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Prof. Heribert Dieter is Visiting Professor and Director of Policy Studies, Asia Global Institute, University of Hong Kong. Since 2001, he has been Senior Fellow at the German Institute for International and Security Affairs, Berlin. Since 2017, he also is Associate Professor at Potsdam University. He has published eight monographs, seven edited volumes and over 150 articles, including 28 peer-reviewed, in academic journals. His research focuses on international trade and finance. His latest book, published in 2017, analyses the prospects for a "Globalization à la carte", which would enable societies to express their preferences in the design of their countries' economic policies. In his current research, Prof. Heribert Dieter analyses the rise of China and consequences for other countries and international co-operation

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A European perspective on the conflict between China and the West

Abstract

Whilst Europeans are not using the robust rhetoric of President Trump, policy makers have acknowledged that the relationship with China is becoming increasingly complex. Both the authoritarian rule of President Xi Jinping and the unwillingness of the Chinese government to alter its state-centric economic model are reasons for concern in European capitals. The Chinese government's use of aggressive policies towards other countries was ignored for a long period of time. However, various governments, corporate sectors and civil society are now monitoring developments in China much more intensely. Once China appeared to be the future but today, for many Europeans, China is the source of short- and medium-term economic and political problems.

Keywords: *European Union, China's economic model, Western states, sharp power*

Introduction: Europe's Linkages with China

The European perception of China has changed substantially in the last few years. Today, many Europeans view China sceptically. There is a growing understanding in Europe that the balance of opportunities and challenges presented by China has changed (European Commission 2019). This constitutes a dramatic shift: previously, China's rise was considered as an opportunity. European companies were very eager to expand trade with China as a result of which economic links between European economies and China are much closer today compared to that of China and the USA.

Initially, many Europeans evaluated the conflict between China and the USA against the backdrop of their perception of Donald Trump. During the first two years of his presidency many Europeans considered the 45th President of the United States to be unpredictable in his policies. They did not expect a willingness and ability to address European issues behind the bizarre façade of the Trump presidency. The Germans demonstrated a very positive perception of Barack Obama and loathed Donald Trump[1]. Chancellor Merkel was no exception. In a speech at Harvard University in May 2019, she openly criticised Donald Trump's foreign policy[2]. Merkel's vitriolic remarks constituted a departure from a long-standing tradition in post-war foreign policy; that German government supports the USA even if there is disagreement on specific issues.

Despite initial unwillingness to support the US policy on China, European foreign policy elites have reluctantly embraced the position. What has driven this change is not a renewed sympathy for the United States, but rather the realisation that China has changed; the aggressive policies and rhetoric of Chinese policymakers and

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[1] The aversion against Trump in Germany is somewhat surprising, given that his grandparents migrated from South-Western Germany to the United States in the early 20th century.

[2] Rick Gladstone: In Harvard Speech, Merkel Rebukes Trump's Worldview in All but Name. The New York Times, 30 May 2019, available at https://www.nytimes.com/2019/05/30/world/europe/merkel-harvard-speech.html.

diplomats have alienated many China policy doves.

The Shifting Perception of China in Europe

The increasing scepticism of Europeans towards China is fuelled by three factors. First, China is increasingly using sharp power in international relations. Second, within China, the role of the Communist Party is rising, and not, as many expected, declining. Third, the previous and probably unreflected admiration for the economic rise is increasingly replaced by doubts for the sustainability of China's economic model.

China's Use of Sharp Power

China today is a different state than before Chairman Xi Jinping gained power in 2012. Xi was appointed General Secretary of the Communist Party in 2012 and, has shaped China's domestic and foreign policy more substantially than any of his predecessors – with the exception of Mao Zedong. At the 19th Congress of the Party in 2017, during his three-and-a-half-hour speech Xi stressed that in his first term of office, China became both rich and powerful. In contrast to the forty years since Mao's death, Xi, for the first time repeated the slogan that Chinese policy could solve the problems of humanity (Economy 2018: 60). Xi has thus abandoned the dividing line between domestic and foreign policy and is relying on exporting his political values regionally and globally (Economy 2018: 69).

Chairman Xi has not only brought the party in line but has also abandoned some of Deng Xiaoping's key reforms. Against the backdrop of Mao's tyrannical rule, Deng did not opt for Western-style democratisation but rather reformed the existing political order, systems of collective leadership, limitations for terms of office, and introduced mandatory retirement arrangements for politicians (Ang 2018: 41). Xi, on the other hand is striving for nothing less than a third revolution in China. After Mao's first Communist revolution and Deng's radical change marked by comprehensive economic reforms, Xi's third revolution intends to reverse some of the liberalisation measures of his predecessors and further expand the power of the Communist Party. Under Xi, for the first time an authoritarian state is preparing to assume a leading role in today's liberal world order (Economy 2018: 61; Benner et al. 2018: 7).

Criticism of the Communist Party's lack of democratic legitimacy is devalued as a classic method used by Western states to bully poorer societies and to limit the sovereignty of those respective countries (Westad 2019: 87). President Xi has repeatedly noted a struggle between "Chinese-style socialism" and Western anti-Chinese forces with their "extremely malicious" ideas of freedom, democracy and human rights intended to weaken China.

Recently and surprisingly suddenly, politicians and representatives of civil society in many countries have shifted their perceptions and are now aware of China's "sharp power". This form of exercising power is different from the classic "hard power", which is reflected in military and economic power, and "soft power", which primarily refers to soft cultural factors. "Sharp power" is essentially aggressive and often covert.

"Sharp power" is an approach in international affairs that attempts to censor and manipulate reports about one's own country, eliminate critics and expose unpopular governments to economic pressure. “Sharp power” also attempts to convey a positive image of the respective country abroad through state-funded academic institutions, media companies and exchange programs. While the latter part of this approach is common, the former part is limited to authoritarian states that take advantage of the openness of democratic societies (Walker 2018: 11). European countries are therefore easy prey for sharp power advances.

In European democratic societies, culture, science, media and publishing are open and theoretically free of state influence. Though openness is a constitutive element of democracies. But it is precisely that element which makes these societies vulnerable to the activities of authoritarian regime. On the other hand, it would be fatal if democracies, for fear of being influenced by other states, were to switch to censorship and control. The balancing act between openness and prevention of subversion is difficult and poses a major challenge to European societies.

The Return of Old-fashioned Socialist Economic Policies

Secretary-General Xi sees market economy as a problematic concept and since taking office has been increasingly relying on classical socialist economic policy whereby the state plays a central role in the allocation of resources and private actors are relatively unimportant. This renaissance of Maoist economic policy, which makes state functionaries and not private actors the most important decision-makers in the economy, will most likely weaken the dynamism of the Chinese economy (Lardy 2019: 2).

In the early years, the restorative policy of Xi was initially not obvious. In autumn 2013, approximately one year after Xi became General Secretary, the third plenary of the 18th Congress of the Communist Party decided on a completely different policy. The strategy paper for economic reform determined that the market must play a decisive role in the allocation of resources (Lardy 2019: 17). This decision did not mark the beginning of a new phase of economic liberalisation but rather its end.

From then on Xi focused on other priorities. In his first term of office, he focused on fighting corruption and consolidating his personal power base in the run-up to the 19th Congress of the CCP in autumn 2017, which saw the restriction for two terms of office for the Chinese President and Vice President lifted. Censorship was greatly expanded, and state-owned enterprises were set to become the drivers of economic growth in the future (Lardy 2019: 18). The Communist Party therefore bid farewell to its previous economic policy strategy of 2013 which had relied on private-sector actors.

Beyond these structural changes in economic policy, private companies in China will be increasingly exposed to ongoing supervision. The social credit system, gradually introduced for citizens, shall also be extended to the entire corporate sector. The Chinese government plans to develop a catalogue of thirty parameters compliance of which will result in benefits and non-compliance of which will lead to sanctions. These parameters include – among other things – the correct observance of environmental regulations as well as the timely payment of customs duties and taxes. Through this system the government aims to improve enforcement of existing standards and laws.

Foreign companies are concerned that the social credit system will not only punish measurable misconduct but also have an ideological dimension. For example, there are fears that the personal conduct of a company's management could lead to poor evaluations. It is also planned that a violation of the "interests of Chinese consumers" could lead to points being deducted.

Many of the changes introduced in the last seven years have been noticed by both political and business leaders in Europe. Specific regulations that appear to be liberalizing investment in China, such as raising the limits for foreign ownership, are useless if the Communist Party occupies a seat in the management of the company. These policies have reduced the interest of the European corporate sector in China. At the same time, however, business leaders have also been asking themselves whether China's economic model is sustainable. Put bluntly: is China going to be the place where money will be made in the future?

Doubts on the Sustainability of China's Economic Model

For many years foreign observers have been baffled by the level of capital investment in China. The question arises as to how sustainable an economic upswing based on massive investment expansion can be. This sounds strange at first because investment is the driving force behind any increase in economic output. But economic growth based primarily on increasing the supply of labour and investment and not on increasing productivity, will sooner or later run into difficulties – China is a case in point.

China's growth in recent decades has been largely based on an increase in the use of labour and capital rather than an increase in the productivity of production factors. From 1978 to 2011, China recorded an average annual increase in so-called multi-factor productivity of 3.5 per cent[3]. This improvement of productivity explains 40 per cent of China's growth (Zhang 2017: 4). Conversely, this also entails that 60 per cent of the economic growth in those three and a half decades can be attributed to the increased use of production factors such as capital and labour.

This pattern is known from other economies. In 1994, the American economist Paul Krugman warned against an overly positive perception of the development paths of Southeast Asian economies and emphasised that they were not a model for Western countries. In addition, the longer-term growth prospects of the countries praised by the World Bank as economic miracle countries were more limited than many had expected (Krugman 1994: 64).

Paul Krugman recalled that the USA had been afraid of a rising power and pointed out the risks while assessing economic developments in emerging countries in a highly regarded essay three years before the outbreak of the Asian crisis. Many of Krugman's observations at that time apply to China in the last two decades. Krugman's historical comparison is remarkable. He observed:

[3] This is also known as total factor productivity. It measures the efficiency of an economy. The rate of change of total factor productivity indicates the share of economic growth in an economy that is not attributable to an increase in the use of the production factors labor and capital. This indicator is regarded as an expression of technological progress and increased efficiency. German Institute for Economic Research, DIW Glossar: Totale Faktorproduktivität, available at unter https://www.diw.de/ de/diw_01.c.430429.de/presse/glossar/totale_faktorproduktivitaet.html.

> Once upon a time, Western opinion leaders found themselves both impressed and frightened by the extraordinary growth rates achieved by a set of Eastern economies. Although those economies were still substantially poorer and smaller than those of the West, the speed with which they had transformed themselves from peasant societies into industrial powerhouses, their continuing ability to achieve growth rates several times higher than the advanced nations, and their increasing ability to challenge or even surpass American and European technology in certain areas seemed to call into question the dominance not only of Western power but of Western ideology (Krugman 1994: 62).

Krugman's observations, however, were not directed at Southeast Asia in the 1990s, but at the Soviet Union and its satellite states, which seemed to be showing significant economic development in the early 1960s. But just as the later rise of the so-called tiger states and consequently, China, the communist states were not experiencing miracles, but rather explainable phenomena. The rapid growth of production in the communist states can be fully explained by the sharp increase in the use of production factors: employment grew through a politically induced increase in the labour force potential and the level of education was drastically increased through investment in schools and universities. Above all, economic output increased as a result of massive investment in physical capital (Krugman 1994: 63).

Krugman emphasised that economic growth based on increasing the use of production factors and not on increasing production per unit of input will inevitably face declining yields (Krugman 1994: 63). The decisive factor for the sustainability of economic growth is the level of total factor productivity. There can only be sustainable growth in per-capita income if there is an increase in production per unit of production factors used (Krugman 1994: 67). Krugman's observation has been repeatedly confirmed in recent years. Economic growth achieved solely by increasing the input of capital and labour is unsustainable. Rather, the key to sustainable growth lies in increasing productivity (Mingkang 2017: 2).

After the Soviet Union became less of an economic threat in the 1970s, Japan was seen as the next rising star. Ezra Vogel and others were praising Japan and expected it to be the leading economy in the 21st century, which ultimately proved to be an incorrect assessment. Despite the differences between the USSR, Japan, and China there are parallels worth considering. As Krugman correctly pointed out more than 25 years ago, careful analysis of an economy requires considering the components of economic growth. While it is true that economies grow if the inputs of labour and capital are raised, the ensuing booms - driven primarily by an increase of inputs - are unsustainable. As discussed above, total factor productivity is not rising quickly in China.

When comparing China's productivity development with that of other countries, it comes off surprisingly badly. From 2000 to 2014, productivity in manufacturing industry rose only from 16.0 per cent of the US figure to 21.2 per cent. In other words, the manufacturing industry in the US is still many times more productive than in China (OECD 2019: 45). That being said, these averages do not exclude the existence of highly productive factories in China. On average, however, China continues to lag far behind the US regarding productivity development.

The financial system also has a dampening influence on the development of productivity. In China, the state banks that dominate the financial system prefer to lend to state-owned enterprises. This is rational from the banks' perspective because these loans have lower risks due to the implicit state guarantees. However, this policy is detrimental to productivity growth because the most productive companies, i.e. private firms, have the greatest challenges in financing investments (Zhang 2017:13). Increasing productivity by allocating resources to the most productive companies does not work efficiently in China (Mingkang 2017: 4f).). Secretary-General Xi's economic policy has further exacerbated this problem in recent years. For example, 2016 saw just under one-tenth of all new loans going to private companies and more than four-fifths to state-owned enterprises (Lardy 2019: 105f).

This weak development of productivity has thus far been perceived only as a marginal problem because the high level of investment concealed it. Despite slight declines, investment in China is still extremely high by international standards. In 2017, investment in fixed assets amounted to 42.6% of GDP, which was more than double Germany's (20.3%) or the USA (20.5%). Even compared to other dynamically growing economies such as India (28.8%), South Korea (31.1%) or Indonesia (32.2.%), China is a special case (OECD 2019: 44).

The solution to the problem is straight-forward from an economic point of view but politically complex as it would require market forces, not the Communist Party, to decide on investments. However, that approach has receded in recent years (Mingkang 2017:6) as the price for the growing influence of the Communist Party on the Chinese economy is low productivity, thus weakening economic growth.

Persistently low productivity in China is particularly relevant because the labour force will decline significantly in the coming years. As such, in order to stabilise economic performance in the future, increases in the productivity of each worker must be commensurate to compensate for the loss of workers. Productivity development in Japan is a good example of this. From 1956 to 1992 the number of employees in Japan rose from 42 million to 65 million. Since reaching its peak the number of people employed in Japan has fluctuated between 63 and 65 million. The ongoing economic stagnation in Japan correlates with the stagnating potential labour force (Lynch 2019: 452).

In the first decades of the People's Republic's economic rise, the increase of the number of employed workers was remarkable. The mobilization of agricultural workers and their employment in urban factories led to an enormous increase in China's labour force and, together with the intensive use of natural resources, enabled high growth (Mingkang 2017: 2).

Compared with Japan, the labour force dilemma in China will become more exacerbated in the future. In 2011, China's labour force peaked at 940.5 million people but by 2015, the labour force had already decreased by almost 30 million people to 911 million. Moreover, the Chinese Ministry of Human Capital and Social Affairs predicts a further decline in the labour force to 830 million in 2030 and 700 million in 2050. From 2030, the labour force will fall by 7.6 million each year. In contrast, the United States will increase its labour force potential from 157 million (2015) to 186 million in the same timespan (Lynch 2019:453).

This trend in China's labour market will be difficult to reverse. The planners of the

Communist Party had expected that the abolition of the one-child policy implemented since the late 1970s would lead to an increase in the birth rate when in fact the opposite has occurred. After families were allowed to have two children, the number of births dropped by 630,000 from 2016 to 2017 with the number of births per woman at 1.6 in 2017. China thus ranks 182nd on a list of 224 territories and states of numbers of births per woman. Hong Kong (ranked 221, 1.19 children per woman), Taiwan (222, 1.13 children), Macau (223, 0.95 children) and Singapore (224, 0.83 children) are at the bottom of the list[4].

However, an increase in productivity can be achieved through higher education of the existing labour pool (Mingkang 2017:12). In recent decades, China has made great efforts to raise the skill level of its workforce by investing heavily in education and training and expects productivity to rise as a result.

Beyond the low level of productivity there is another reason for European observers to be increasingly sceptical about China’s economic model: the high level of debt, which is the flip side of the economic upswing. Many observers suspect that China's economic growth since the global financial crisis of 2008 is less solidly financed than officially reported. The Chinese government will probably not be able to afford another package of measures financed by loans[5]. The 2020 Corona virus epidemic requires a financial stimulus to help overcome the problem, but China can ill-afford additional borrowing. In 2019, total debt without the financial sector was at 300 percent of GDP, a remarkable figure by any standard.

The question is: could this borrowing binge result in a financial crisis? While some observers suggest that the Chinese government can borrow without facing explicit limits, in reality it could be much more difficult. When expectations turn, it is difficult to control them. The high levels of debt in China are closely linked to privately held debt from investment in real estate. In fact, two thirds of credit in China are backed by real estate. Additionally, the government has little to no control over private expectations, and while these have been positive for a long period of time, perceptions can quickly turn in the opposite direction.

The data on real estate is remarkable. The current value of all real estate in China is estimated at USD 65,000 billion, which is twice the annual economic output of the G-7 countries. According to a range of sources, approximately 20 percent of apartments in China are empty (Kawase 2019). In a market economy, prices would fall in such a situation. Real estate booms have often ended in tears, not just in Spain and the United States of America. The question is whether the Chinese Communist Party can beat gravity. Increasingly, European observers have doubts and consequently alter their policies towards China.

Recent Reactions in Europe

For many years, European companies were very actively expanding their business with China and recently, they even managed to reduce the trade imbalance. In 2018, member countries of the EU imported goods worth 400 billion euros from China and exported a little over half of that amount to China. Exports from EU countries to China grew faster than Chinese exports to the EU between 2008 and

[4] CIA, The World Factbook, Total Fertility Rate, available at https://www.cia.gov/library/publications/ the-world-factbook/rankorder/2127rank.html.

[5] The Economist: The Chinese economy: Ten-year hangover. 17 November 2018, p. 35.

2018. The EU's exports to China grew from 78.3 billion euros in 2008 to 209.9 billion euros in 2018, an increase of 268 percent. Chinese exports were already high in 2008, at 249.1 billion euros, and have since risen by 58.5 percent to 394.7 billion euros.

It is not surprising that Germany has higher exports to China than any other country in the European Union. But it is astonishing that in 2018 Germany recorded exports of 93.7 billion euros and has higher exports to China than the next eight European countries combined. Their exports to China totalled 92.9 billion euros in 2018. In 2018 Germany exported four and a half times as much to China as France. These figures demonstrate why the German government's policy is much more cautious than France's policy towards China. Germany is more vulnerable to Chinese coercion. Significantly, almost half of France's exports to China are Airbuses – a good irreplaceable for China[6].

German industry is over-exposed in China and this has resulted in an unwillingness, if not inability, of German policymakers to make sober assessments of Chinese policies. There is an ongoing preoccupation of German policymakers to consider the substantial risks for German business vis-à-vis China. For example, BASF, the world's largest chemical company, made the single largest investment in its 135-year history in China. The company builds a so-called steam-cracker at a cost of ten billion Euros in Guangdong. The factory will be BASF's third largest after Ludwigshafen in Germany and Antwerpen in Belgium. The contract permitting BASF to invest without requiring a Chinese partner was signed during the fifth German-Chinese intergovernmental consultations in the presence of Chancellor Angela Merkel and Chinese Premier Li Keqiang[7].

Therefore, Germany has more to lose than any other European economy. But despite such high level of economic interdependence between the EU members states and China especially Germany, Europe is nonetheless learning to be prudent. Led by French President Emmanuel Macron, scepticism in the EU is rising.

At the beginning of 2019, signs of the ongoing policy shift between the EU and China began to appear. Implicitly referring to China, The German Federation of Industry (BDI) issued a warning urging its members not to become too dependent on individual markets (BDI 2019: 20). This was said in reference to China. Of course, robust internal debates preceded the publication of that report. However, the sceptical voices prevailed.

In 2020, additional critical voices raised concerns. The Mechanical Engineering Industry Association (VDMA), which represents 3,200 primarily small and medium-sized systems engineering corporations, changed its tune on China. Previously, the industry association was eager to deepen economic ties as German companies provided the machine tools that facilitated China's rise as a manufacturing hub. Given their high degree of specialization, members of the industry association were not facing significant competition from Chinese companies. As recently as autumn 2018, the President of VDMA, Carl Welcker, rejected any specific rules

[6] Eurostat:EU-28 exports to and imports from China, available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:EU-28_exports_to_and_imports_from_China_by_product_group,_2008_and_2018.png
[7] Johnny Erling: BASF investiert 10 Milliarden Euro in China, Die Welt, 9 July 2018, available at https://www.welt.de/wirtschaft/article179052276/BASF-Chemiekonzern-bekommt-gruenes-Licht-fuer-Standort-in-Guangdong.html

that would have protected German companies from Chinese takeovers. In January 2020, the position was revised. Today, VDMA is urging European policymakers to introduce measures that acknowledge political realities in China. The association stated that because of its politically controlled economic and investment policies, China is not an investor like any other. The playing field is considered uneven: Chinese investors find open doors in Europe, whereas European investors are faced with substantial obstacles when investing in China. Apart from severe restrictions on foreign direct investment in China, the industry association openly criticises deteriorating conditions in China. Visa applications have become more complicated, restrictions on the use of the internet are rising and the introduction of social credit systems for companies is considered highly problematic[8].

The German Federal Ministry for Economic Affairs and Energy has started to tighten its rules for foreign direct investment. Whereas previously only German companies active in sectors deemed vital, parts of the infrastructure for instance, required approval for non-EU FDI above ten percent, that is being expanded to other sectors. In the future, FDI in companies active in artificial intelligence, robotics, semiconductors, biotechnology and nanotechnology will be reviewed if the investment is intended to acquire more than ten percent of the capital of any company in those fields[9].

China Talks, but Does not Change its Policies

For European policymakers, one of the key factors to consider is China's insistence on maintaining special status in the multilateral trading regime. The liberal international trade regime has made China's spectacular rise possible, but thus far repeatedly announced implementation of fundamental reforms in China' foreign economic policy have failed to materialise. Time and again, Chinese government representatives at international conferences have declared their support for the spirit of the liberal trade regimes and for market economy reforms, but in practice this has often remained lip service (BDI 2019: 4). The European Commission has also criticised publicly stated reform ambitions that should have translated into policy changes that match China's current standing and its ambitions (European Commission 2019). Moreover, the European Commission has explicitly named the areas in which China has failed to deliver reforms:

> "China preserves its domestic markets for its champions, shielding them from competition through selective market opening, licensing and other investment restrictions; heavy subsidies to both state-owned and private sector companies; closure of its procurement market; localisation requirements, including for data; the favouring of domestic operators in the protection and enforcement of intellectual property rights and other domestic laws; and limiting access to government-funded programmes for foreign companies" (European Commission 2019).

Chinese protectionism is not restricted to only manufacturing. In financial services, the lack of reciprocity is particularly acute and the unwillingness of the Chinese government to alter policies continues to be an issue for European governments. While Chinese fintech firms, online payment companies, credit card providers, banks and insurers are expanding their presence in the European Union,

[8] Julia Löhr: Maschinenbauer warnen vor China. Frankfurter Allgemeine Zeitung, 13 January 2020, p. 17.
[9] Ibid.

European counterparts are denied access to the Chinese market (European Commission 2019).

In response, managers of private European companies have learned and altered their perceptions of China which has resulted in a new sequencing of policy volte-faces. Business associations have changed their policies and political leaders have followed their lead. From Commission President Ursula von der Leyen to French President Macron and German Chancellor Merkel, the previous naivety in European foreign policy towards China has ended.

The EU's new trade commissioner Phil Hogan has made the policies vis-à-vis China a priority. One of his first trips as CEU-Commissioner took him to Washington where he tried to convince the Trump administration that there is a need for a coordinated approach. The EU, the US and Japan have now joined forces and urge China to alter its policies on subsidies and forced technology transfer[10]. The EU also learned that disunity will weaken its position and is now insisting on a joint approach. The German EU presidency in the second half of 2020 will hold an EU-China summit in Leipzig in September. Announcing the event, Chancellor Merkel stressed that the EU has to speak with one voice on China. In addition, she suggested that the current lack of a joint China policy is weakening the European position.

French President Macron has been critical of China at various occasions. During his last visit to China in November 2019 he insisted on being perceived as European and not as a French politician. Macron made his trip as European as possible by bringing the Irish European Commissioner for Trade and the German Minister for Education. During the signing ceremony for a deal on the protection of geographic origins of goods in Beijing, Macron had asked for just two types of flags in the background: the Chinese and the EU flag[11]. Needless to say that this was a justified gesture, given that the deal was struck between China and the EU, but nevertheless observers carefully noted Macron's statement.

Conclusion: Europe's Choices

For European leaders in politics and business, the romance with China has turned into an unpleasant, if not hostile relationship. After years of relative harmony and mutual economic benefits, relations have deteriorated. While it is difficult to name an exact date, it is to mark 2018 as the year the decoupling between China and the EU began. During the same year, Donald Trump started his trade dispute against China. In March 2019, the European Commission labelled China "a systemic competitor promoting alternative models of governance" (European Commission 2019).

The issues that the EU has with China are found at two levels. First, the EU is increasingly questioning the sustainability of China's economic model. Too much debt, too little innovation and an aging society have led the business sector to question whether profits will be easily made in China in the coming decades. This is an interest-driven approach, and it is justified that business managers question China's economic prospects.

[10] Dana Heide, Till Hoppe: EU drängt auf Chinas Öffnung. Handelsblatt, 21 January 2020, p. 6.

[11] Dominque Patton: EU, China agree to protect 100 of the other's regional foods, Reuters, 6 November 2019, available at https://www.reuters.com/article/us-eu-china-food/eu-china-agree-to-protect-100-of-the-others-regional-foods-idUSKBN1XG0XA.

Secondly, the EU is politically concerned about the increasingly authoritarian stance of Xi and the ruling CCP. European observers have spotted the ugly face of Chinese communism, and to many, Xi's "Chinese Dream" is quite a nightmare. The suppression of political freedoms and the brutal use of concentration camps to "re-educate" religious minorities have thus far been overlooked dimensions of the situation in China. European countries, which have shown a contempt for authoritarianism following the experience with fascism in Germany, Spain, Italy and other nations are once again confronted with a rising authoritarian power.

While it might be too early to ask whether the Chinese political system is showing signs of fascism, there are some elements of China's recent behaviour that have made many cautious. First, China is more and more aggressive, is suppressing its own population and is reacting belligerently to criticism. Second, led by Xi, policymakers in China have increased censorship to the point where any notion of political humour or stances that do not align with the CCP are censored and punished. This suppression of criticism of the conditions in China reflects a pronounced weakness in the self-confidence of the Chinese rulers. Often censorship in China measures take on absurd dimensions. For example, recently the comic figure "Winnie the Pooh" has been banned in China due to Xi's comparison to the bear.

Cartoon censorship constitutes a mini rebellion against the authoritarian regime. Even in the former Eastern Bloc, comrades were sure of the sarcasm of their citizens. In the Nazi era mockery was made of Hitler, Goebbels and Goering. In the case of China, this has reached a new level as technological innovations such as the "Great Firewall" have contributed towards a nation-wide culture of censorship.

If China continues its authoritarian advance, European policymakers as well as in the rest of Asia and the Americas will face a crucial question: is there a Chamberlain moment approaching, i.e. the last opportunity to oppose a rising repressive regime?

The EU must make a choice and decide whether they will continue to do business with China and ignore the political costs of such an approach or whether they shall join the United States of America in its process of decoupling from China. While historically Europeans would have been inclined to follow the American lead, Donald Trump's foreign policy has made that stance difficult. Intuitively, many Europeans would rather have reduced interaction with both, but the inconsistent policies of Donald Trump should not discourage Europeans from realizing that they belong to the liberal democratic camp. Eventually, Europe will probably join other democratic forces and ignore the potential economic cost of doing so.

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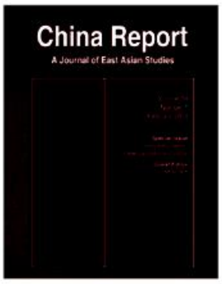

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