products. We have differences on the issue, because the way the Europeans look at the problem is with a lot less naïveté that the Americans attribute to us. We're not at all naïve about the possibility of Huawei or any other products being used to either collect intelligence or worse, to deny us access to critical systems in times of crisis. We are wideout and clear-eyed about the possibility, but we believe that the blanket ban on Huawei, and by we, let me make very clear, there isn't a unified view.

The Commission, the European countries, are working on a unified view. They're supposed to have one by the end of the year, but by and large, the countries that have weighed in on the debate, Germany and Britain, come up with a more subtle view on Huawei and the dangers it presents. Their view is essentially that you can work with the technology, you can integrate it at an acceptable risk, because what you're dealing with today isn't a case where your laptop is connected to the outside world via one device alone.

There's a network of networks involved. There's layers of connections and you can make Huawei part of it. As long as it's just one part of your infrastructure, you can work around if the device turns out to be used against you, is unreliable, or if you're denied the use. There are workarounds. That's essentially the view of the British government. That appears to be the view of the German government.

Let me also make another point. We take the views and the advice we hear from our American allies very seriously, but it's become harder to disassociate their advice from some economic interest. Rather, it's become harder to disassociate advice from the suspicion that economic interest may be involved, simply because President Trump has so freely and frequently conflated the two.

We want to believe in Europe that you can deal with security interest as one basket and trade interest as another basket. Because the President has used so many tools to advance America's economic interest, including some legal arguments or not, he has made it more difficult in Europe to believe that when the United States leans on us not to use Huawei, that this is merely a security argument the United States is making. Washington itself is a sort of its own difficulties because their rhetoric, the tone, and the arguments that have been used in a number of the other industrial disputes have made it more difficult to assume that the United States acts in a good faith.

Haenle: Pierre, I want to step back not just to look at the 5G issue, but to look more broadly at technology. There are those, including for example, the President of the U.S.-China Business Council, who said just recently when asked if there would be a positive conclusion to the trade war, "Probably, but that's not the real essence of a potential conflict between the U.S. and China. In some ways, those are the old set of issues. The issues that are going to confront us in 2019 once we move beyond this set of trade negotiations is technology. There is a possibility of a technology Cold War."

How does Europe see that, how does Europe see itself fitting into that, and how will it impact its relations with China and the United States?

Vimont: To a very large extent, Europe is seeing this problem exactly in the terms that you have just used. We see it mostly as an existential threat for Europe, namely that we are lagging behind these two competitors. For Europe, if there is not some way of rebirth over a real effort to try to rebound and to regain in terms of European productivity, European technology, then we are going slowly to drift apart and away from these two main partners in our world global economy. This is really what it's all about at the end of the day.

The idea in this paper that you mentioned from the European Commission and External Action Service, that among the objectives of the EU strategy with China, there is also this idea to put our own house together and to put our own house in order. In the next multi-annual framework of our finances, we need to put more money in the research sector to be more competitive and not to lose our competitive edge that we had in the past. That's the real debate behind our current relationship with China and with America.

If you look at the most recent patterns that have been put out today, more than three-quarters of the most innovative patented technology comes from the United States and China. This was not the case a few years ago. Europe was standing high in that track record. We have lost ground and need to regain that ground as quickly as possible. This is the main concern for the Europeans in front of that technological challenge.

Haenle: Well, I want to thank both of you for joining the podcast, but more importantly, for coming to Beijing and joining our Carnegie Global Dialogue. It's been a pleasure and thank you.

Vimont: Thank you for inviting us.

Valášek: Thanks for having us.

Haenle: 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.