



EU-CHINA RELATIONS TOWARDS A FAIR AND RECIPROCAL PARTNERSHIP

March 2021



“To have principles, first have courage”
Chinese proverb

Ancient Chinese Emperors claimed to have a supernatural mandate for their rule. They believed that heaven anointed China to be the “Middle Kingdom,” the centre of the world, the most powerful, harmonious, wealthiest, and wisest empire that had ever existed. Contemporary narratives popularised by the Chinese Communist Party strongly build on the past. They underline that for five thousand years China was the centre of the world, but then came an unnatural disturbance of the “Holy Order” caused by Western powers. Today, Chinese leaders promise to restore the status China allegedly deserves, thus reinstating the “natural” state of the world.

Like all historic narratives, the Chinese one is a compilation of proven facts and ideological claims. The concept that China has “more history” than other countries is not supported by archaeological research. Furthermore, Chinese history witnessed periods of power, decline, warring kingdoms, foreign rule and fundamental changes through foreign ideas and influences. To claim a mandate from heaven by a party that draws its ideology from Marx, Lenin, Mao, Deng and now Xi is more than questionable.

Historic narratives transformed into national-Communist ideology cannot define relations in the rules-based multilateral order of the 21st century. This can be a double-edged sword, as every country can unearth historically “proven” grievances towards its neighbours. Centuries-old maps cannot take precedence over international law to define borders and territorial affiliation if we want to safeguard peace and respectful cooperation between our neighbours in Europe and Asia.

China, with its eventful history, rich culture, philosophy, and innovative craftsmanship, has been the subject of fascination, inspiration and of sincere as well as insincere desires of Europeans for many centuries.

In March 2019, the European Commission characterised the People’s Republic of China as a cooperation partner, a negotiating partner with conflicting interests, an economic competitor, and a systemic rival.

Given the political consequences of the COVID-19 pandemic and the imposition of the so-called Security Law for Hong Kong, a more aggressive pursuance of long-term goals towards Xinjiang, Tibet and Taiwan, disregard for the multilateral system

and international agreements, spread of Chinese malign influence, failure to live up to fundamental human rights obligations, we believe this fourfold approach to be outdated. As the EU’s partner, China should respect its own international obligations, which is not yet the case. Systemic rivalry can increasingly be seen as the overriding paradigm in our relationship; however, we should not disregard the need to continue dialogue with China.

We need to acknowledge the increasingly assertive attitudes of the current Chinese leadership, which has disconnected from the method of collective leadership and has embraced a renewed cult of personality. The global struggle between democracy and authoritarianism is a major determinant of our relationship with China. As a result, the space for cooperation and economic exchange has shrunk.

In the year 2020, China was the main trading partner for the EU. This leaves no doubt that economic and trade relations must be at the core of EU-China cooperation, but not its only determining factor. However, the benefits are unequal. Both sides disagree on the fundamental question of values and norms upon which the current post-war international order was founded. While Europe is guided by its respect for democracy, the rule of law and human rights, China is an authoritarian one-party state. Nevertheless, we need to try to maximise the benefits of our economic interdependence; we must also address existing imbalances.

European companies are alarmed by a deteriorating business climate and increasingly unfair competition from Chinese companies, in both China and elsewhere. This has been accompanied by a more confrontational approach in Chinese diplomacy towards individual Member States and the EU. European universities, researchers, journalists and civil society actors experience pressure, censorship, and threats not only when working in China but also in Europe. This occurs when the Chinese authorities conclude that their official doctrines and policies are being challenged, which has a direct effect on the proliferation of European values and fair and equal conditions for businesses and citizens.

European citizens feel that - through China’s assertiveness and increasing presence in the Member States - their European way of life is being challenged. Europe is concerned that the lack of transparent, fair and equal regulations hurts competition and does more harm than good to their lives.

Cooperation to solve global problems

Keeping these challenges in mind, we want to cooperate with China in areas of common interest. With a population of 1.4 billion people, representing a vast market, as one of the three biggest economies, one of the richest countries in the world, the largest global exporter - and as a nuclear power and permanent member of the UN Security Council - China is indispensable in tackling global problems.

The country is now a strategic partner for the EU in the fight against climate change and in the global transition to renewable energy sources. China has been part of the Paris Agreement since 2016, although it is currently the world's largest producer of greenhouse gases and carbon dioxide (almost 30% of global emissions). We therefore hold the Chinese Government to their word and expect emissions reductions before 2030 and carbon neutrality by 2060. We offer industrial cooperation to develop high-tech solutions, especially in the area of green hydrogen.

The EU also favours cooperating with Beijing to ensure stability and sustainable growth in developing countries. However, systemic differences and a strictly utilitarian approach often assumed by the Chinese authorities have impeded these efforts so far. That is why we strongly oppose China's unsustainable approach to cooperation with the African Union and African countries in the areas of access to raw materials, exploitation of new markets, human rights and environmental and climate issues.

Both sides have identified the fight against international terrorism as another potential field of cooperation. Yet, the definition of terrorism applied by Chinese law enforcement and jurisdiction is vague. Moreover, terrorism charges are often arbitrarily and retrospectively used against peaceful protesters and advocates of minority rights, as is increasingly evident in Xinjiang, Tibet, and Hong-Kong. Therefore, while these practices persist, counter-terrorism cooperation can be only limited.

Notwithstanding our differences, we should continue to engage in structured dialogue with China to tackle global challenges, such as climate change, illegal migration, a return to a rules-based trading and arbitration system within the WTO framework and effective mechanisms to

regulate financial markets. Much of this, however, depends on China's willingness to abide by international norms and rules.

Defending the rules-based international order

International trade and access to new markets have significantly improved living standards all over the world. They have contributed to the creation of jobs, rising prosperity, and reduced global poverty. We remain committed to building an open and fair global trade system. It must be shaped by a rules-based, multilateral order with democratic values at its core. To achieve this goal, the EU must work constructively with its partners.

Support for a multipolar world and a rules-based international order is still a proclaimed cornerstone of China's foreign policy. President Xi Jinping has repeatedly spoken about the importance of the multilateral global order, including at a noteworthy address in Davos in 2017:

"It is true that economic globalisation has created new problems. But this is no justification to write off economic globalisation altogether. Rather we should adapt to and guide globalisation, cushion its negative impact, and deliver its benefits to all countries and all nations."

We must not overlook the fact that Chinese-stated support for a multipolar world and commitment to a rules-based order does not stand up to scrutiny. In international organisations, Beijing tends to apply common rules only when they serve its interests; otherwise, it declares them ill-suited for its specific needs, or ignores them and applies its arbitrary interpretations. Developments surrounding the WTO, WHO and the International Tribunal for the Law of the Sea demonstrate how the legitimacy of these international organisations is being undermined. As a result, their capacity to solve bilateral conflicts in a multilateral context is reduced.

At the same time, Chinese foreign policy has become more assertive and its diplomacy more confrontational, especially under the leadership of Xi Jinping. China wants to have an increased role on the global scene reflecting its rapid rise. Chinese diplomats have replaced the dictum of Deng Xiaoping "hide your strength, bide your time" with a "wolf-warrior diplomacy".

The so-called Hong Kong Security Law is a breach of Chinese commitment made in the Sino-British Joint Declaration of 1984, which enshrines the 'One Country, Two Systems' principle for Hong Kong. The new law not only undermines existing international agreements, but also Hong Kong's long-established autonomy and freedoms. Since the law came into force, respect for human rights in the city has quickly deteriorated. The new law is a tool for silencing dissents, conducting mass arrests of pro-democracy activists, suppressing freedom of expression and assembly, and targeting journalists as well as academics.

Taiwan, Asia's 7th largest economy with a stable pluralistic democracy, in the eyes of Beijing is a "renegade province." President Xi Jinping has set the year 2049, the centenary of the foundation of the People's Republic of China, as a deadline for the "reunification" of PRC and ROC by whatever means, which is both destabilising and dangerous. The EPP Group expresses deep concern about China's intensifying military manoeuvres aimed at Taiwan, which pose a serious threat to regional peace and stability. It reconfirms its position that both sides must refrain from unilateral actions and the use of force. We believe that the unification of Taiwan and China – if it ever occurs – should only be the result of the democratic will of the people of Taiwan and the People's Republic of China.

The EPP Group is committed to defending the rules-based multilateral order and the primacy of the rule of law in international relations. International organisations at the core of this order also need adjusting to a changing world. This goal can only be achieved through multilateral negotiations with equal participation and representation of all stakeholders.

Systemic rivalry - Defending European interests

In the 46 years since the EU and the People's Republic of China established diplomatic ties in 1975, the two sides have developed a close political, economic, and cultural relationship embedded in a network of high-level dialogue. From the first days of China's "reform and opening up" to the outside world, European companies, engineers, and universities have contributed to its development via investment, technology, and research, coupled with significant EU development aid. This engagement was driven by an assumption that China would

eventually liberalise its economic system and possibly even its politics. We expected a transformation towards a market economy and a gradual opening-up for unhindered economic, scientific and cultural exchange.

Today, we must concede that our hopes remain unfulfilled.

It is China's right to choose its own path of development. However, when China fails to live up to its commitments to benefit its own interests while jeopardising ours, we must defend our citizens' welfare and urge Beijing to respect the pledges it made.

The propagation of EU core values, respect for human dignity and human rights, freedom, democracy, equality, and the rule of law, should be seen in a wider Asian context, particularly that of South East Asia. The EU's position can be strengthened by furthering strategic ties and cooperation through investment and trade deals with China's neighbouring countries, most notably India and the ASEAN region. This region is the EU's third largest trading partner to a large degree due to already established partnerships with Japan, Singapore, Vietnam and South Korea. By deepening ties, we can provide incentives for further economic integration that will encourage ASEAN countries to cement their democratic institutions and adhere to stated principles. We recall that China and 14 other Asia-Pacific countries have signed the world's largest trade agreement. This will increase China's political and economic influence throughout the region. We will closely monitor the impact of this agreement, particularly in regard to normative elements of standardisation. We are cautious as to the compatibility of strategies such as China Standards 2035 with European value-based engagement and conscious of efforts by China to promote alternative systems of economic and commercial governance.

COVID-19 - A case study of EU-China relations

The outbreak of COVID-19 serves as a case study for many of the challenges described thus far in EU-China relations.

At the early stage of the outbreak, China tried to cover-up the magnitude of the problem. It withheld important information, suppressed whistle-blowers and journalists in China and blocked decisions at the WHO Emergency Committee. By choosing secrecy instead of openly facing the growing

crisis, it allowed the virus to spread rapidly and become a global problem. Once COVID-19 became a priority for the country's top leadership, all channels - including Chinese media agencies abroad, Chinese diplomatic efforts and Chinese companies - presented China as the role model in fighting the pandemic. It was portrayed as a global benefactor, sending aid and medical equipment around the world. Chinese state media underreported assistance the country received from abroad, including nearly 60 tonnes of medical equipment from EU Member States. On the other hand, Chinese commercial sales were presented as "Chinese aid for friends in need".

EU diplomacy was twice the target of Chinese interference, both times succumbing to Chinese pressure. Firstly, European diplomats watered down a report from the EEAS StratCom Task Force on Chinese disinformation campaigns during the health crisis, after an intervention by Chinese diplomats. Soon after, Chinese media agencies demanded changes to a joint article by the EU ambassador to China, together with 27 bilateral ambassadors of EU Member States, with regard to the Chinese origin of the virus. European diplomats followed in self-censorship.

To distract domestic criticism of the crisis management, Chinese officials indicated that the virus was brought to the country by foreigners. They failed to mention that these people were, in most cases, Chinese nationals coming home from abroad. The Chinese ambassador to London, in a conversation with the BBC, declined to admit the virus originated in China. Rather, he claimed that Beijing was simply the first to discover it. Moreover, a Chinese Foreign Ministry spokesperson used his social media account to spread rumours that the virus was in fact an American biological weapon. Countries that demanded a thorough and independent inquiry into the origins of the virus were threatened with economic and political retaliations.

We are facing aspects of systemic competition with China in different areas

Regarding economic relations, the EU and China are interdependent and thus important markets for each other. Yet, European companies are incessantly targeted with discriminatory practices, market distortions and various restrictions

in many economic sectors. Multiple forms of subsidies for Chinese competitors - particularly State-Owned Enterprises (SOEs) - in the Chinese market skew the playing field even further. Similar instruments are used to push Chinese companies into European markets to compete with our businesses or acquire them to benefit from their know-how and subsequently become even stronger competitors for remaining businesses in the EU.

Another risk the EU authorities must be aware of is Chinese law, which requires companies from China to cooperate with the country's secret services. We must remain vigilant if there is a risk of improper use of data by Chinese vendors. Interventions by Chinese ambassadors in Europe, threatening Member State governments with retaliations against their companies operating in China if Huawei is not part of their national 5G network, illustrate this approach. We note China's threats towards countries that criticise its human rights situation or call for an international COVID-19 inquiry, as was the case with trade restrictions on a variety of Australian goods.

The EU on the other hand is the most open economic area in the world. Foreign investment is welcomed and contributes to economic growth. Our system, with its strong rules on competition, investment and procurement is well designed and appropriate for economic actors from liberal market economies. However, it is ill-equipped to face challenges presented by a state-driven economy that provides for its businesses state support at a level not available to EU companies, with the intention and resources to expand into our markets. Therefore, a level-playing field needs to be created through an active and meaningful engagement with China. For that purpose, the EPP Group welcomes the recent agreement in principle on the EU-China Comprehensive Agreement on Investment (CAI). However, an Investment Agreement itself cannot resolve all issues ailing our economic and political relationship; it must ensure strong provisions across sectors as well as enforcement mechanisms to address current imbalances and to assure that China and Chinese vendors adhere to those provisions. Working in parallel on flanking measures, both autonomous and at multilateral level, and ensuring implementation of key regulations also remains of key importance. Improving our own toolbox of trade defence instruments must be a priority. The Commission's recent "White Paper on levelling the playing field as regards foreign subsidies" is a step in the

right direction, although at the same time we must underline the need to uphold our principles of openness and free and fair competition in the EU Internal Market. Against the background of the White Paper, we call on the Commission to suggest a Level Playing Field Instrument (LPFI). This instrument should enable European business to succeed in the competitive environment of the Single Market with subsidised Chinese companies. In addition, EU unilateral instruments, such as the planned EU system of due diligence for supply chains or the new EU global sanctions regime, must be harnessed to fill the lacunae necessarily left by a mere Investment Agreement.

EPP Group policy recommendations

China endorsed European integration when it facilitated Chinese access to the Internal Market. It also supported a strong European voice promoting a multipolar world. Yet, China uses bilateral and alternative multilateral strategies to circumvent the general rules-based approach practiced by the European Institutions. Alternative formats like the 17+1 investment scheme and larger Member States' eagerness to egoistically secure individual trade and investment deals for their companies only serves China in its practise of the "divide and rule" principle (driving a wedge through the bloc). This weakens the position of the EU and its Member States.

An effective approach towards China requires a consistent, values-based foreign policy pursued loyally by the EU and its Member States.

Without a unified EU approach that leverages the bargaining position of all 27 Member States, we can hardly negotiate on equal terms with China. The EPP Group calls on the Member States and European Institutions to speak with one voice while adopting a coherent and comprehensive approach at all levels. It insists on market-based reforms and a level playing field for all EU companies. A crosscutting taskforce should be established within the European Institutions - modelled on the successful Brexit taskforce, which was instrumental in keeping Member States united in their position. The EU must strengthen its supply chains to increase their resilience through various means, including by an increase in its own production and nearshoring in pursuit of "open strategic autonomy".

- > **Strict reciprocity as the second-best solution:** The EPP Group favours cooperation with China based on the open regulatory framework of the EU and in full compliance with WTO rules. Concomitantly, the EU must be able to robustly defend its core interests, based on WTO compatibility, reciprocity, and effective deployment of rebalancing measures. However, if such an open approach in economic EU-China relations is unachievable, the EU should make use of its trade defence and other relevant autonomous measures against Chinese companies should we detect trade-distorting effects or threats to the EU's security and strategic interests. They should mirror the restrictions European companies face in China.
- > **EU antitrust, merger and state aid rules for Chinese companies operating in Europe:** To avoid unfair competition, the EU should develop a "competitive neutrality instrument" to ensure the competitive neutrality of Chinese state-owned enterprises in the European market. The same must apply to all state-subsidised companies, regardless of their ownership structure and the country they primarily operate in. Multilateral efforts to strengthen the WTO rules on industrial subsidies - based on the trilateral cooperation between the EU, the United States and Japan - must be further advanced.
- > **Reciprocity in public procurement:** European companies are often prohibited from participating in public tenders in China. The European Commission must assure that contracting authorities and Member States apply the EU 2014 directives effectively, and possibly review the framework. Co-legislators should finalise the new, balanced International Procurement Instrument (IPI) to strengthen the EU toolbox and promote globally reciprocal trading conditions. China should join the WTO Agreement on Government Procurement as soon as possible and open up to international tendering.
- > **Forced technology transfers:** Forced technology transfers and IPR (Intellectual Property) theft continue to be exercised by Chinese vendors. The illicit practise is also a by-product of Beijing's "Made in China 2025" project, whereby technological parity with the US and the EU is energetically pursued. These methods undermine future business perspectives and the creation of jobs and

growth in Europe. While we positively acknowledge that rules directly prohibiting several types of forced technology transfer are now part of the CAI, nonetheless, we must ensure that adequately dealing with all forms of forced technology transfer and IPR theft remains a priority in bilateral relations. The European Commission should establish a taskforce to raise awareness amongst Member States and European businesses, and to insist on Chinese and vendors authorities to eliminate forced technology transfers and infringements of IPR protection.

- > **Industrial strategy for the EU:** The EU needs to improve framework conditions for companies to invest and innovate. Chinese strategy on key industries should be analysed, and lessons-learned reflected in research, development and innovation expenditure at EU and Member State level. Continuous investment in EU research, development and innovation can furthermore create new interdependencies to balance power between the EU and China. Special attention should be paid to the resilience of EU supply-chains with the goal of “open strategic autonomy,” including by the development of new opportunities in the Southern and Eastern neighbourhoods. The EPP Group also demands transparency on bilateral agreements between individual states and China. It is disconcerting when questionable state regulations are used to keep strategic contracts with Beijing secret. This was unfortunately the case with a recent loan granted by China to the Hungarian Government for a high-speed railway between Budapest and Belgrade. The EPP Group also demands that bilateral agreements between individual states and China are based on a sound assessment of risks to ensure that these investments do not undermine security or public order in the EU through the operation, management, or control of, inter alia, critical infrastructure, critical technologies and dual use items, the supply of critical inputs or sensitive information, including personal data. In this regard, the EPP Group calls for transparency of such agreements.
- > **BRI:** China's geopolitical agenda, disguised in infrastructure and financing projects under the Belt and Road Initiative must be recognised for what it is, and any such projects must be closely monitored, also with regard to their negative political effects. The

EU should advocate more strongly its own Connectivity Strategy to build infrastructure and provide financing in third countries, as it is strategically important and would bring business opportunities for our companies. However, we must demand that the BRI meets international standards and, recognising the lack of transparency in bidding processes, ensures fair competition in third markets by upholding multilateral economic governance practices.

- > **5G technological platform:** The development of a 5G network all over Europe is a cornerstone of Europe's future competitiveness. Resources mobilised in the Recovery Plan for Europe should be used to provide all Member States with the necessary funds
 - > for secure infrastructure, and to support European industry, capabilities and innovation. Chinese participation in this field should be examined closely, whilst those companies deemed as a security threat must be excluded from any 5G-related ventures in EU-27.
- > **Agrifood, fisheries and aquaculture sectors as strategic assets in relations with China:** Given the persisting dependence of China and the Chinese leadership in the field of food security, the EU should mobilise resources to develop a smart framework to protect the interests of European farmers, fishermen and aquaculture producers and consumers and to avoid unfair competition in the agricultural, fisheries and aquaculture producing sectors. We acknowledge the Agreement between the European Union and the Government of the People's Republic of China on the protection of Geographical Indications (GIs). We will closely scrutinise the implementation of this agreement, monitoring China's efforts to ensure the protection of European IPR.

Regarding trade, we remain committed to open relations with China. Unfortunately, because of persisting, unjustified non-tariff measures, technical barriers and lack of reciprocity, our trade relationship remains unbalanced. State subsidies in China lead to overcapacities and dumping on European and global markets. While a purely transactional approach does not guarantee strategic objectives will be achieved, the European approach of finding solutions through negotiations - rather by imposing tariffs like the US - is not always successful.

An exemplary case is the Global Forum on Steel Excess Capacity created under the OECD in 2016 after a global steel crisis caused by massive Chinese overcapacities. Three years of negotiations did not produce any tangible results and eventually China decided to leave the Forum in October 2019. The problem of steel overcapacities remains and 2.6 million direct and indirect jobs in the EU are at stake.

EPP Group policy recommendations

- > **Deliver on the modernisation of the WTO:** Since China joined the WTO in 2001, the country has fallen short of delivering on its commitments. The EU, together with other WTO members, should actively pursue its ongoing efforts to update the WTO rulebook. China must fulfil its responsibilities and commitments as a member in this regard and acknowledge its real economic status, including the recognition that it no longer qualifies as a “developing country”.
- > **Full use of trade defence instruments:** As long as unfair trading practices persist, we call for a continued and strict application - and consider the strengthening - of EU trade defence instruments and the new anti-dumping methodology. This will better tackle distortions in prices and costs that are not a result of free market forces.
- > **More “own initiative investigations” by the European Commission:** The EPP Group supports increasing the European Commission’s capabilities to investigate “ex officio” anti-dumping/anti-subsidy cases, without formal complaints from affected European companies. The Commission should make full use of these increased competences.
- > **Explore new flexible forms of alliance cooperation:** We encourage Member States to create a new forum for multilateral cooperation, drawing on the legacy of the Coordinating Committee for Multilateral Strategic Export Control. The main goal of this new forum would be to monitor and control the export of technologies, trade flows and sensitive investments in countries of concern, as well as ethical standards in research, production, and the culling of data.

- > **Effective foreign direct investment screening:** We urge Member States to swiftly implement and effectively apply the new regulation to establish mechanisms for screening foreign investments in critical sectors and to close existing loopholes. A possible revision should be considered also to address market distortions caused by foreign subsidies in the Internal Market. We are wary of efforts to establish detrimental economic dependencies through strategic investments and are committed to strengthen European open strategic autonomy in this regard.
- > **A comprehensive EU-China Investment Agreement:** We positively acknowledge the political agreement in principle on a comprehensive EU-China Investment Agreement that has been reached, aiming at a more secure legal framework for a long-term market access and investment opportunities. Reflecting our priorities, the CAI can make a contribution towards providing more reciprocity in market access, contributing to a level playing field, and promoting non-discriminatory treatment of businesses and investors. We acknowledge that this will not close all the gaps in these areas. The EPP Group will carefully scrutinise the agreement, which includes ambitious trade and sustainable development provisions, such as labour rights, which China has agreed to for the first time. We will also take into consideration the human rights situation in China when asked to endorse the investment agreement. The monitoring of the implementation is key since the value of the deal depends on how China implements these commitments.
- > **Addressing overcapacities:** The EU should continue dialogue with other international stakeholders within the framework of the OECD, WTO and the G20, and press China to rejoin the negotiations.
- > **Investment Agreement with Taiwan:** We support the launch of negotiations for a bilateral Investment Agreement with Taiwan. Furthermore, we call on the Commission to finish the preparatory work, specifically a scoping exercise and an impact assessment to formally start the talks under the framework of the EU One-China policy. We also believe Taiwan should be welcomed to participate in WHO meetings, mechanisms and activities, particularly

during the pandemic. Taipei's well-balanced management of the crisis has demonstrated the value its participation could bring to the organisation.

- > **Striving for effective implementation:** The EPP Group will ensure that the European Parliament actively monitors the effective implementation of any future agreement with China, encouraging a role for parliamentary diplomacy and dialogue in this effort.

In the European public and academic debate, Beijing is trying to influence public discourse in European society. It aims to impose its own political narratives and to censor critical voices within Europe.

Freedom of opinion, expression, religion and association are the founding principles of our liberal democracies. Critical thinking in Europe is seen as an essential element of our participatory democracy. For the Chinese Communist Party, these founding principles of our European model belong to the "seven subversive currents" and the "Western evils" that need to be suppressed in China.

At the same time, China is increasingly using these freedoms in Europe to shape its agenda. Whilst transparent debate on China in our media, universities, think tanks and social media channels is welcome and enriching, covert means of manipulating public discourse must be challenged.

Certain European media outlets have become the subject of mergers and acquisitions by Chinese companies. Thus, they have introduced pro-China work guidelines. Revenue from advertisements and Chinese media inserts placed by Chinese institutions and companies is used as leverage to promote pro-Chinese messages and censor critical reports. European journalists and universities are pressured by Chinese embassies in Europe to refrain from statements perceived as critical of China. European think tanks and universities funded by, or in cooperation with, Chinese institutions and companies promote Chinese Government opinions. The vast network of over 500 Confucius Institutes all around the world is also used for this purpose. Furthermore, they try to interfere with the curricula of Western universities to censor critical discourse and research about China. European researchers and journalists are denied Chinese visas and access to Chinese sources when their work is seen as critical of Communist Party policies.

These interventions often remain unnoticed

but target our core values and principles. In contrast to usual soft-power public diplomacy, the term "sharp power" has been coined to describe these new tactics of manipulative diplomatic policy.

EPP Group policy recommendations

- > **Screening of foreign media investments:** China has invested almost €3 billion in European media firms over the last 10 years. Only some EU Member States have screening mechanisms for foreign media investments in place. We therefore encourage the Commission to develop an EU-wide regulatory system to prevent media companies either funded or controlled by governments to acquire European media companies. This should apply predominantly to non-democratic countries in which European media organisations are not allowed to operate freely, or are pressured to tilt their coverage in favour of local governments. These efforts should be based on a common database to facilitate a harmonised prevention and/or persecution across the European Union. Otherwise, China's example will be followed by other states with similar authoritarian political ideologies, and the European Union risks other countries getting involved in its domestic affairs.
- > **Support for independent China research and journalism:** Increased support for independent and critical expertise on China would make think tanks and universities less dependent on Chinese companies and institutions that currently sponsor their activities. Establishing an EU funded programme for research on China - available for European universities - and the creation of a European China Knowledge Endowment is highly recommended. The EU and the Member States must also continue to defend the freedom of speech at universities, to ensure that free speech at European universities is not subverted by coercion from Chinese authorities, be it against European or Chinese students and academics.
- > **Promotion, support and funding of independent journalism and liberal media:** The EU and its Member States should support journalists investigating China's censorship, propaganda, press harassment and human rights abuses.

The Journalism Trust Initiative, the International Consortium of Investigative Journalists and the Forum on Information and Democracy are strong examples. The EU can contribute to these efforts by establishing a European Democratic Media Fund.

> **Counter Chinese disinformation campaigns and imposed narratives:**

A European car brand was forced to publicly apologise for having placed an advertisement citing the Dalai Lama on a social media platform. Mentioning persecution of religious and ethnic minorities, such as Tibetans and Uyghurs, and awarding a European literature prize to a writer detained in China can lead to threats by Chinese diplomats against academic institutions, and even governments. Chinese attempts to impose its own narratives and censor opinions in the EU cannot be tolerated. All EU Institutions must be strict in identifying and naming Chinese disinformation campaigns and narratives, such as the one related to the COVID-19 crisis. We propose an EU-wide documentation of disinformation and human rights violations to raise awareness and thus support its victims, be it individuals, corporations or governments. This effort could lay the foundation for educational efforts such as toolkits or specific websites in order to equip European citizens with the necessary skills and/or knowledge to prevent them from being misinformed.

> This data may be compiled and published on a regular basis by the EEAS.

> **Defending human and fundamental rights:**

Human rights abuses in mainland China and Hong Kong cannot be ignored and require a strong response from the EU and its Member States. The EPP Group welcomes the adopted EU Global Human Rights Sanctions Regime (EU Magnitsky Act), which will ensure that those guilty of violating human rights abuse are held responsible. The EPP Group should take the lead in political diplomacy to include corruption in the EU Global Human Rights Sanctions Regime.

> **Release of human rights activists:** We call for the release of arbitrarily detained and imprisoned human rights defenders, dissidents, and others, including the Swedish citizen Gui Minhai. We note with great concern reports of systematic

human rights violations – including internment, sterilisations, and forced abortions – taking place in Xinjiang against Uyghurs and other mostly-Muslim minorities, and we demand an independent and urgent investigation into these allegations. We stress the need for a free access to Tibet, including for diplomats, journalists, tourists and Tibetans themselves.

> **Continuing to stand up for Hong Kong:**

The EPP Group must continue to support Hong Kong's autonomy, freedom and the rule of law. It should continue to strongly encourage the Member States to implement the package of measures agreed upon by the Foreign Affairs Council on 28 July 2020, as well as the Parliament's Joint Resolution of 15 June 2020.

> **European import ban on products using forced labour:**

The Chinese authorities have been reportedly detaining a million Uyghurs in camps and using them for forced labour in the Xinjiang province. The United States House of Representatives has almost unanimously passed a law that prohibits imports of products manufactured with the use of forced labour. The EU should also ban imports of products from companies taking advantage of forced labour, in compliance with WTO law. Products produced in re-education camps should be banned from EU markets as well.

> **Support of freedom of religion in China:**

China continues to deny religious freedom to its citizens. Religious associations and communities, especially Christians, Muslims, Buddhists and others who are not part of regime-controlled organisations, are targeted through harassment, detention, demolition of sacred symbols and places of worship, crackdowns and other forms of unrelenting persecution. Not only should the EU provide the Special Envoy for the promotion of freedom of religion or belief outside the EU with adequate means, but it should also continually raise the issue of religious freedom in its relations with the People's Republic of China.

> China has become one of the largest contributors to the UN budget and is increasingly participating with troops in UN peacekeeping operations. As a permanent member of the Council UN Security Council and a member of the

Human Rights Council, China has a special responsibility to support the three pillars of the UN: human rights, peace and security, as well as development.

The EU position in the field of tension between the US and China

The state of US-China relations has global implications, especially since the global pandemic has further exacerbated existing tensions. Big power competition is undeniably transforming into big power rivalry. Under these circumstances, the EU must take a position that allows it to defend its interests whilst maintaining a working relationship with both protagonists.

On the one hand, the EU and the US are connected by the Transatlantic bond – institutionalised in NATO – based on the principles of democracy, freedom, human rights and the rule of law. The EPP Group is committed to renewing and strengthening this bond. The EU loyally supports the United States by maintaining its arms embargo on China, and has done for over 30 years now. On the other hand, the Chinese market, with all the caveats involved, is a powerful magnet, attracting European businesses of all sizes.

Only the EU as a whole gives its Member States the chance to maintain autonomy in the face of US-China competition for primacy. In order not to be squeezed by the two geopolitical giants, the EU needs to maintain a principled but pragmatic foreign policy. Defence of multilateralism and its institutions – as well as respecting the rules-based order – are fundamental to defending the EU position. This entails the installation of sanctions in order to defend European interests.

This can possibly lead to temporary setbacks or disappointments, such as a potential retaliation by Beijing against our business interests. Yet, in the long-run it will strengthen the international system based on transparent rules. In order to achieve this goal, the EU needs to take leadership in recreating its alliance with the United States. This should also occur with other democratic, like-minded states wary of how selective China can be in abiding by international rules.

The EPP Group welcomes the establishment of the EU-US Dialogue on China and calls for

a robust discussion on areas, such as forced technology transfer or the strengthening of multilateral institutions, where a common approach is not only desired but also necessary. The EPP Group further calls on the EU, the US and other democratic countries to pursue an ambitious democracy support agenda across the world, to push back against creeping authoritarianism, support people's desire for freedom and strengthen democratic resilience.

Depending on the result of these efforts, EU-China relations may develop according to three different scenarios:

a) Positive scenario - engagement and cooperation

In a positive scenario, both parties continue to cooperate. This allows the EU to engage with both the US and China, conclude agreements, increase trade and raise the level of investment. All three partners work in concert to tackle global challenges, such as climate change, terrorism and the current pandemic. Regular dialogue is accompanied by a high-level of trust.

b) Neutral scenario - co-existence and muddling through

The EU accepts its partners' strengths and works to enhance its own. EU awareness of increasing competition and its efforts to tackle unfair trading practices do not entirely damage the relationship as all sides acknowledge they have more to gain than lose.

c) Negative scenario - rivalry and conflict

The third scenario carries the most severe consequences. In a hostile environment where trust is broken, trade is impeded and various retaliatory measures abound, the EU needs to successfully navigate and manoeuvre.

The European public would not accept a military confrontation. The ability not to be bullied into potential participation would only be possible if the EU is strong and united. Strength is defined by an effective and assertive foreign policy in the spirit of Article 24(3) TEU. The EU needs to be willing to unapologetically take advantage of its leverage (strong economic player, dominant aid donor, trusted political partner, exporter of a particular kind of integration model). Unity implies a unified position towards China and the US, where short-term and narrow-minded interests do not prevail over the overall interest. Vis-a-vis China, Europe

must by default take advantage of its much greater collective bargaining power.

The EU must prepare for a possible breakdown of relations between the US and China. In doing so, the EU needs to become self-sufficient in core sectors of the economy by changing the nature of supply chains (bring them closer to home) and significantly increasing investment in R&D. The EU might not be able to stop Chinese actions, but it should ensure that they come at a price. Determined enforcement of reciprocity, investment screening mechanisms, limitations in acquisition of sensitive European enterprises and strategic infrastructure, including agriculture, real estate and technology, should be taken into consideration when trying to rebalance ties with China. Furthermore, restrictive measures (i.e. the global sanctions regime) should always be an option available. A determined defence of freedom and democracy increases the EU's ability to better face up to China's systematic efforts to influence its politicians and civil society. This is done to shape public opinion in line with China's strategic interests. Additionally, the EU should expose Chinese predatory tactics and actions in vulnerable third countries. These countries are lured by the promise of, for example, the Belt and Road Initiative, and end up in the debt trap (debts for assets).

Renewed EU-US dialogue on China – focusing on political, security, strategic and economic aspects – could serve as a platform for both the EU and US to better understand and moderate each other's approach towards Beijing and avoid unnecessary escalations in the US-China relationship. European leaders must note that US China policy is one of few issues in American politics whereby bipartisan consensus is achievable.

The Transatlantic bond, no matter how close our relationship with China may become is, and will always be, stronger and more important to the EU. A belief in freedom and democracy binds us together with the US, which is a crucial ally in dealing with China.

Conclusions

EU policy regarding China should be based on the following principles: Cooperate where possible; Compete where needed; Confront where necessary. This approach allows the EU to react to the evolution of the bilateral relationship with flexibility.

Engagement, however, requires interest from both parties and adherence to existing rules. We therefore expect China to deliver on its own commitments. Selective application of the international rules-based order is unacceptable. We expect non-discrimination and openness from Beijing as well as its readiness to accept responsibility and accountability, which comes with its enhanced role on the global stage.

The EPP Group supports engagement with China that is principled, practical, and pragmatic. The EU should not compromise on its values and principles. The EPP Group calls on the European Institutions and EU Member States to use all means to persuade the Chinese leadership to turn their inspiring country into a responsible member of the international community.