



...the information report

CAN FRANCE CONTRIBUTE TO WAKING UP EUROPE IN A CHINESE 21ST CENTURY?

By Senators Mr Pascal ALLIZARD and Ms Gisèle JOURDA, rapporteurs of the working group that also includes Senators Messrs Edouard COURTIAL, André GATTOLIN and Jean-Noël GUERINI.

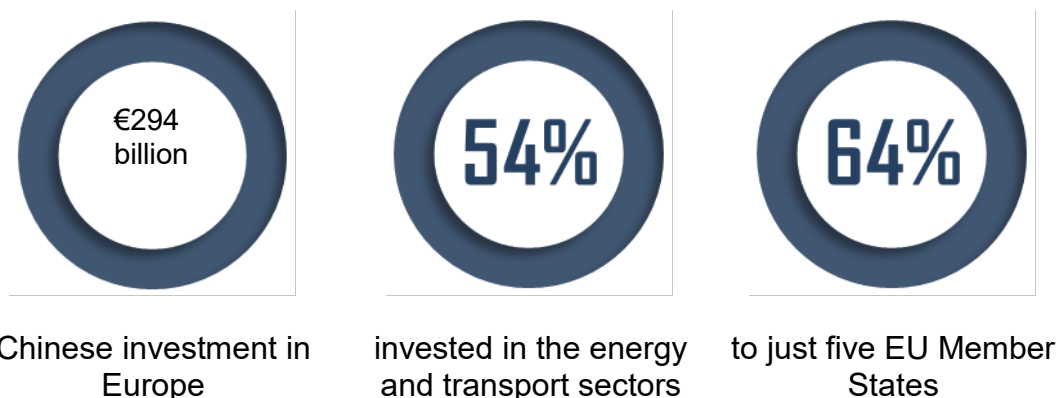
In its 2017 report on the Belt and Road Initiative, the Foreign Affairs and Defence Committee investigated European Union's weak response to the challenges posed by China's power. In 2021, the EU's commitment to tackling these problems has clearly increased, but the quick succession within three months of the EU-China Comprehensive Agreement on Investment and the first sanctions for human rights violations raises questions. Are **the EU's positions contradictory, or are they a reflection of a complex global reality?** How can we **move beyond the "mantra of a three-faced China"**—partner, competitor, and systemic rival—to develop consistent policies?

With just a few months to go until France takes over the presidency of the European Union, after more than **30 hearings of around fifty people were held** and after collecting written answers from French embassies in all European countries and from those who were unable to attend due to the pandemic, this report offers **14 recommendations to guide French and European policy on China**. These recommendations can be sorted into **four groups**: confront China's demonstrations of power in Europe (i), react to China's technological advance (ii), define a geopolitical strategy that meets the challenges of the Chinese 21st century (iii) and, finally, find a way to an equitable trade relationship with China (iv).

1. FIVE RECOMMENDATIONS TO CONFRONT CHINA'S DEMONSTRATIONS OF POWER IN EUROPE

1. Regarding Chinese direct investment

Between 2005 and 2019



By a very wide margin, Chinese investment in the European Union has benefited five EU Member States: the UK before Brexit, Germany, Italy, France and Finland. Some European countries want to be a destination for investment, while others have set up filtering mechanisms to protect their strategic interests. In a 2020 report, the European Court of Auditors warned of the lack of knowledge of direct foreign investment in Europe and the Union's need to respond to China's State investment strategy. In this context, the European Union and France must:

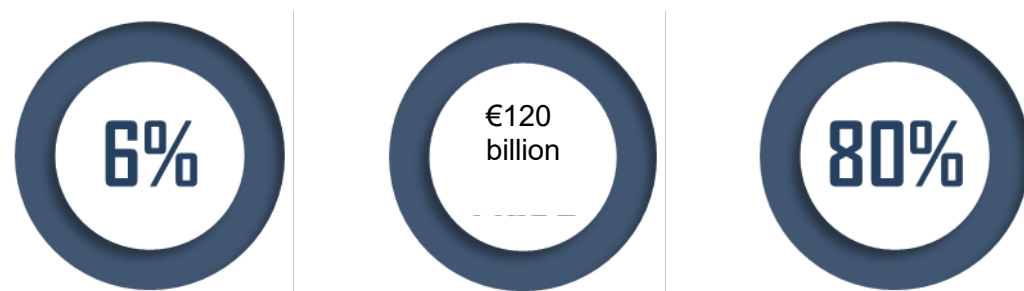
- step up efforts to draw up **the most possibly detailed inventory of Chinese loans and investments** (making sure to separate the two) made in Europe and to regularly **update the assessment of the risks and outlook** they present,
- ensure they **interact with EU connectivity and local economic development policies**, particularly the TEN-T and TEN-E,
- encourage China to apply **Paris Club rules** so that countries that take out loans from these banks do not find themselves in a situation of "debt traps".

2. While the EU is recognised as a normative power, China is making a move in this area

We must:

- pay close attention to **China's policies on standards** in sectors as varied as digital technology and food processing,
- **increase our human and financial resources** to strengthen the position of France and the EU in international standards bodies (including the most technical ones). It must become a **national and EU political priority** to be present at the right level.

3. For a stronger defence of intellectual property, patents, production processes and expertise



imports in the EU are counterfeits

representing €120 billion per year in value

of counterfeit goods come from China (including Hong Kong)

The penetration of the European market relies on an extraordinary counterfeit goods economy favoured by the growth in electronic commerce. To counter this, France and the European Union could:

- step up **dialogue with China**, as already done by the EU Intellectual Property Office (EUIPO), **on intellectual property and illegal exports of counterfeit goods** and **encourage cooperation between EU and Chinese customs** to combat this scourge that **electronic commerce** has allowed to proliferate,
- to support China's efforts in this field, such as the establishment of **special jurisdictions in its territory**. This is the only way for China to switch from growth based on copies to growth based on innovation.

4. The 16+1 format, from undermining the EU to a straitjacket for its members



This format received a lot of attention in 2017, but it is now running out of steam. By leaving, Lithuania exposed itself to serious threats to trade. **The format's benefits are less obvious, but the cost for leaving it is clearly intended to be dissuasive.**

It is important that:

- EU Member States who participate in this format **ensure that EU standards are fully respected**, particularly in the shared fields of competence that are covered by their cooperation with China,
- **EU positions are established within the format** with help from the European Commission and the EEAS to best **defend Member States' interests** and prevent them from being pitted against one another on certain issues,
- there is prior concertation between EU Member States before format meetings to avoid undermining consistency within the EU and to allow EU members to defend their shared interests together during each meeting with China, no matter the format.

5. With a wide range of soft power instruments, China seems to confuse meddling with influence

The United Front, an offshoot of the Chinese Communist Party, is spreading its influence everywhere, from the smallest local cultural association to the media, to social networks and even to Confucius Institutes, which are banned in an increasing number of countries following investigations for espionage, recruitment attempts, etc. Faced with this unacceptable situation, it is urgent to:

- **reinforce State and EU services** such as the EEAS by giving them sufficient technical and linguistic capabilities so they can **better monitor** all the **nebulous actions taken by the United Front**, identify how it acts within Europe, and identify its campaigns of influence and misinformation,
- ensure that **these services' instructions are carried out**, not just at the national and local levels, but also within public institutions such as universities,
- develop a **structured strategy of dissuasion** to respond to meddling along with **severe sanctions**,
- **impose the same requirements on media broadcasting from abroad** as national media. It is abnormal that we should be unable to react against channels broadcasting over satellite.

2. FOUR RECOMMENDATIONS IN RESPONSE TO CHINA'S CURRENT AND UPCOMING TECHNOLOGICAL ADVANCES

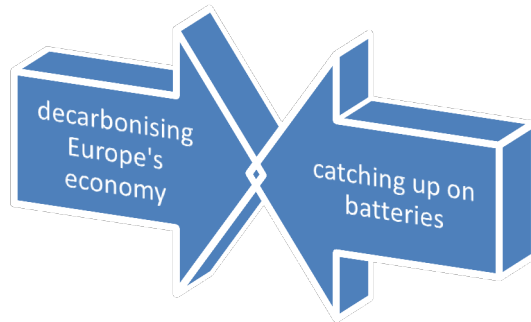
1. Monitoring Chinese economic players' participation in building and operating 5G networks

French legislation is appropriate, but we must remain **vigilant towards the evolving risks throughout Europe**. Not all countries have the same level of expertise on these issues. We should:

- support the establishment of an **EU toolbox** that can facilitate national measures in the domain of 5G and help **monitor changes in the risks**,
- support the Hexa-X project and any other EU initiatives and funding that could **foster the emergence of leading European players in 6G**. France and Europe's ability to support

alternatives to this ecosystem's major non-European manufacturers is without a doubt one of the key conditions to **guaranteeing our sovereignty**.

2. In the field of batteries, European legislation must avoid certain pitfalls while it plays catch-up



The European regulation being prepared on batteries must:

- of course, take into account decarbonisation objectives for Europe's economy,
- but also consider making up for Europe's lagging battery production to be among its objectives,
- for this, **apply the same environmental obligations to batteries imported into Europe.**

3. In the field of space, the EU must give itself the means to be a leading player

Space was one of the fronts in the Cold War between the United States and the USSR, and it is one of the **stakes in the race between Washington and Beijing to be the world's top power**. China is obviously a **major power in space**, working at the same time on conducting lunar and Martian exploration programmes, launching manned flights and scientific, commercial and military satellites, and building the **Chinese space station, Tiangong-3**, which should be operational in 2022. Access to this station, entirely designed, built and funded by China, could serve as significant leverage to encourage potential partners to respect China's policy red lines. We can identify four areas that need attention in this domain:

- **the greatest prudence is required in transfers of technologies and the use of these technologies for China's military sector,**
- France, as an aerospace leader, has a key role to play in **establishing national and EU policy that takes into account recent developments in China's space ambitions,**
- the European Union must work to **support increases in national budgets for space**, especially to give its full scope to **Europe's new connectivity constellation**. The EU must also reform its governance of space,
- Finally, in respect of the Lisbon strategy, the EU must **encourage innovation and competitiveness** as well as the development of a strong private sector by setting up the optimal conditions for innovative space start-ups to grow.

4. Pay special attention to the digitalisation and internationalisation of China's currency



China is rapidly rolling out its **digital currency**, which could be fully **operational in the short term**. It was tested in April 2021 in four of the country's major cities, and a **certain "internationalisation" could be envisaged for the Beijing Olympic Games in 2022**. China may also seek to offer an **alternative to the SWIFT international bank payments system**. The Chinese government is **intervening more heavily** in digital payments, such as Alipay, and in private Chinese tech giants, showing the significance of this issue for the country's authorities. Often underestimated, the digitalisation and internationalisation of the yuan, and the euro, are **essential to global financial and economic growth in the short term**. Thus, we should:

- remain **vigilant to the growth of China's digital currency** and reforms to its financial sector and Chinese online payment applications,
- track changes to **how currency outflows from China are controlled** and the **yuan's internationalisation**, as well as **any impact of China's ownership of a significant share of American debt**,
- and **encourage the EU to take up the issue of digitalising the Euro and its role in the international monetary system**. The EU must not lag any further in this domain.

3. THREE RECOMMENDATIONS TO DETERMINE A EUROPEAN GEOPOLITICAL STRATEGY IN RESPONSE TO CHINA'S UPCOMING ROLE AS WORLD'S LEADING POWER

1. Regarding Europe's Strategic Compass and its Indo-Pacific strategy



While France has the presidency of the European Union in the first half of 2022, it must work to drive:

- a reassessment of the bilateral relationships with Australia and the United States in strategic and commercial domains,

- a reaffirmation of **France's unwavering commitment to arms control and nuclear non-proliferation**,

- and a **re-evaluation of the threat assessment** in preparation for the Strategic Compass; Australia's termination of its strategic partnership with France and its will to purchase **American nuclear-propelled submarines as part of the Aukus pact signed with the United Kingdom and the United States is a major "game changer" that could disrupt overall stability in the Indo-Pacific**.

2. Regarding NATO's changing position towards China

The United States' desire to confront China to stop it from becoming the world's next leading power **must not instrumentalise the Atlantic Alliance** which, being based on democratic values, would be **weakened by such a diversion of its governance**. Thus, we should:

- reiterate that **NATO is an institution that must be politically balanced; it should not be organised around the rivalry between China and the United States** but around **Euro-Atlantic defence**. The review of NATO's Strategic Concept should be in line with this,

- favour **transparency in the nuclear strategy**,

- encourage all nuclear nations, including China—which was not included at the level it deserved when the international arms control framework was established during the Cold War—to participate in discussions to foster **nuclear arms control and non-proliferation**

3. So that the European Union takes its rightful place as a geostrategic power

In the unstable and dangerous world of the early 21st century, the European Union sees China setting out an increasing number of markers of its power, to the point that it is likely becoming the world's next leading power more quickly than expected. At the same time, the EU is witnessing America's pursuit of a selfish policy, the famous "America First", rather than guaranteeing global stability. The EU must **establish itself as a stabilising strategic power**. For this:

- the European Union must **develop its political and economic sanctions regime** and use **this tool of geo-economic power in all its aspects**: sanctions, European extraterritorial law, export controls (especially for breakthrough technologies), the fight against corruption and investment controls.

- both the EU and France must continue to carry out **a clear-eyed, demanding high-level dialogue with China** on the issues that now make up **China's foreign policy red lines** such as

Tibet, Hong Kong, Taiwan, the treatment of Muslim minorities in Xinjiang, freedom of navigation (including in the South China Sea) and human rights.

- finally, EU Member States must take care to **remain united** on these issues.

4. TWO RECOMMENDATIONS TO FIND A PATH TO A BALANCED TRADE RELATIONSHIP WITH CHINA

1. To foster equitable trade with China, efforts must be made to tie it closer to WTO and OECD best practices

It is therefore necessary to:

- support **China's adherence to the WTO's plurilateral agreement on government procurement** provided that the **Chinese provinces and universities** or the projects developed as part of China's **Belt and Road Initiative** are not excluded from its scope of application,
- continue **discussions with China about its excess capacity**, especially within the OECD,
- raise China's awareness of the need to **reduce its financial support for Chinese exports drastically** by adopting the **OECD arrangement**.

2. The bilateral trade relationship between China and the EU must be improved

To establish equitable, balanced and transparent trade relations, we must have **high demands** and:

- seek **better access to the Chinese market for European investors**, especially in **e-commerce**,
- implement **equitable treatment between Chinese and European companies** and examine how **Chinese export control and cybersecurity laws** will apply to European companies,
- **prohibit forced transfers of technology** and better protect European companies' intellectual property, production processes and expertise, including as part of Chinese audits,
- **strengthen Chinese market transparency** to establish a **predictable environment for European companies** in Chinese standards and norms.

5. FRANCE HAS A KEY ROLE TO PLAY

We must show **determination** and **courage** to stay on course despite the **inevitable friction** and despite the **US's encouragement to join forces with them**, no doubt by adopting their sole objectives and their sole interests, as the Australian affair has shown.

France has a **key role** to play, as it has **long defended strengthening the European Union's strategic autonomy** and **considers NATO** as an institution dedicated to Euro-Atlantic defence whose unity and coherence have proven to be weak in recent years. We must also weigh in on the revision of NATO's strategic concept to ensure that it **does not become a tool for the Aukus pact** with a goal of aggressively countering China.



As it holds the presidency of the European Union in the first half of 2022, **France must motivate** the Union to take into account in its Strategic Compass and its Indo-Pacific strategy the **"game changer"** that the **Aukus pact between Australia, the United States and the United Kingdom**, is. What is at stake is the stability of the Indo-Pacific region, where France is a full power with the **departments of Reunion Island and Mayotte, the regions of New Caledonia and French Polynesia, the territory of Wallis and Futuna, and the French Southern and Antarctic Lands**, representing a **population of 1.65 million inhabitants**. France's presence in the two oceans makes it the country with the **second-largest exclusive economic zone** in the world with 10.2 million km², two-thirds of which is in the Pacific. France is the only EU power with a permanent, active presence in the area, including **permanent prepositioned military resources** (FAZSOI on Reunion Island, FANC in New Caledonia, and FAPF in French Polynesia).

We must maintain **cooperation and dialogue with China** to make progress on the essential issue of **environmental protection**. The **Indo-Pacific region's exposure to climate change**, rising waters, and increasingly rare fishing resources does not seem to be at the heart of the Aukus pact's concerns. **But this is where the urgency lies, and China's cooperation to reduce the negative impacts of its growth is indispensable.**

We must have **high standards in our discussions with China on defending human rights** and arrive at an **independent mission to assess the situation in Xinjiang conducted by the UN's High Commissioner for Human Rights**. Similarly, China has accepted an **investigation by the WHO on the origins of the pandemic**; it would benefit from **providing the information requested** in this matter. It would improve **China's tarnished image in Western public opinion**.

Finally, we must resume an ambitious trade dialogue with China, considering economic players' expectations in the matter, especially concerning the openness of the Chinese market, transparency in public contracts and the protection of intellectual property.

France is taking over the presidency of the European Union at a time of great geopolitical change and should allow Europe to come out stronger.



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The Foreign Affairs, Defence and Armed
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<http://www.senat.fr/commission/etr/index.html>



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