
CHINA: DANGEROUS RIVAL OR COOPERATION PARTNER?

HOW CAN EU-CHINA RELATIONS DEVELOP IN A CHANGING WORLD WITH GEOPOLITICAL CONFLICTS?



GERHARD STAHL

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By
Gerhard Stahl



European Parliament

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Introduction

The People's Republic of China is, after India, the most populous country in the world and a proud ancient civilisation. Since its opening up in 1979, it has been the growth engine of the world economy and meanwhile also one of Europe's largest trading partners. For many European companies, this is one of their most important markets. But the positive assessment of China that focused on its economic advantages has changed. Even the centuries-old appreciation of its high culture, with the finest porcelain, Chinese silk, beautiful fabrics and tea, by the Western middle classes no longer plays a role in the reputation of the communist People's Republic. In the US, the country is seen, across party lines, as an adversary that endangers an American-dominated international order and threatens the US's position as leading world power. Democracies are being called upon to stand shoulder to shoulder against an authoritarian state.

The European Union has defined China not only as a partner and competitor, but also as a systemic rival. Derisking from China has become the official policy line of the EU and its member states.

On one hand, China is needed to solve global problems. The fight against climate change will be impossible without China's cooperation. Chinese investments play an indispensable role in Africa's development. On the other hand, there is the danger of an ideological confrontation, a technology war that results in containment and thus makes successful cooperation impossible. Even military conflict over Taiwan is conceivable.

With Putin's invasion of Ukraine, war returned to Europe as an instrument for enforcing political interests. The People's Republic is a strategic partner of Russia, conducts joint military manoeuvres, and cooperates in security policy. Increased economic exchanges with China have enabled Russia to withstand Western sanctions. Beijing is now the key supplier of industrial and consumer goods. Can the EU's close economic relations with China continue under these conditions?

How should Europe relate to this country, a world power with increasing influence that shapes the international economy; a society that is changing profoundly and still seeking its destiny?

But do we know enough about China: its people, its history, its politics, its economy, its strategies, and its ideas for the future?

This book is intended to enable readers to see beyond the headlines and take a deeper understanding of China's multi-layered and contradictory society: developing country and affluent society; traditional agriculture and high-tech location; socialism and market economy; cosmopolitan and nationalist. It may serve as an invitation to engage with China's historical and political self-understanding, its profound transformation and its ambitions. It will outline the ideas and perceptions of Chinese interlocutors about modern China. Foreign entrepreneurs working in China for years will also have their say. The following pages partly reflect my experiences in China over the past 15 years in various capacities: as a European official in government meetings, as a member of a Chinese environmental organisation, and as a university lecturer. I also had the opportunity to study China's development at the HSBC Business School at the state-run Peking University in dynamic Shenzhen, with Chinese and international students, and colleagues from Asia, America, Africa and Europe. In this book, I would like to share some of these exciting discussions.

Reflection on China challenges our self-conception and traditional ways of thinking. Therefore, it is also necessary to consider the place of European countries and the European Union in a changed international and economic environment. The gravity of the world economy has shifted towards Asia. New international organisations and financial institutions, such as the BRICS cooperation and the AIIB, are gaining influence and economic importance, with China as the driving force behind them. Climate change is an existential threat to humanity demanding a fundamental adjustment of our economic system. This will be achievable only with global cooperation. Many of our historically developed ideas, whether regarding politics, economics or culture, no longer fit a world in upheaval. European societies with memories of a great past must define their role anew in a multipolar world in transition, fraught with geopolitical conflicts and tough international competition. For relatively small European countries, this will be possible only within the framework

of a European strategy and if the relationship with the United States, the traditional military protector, is clarified.

1 | Major narratives about China

Behavioural economist and Nobel laureate Robert Shiller has shown the importance of storytelling or narratives in understanding the real world.¹ He has explained that narratives combining facts with emotions can influence human behaviour and shape societal and economic developments and political decisions. If narratives that distort objective facts become the dominant public belief this can cause real harm to the economy and society. Shiller calls this a 'thought virus'; it can also be described as a 'narrative trap'. The rise of social media, with its attention-based business model, geopolitical changes and the technological transformation of our societies all contribute to the polarisation of views, exacerbating discontent and fears. In this changing world, even experienced decision-makers in business and politics can fall into narrative traps distorting facts and developments.

There are two dominant narratives about China. In 2021 the US Congress stated:

China will put at risk the ability of the United States to secure its national interests; and will put at risk the future peace, prosperity, and freedom of the international community in the coming decades.²

In its Historical Resolution about China in 2021 the 19th CPC Central Committee stated its aim as:

pioneering a uniquely Chinese path to modernization, creating a new model for human advancement, and expanding the channels for developing countries to achieve modernization.³

Whereas the Congress narrative sees China as a danger and risk to global prosperity and peace, the CPC Central Committee describes China as a

1 Shiller, R. J. (2020) *Narrative Economics: How stories go viral and drive major economic events* (Princeton: Princeton University Press).

2 Strategic Competition Act of 2021, Sec. 2. Paragraph 2 (B+C), 117th Congress, 1st Session.

3 Communiqué of the 6th plenary session of the 19th CPC Central Committee, Xinhua, 11 November 2021.

contribution to human progress and support for developing countries. Often this Chinese understanding is summarised in terms of win-win cooperation and establishing a society of common destiny.

In its Strategic Outlook the EU describes China in a more sophisticated way:

China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance.⁴

In the Political Guidelines 2024–2029 presented by President Ursula von der Leyen for the new EU Commission in July 2024 the following judgment is expressed:

The more aggressive posture and unfair economic competition from China, its ‘no-limits’ friendship with Russia (...) reflect a shift from cooperation to competition.⁵

Nothing is more dangerous than correctly answering the wrong question. Is the European description of China as a ‘systemic rival’ helpful in analysing the opportunities, difficulties and conflicts with China? Is the framing of authoritarian states versus democratic states useful for achieving European policy objectives? Is it the political system of China that creates problems for Europe or is it an industrial policy that is still export-based with subsidies for Chinese companies, market entry barriers and European dependency on some rare raw materials?

If India – with its longstanding and expanding strategic partnership and military cooperation with Russia; regulated market and policy oriented towards national interests; and demanding changes in the post-colonial international order – had the same economic and military strength as China, would we not face similar problems, even though India is a democracy?⁶

4 Joint Communication by the European Commission and the High Representative to the European Parliament, the European Council and the Council, EU-China – A strategic outlook, Join (2019) 5 final, Strasbourg, 12 February 2019.

5 Political Guidelines for the next European Commission 2024–2029, Strasbourg, 18 July 2024, page 25.

6 The state of play of the expanding India-Russia partnership is presented in: Joint Statement following the 22nd India-Russia Annual Summit, 9 July 2024.

2 | First impressions of China

I travelled to China for the first time in 2008.

My daughter Anna was studying at a summer university in Beijing after finishing her studies. I offered to let her stay a few more days to get to know more of the country and its people. I booked a two-week stay with a driver and guide at a travel agency in Brussels. A few days in Beijing, a flight to Shanxi province, then a round trip and return to Beijing by train; that was the programme. I had chosen Shanxi province because it is considered the cradle of the Chinese nation. This short stay in China left me with many impressions and even more unanswered questions.

Beijing in 2008 was like an urban metaphor for the rapid transformation of the entire country. A construction boom with high-rises and city highways; the disappearance of the 'hutongs', the traditional residential areas of Beijing in the old style, with narrow alleys and houses that often had a small courtyard; ever further expansion of the metropolis with additional underground lines, modern shopping centres and, as a fixed point, the palace complexes of the Forbidden City on Tiananmen Square. This architectural symbol of imperial power and a long history has been a UNESCO World Heritage Site since 1987, but at that time it was presented to tourists rather reluctantly. Perhaps the political difficulties of dealing with the feudal past were to blame, or simply a lack of experience in tourism that prevented an adequate presentation of this masterpiece of Chinese architecture.

Our guide in Shanxi province was a young Chinese woman who had just finished her studies in German and was temporarily earning money from working with tourists. She had never left her home province, but nevertheless spoke serviceable German. To make it easier for us to talk to her, she had given herself the German name 'Martha'. In Shanxi, I saw many Chinese on bicycles for the last time. The sky was grey with air pollution, everyday urban life was vibrant, and countless mobile street vendors offered food everywhere. It also amazed me how little care was taken with the historical heritage of this ancient cultural nation at the

time. My daughter was very disappointed that there was no moment of religious reflection when visiting Buddhist temples. What remained after the visit was the unpleasant feeling that it was all about making money by selling cheap souvenirs. In subsequent visits to China, however, I met Chinese people for whom a visit to a temple and the teachings of Buddha are still important elements of life today.

One scene in particular stuck with me and exemplified China's upheaval. As we drove through the countryside by car, we saw Chinese peasant women sitting by the side of the road selling pumpkins and root vegetables. Some distance away we noticed a small settlement. We stopped and I asked Martha if we could visit the village. Martha passed the word around that we were decent people and had a genuine interest in learning about life in China. After some hesitation, a woman finally agreed to take us to the village. We followed the sun-tanned peasant woman in a straw hat on foot along a dusty dirt road. When we arrived, we found an almost deserted settlement of a few huts arranged around a square. The men were obviously out in the fields. Chickens were running around freely. We walked towards an unplastered mudstone hut covered with corrugated iron where our farmer's wife lived. There was only one room with a wooden table, plastic chairs, a chest and a stone stove with mattresses on top of it. A young girl in jeans and a T-shirt came out of the hut. With her appearance, she wouldn't have looked out of place on the streets of Brussels or Berlin. She was the daughter and only child of the farmer's wife. Martha introduced us, explained that we were German, father and daughter, and that we wanted to get to know China. Anna mentioned her summer course at the university in Beijing. The girl was interested and replied that she had never been to Beijing. She still wanted to learn a lot and hoped that she would pass her exams and maybe get into university one day. A girl in the neighbouring village had made it, after all. Her father would support her, while her mother said she should rather think about working and look for a job in the nearby city. We exchanged a few more pleasantries, then said goodbye to the farmer's wife, left some money, which was gladly accepted after some initial hesitation, and continued our journey.

Later, I would have the opportunity to visit more villages in different parts of China. Again and again, I found that the young generation had already said goodbye to rural life and its traditions and saw their future in the

cities. This reflects a fundamental fact: China's prosperity is created in the cities.

What a historical irony. In the chaos of the Cultural Revolution, Mao had sent millions of young people from the city to the countryside supposedly for a better life. Although it was fifty years ago, this traumatic experience shaped many who are still holding the levers of power in business and politics today. However, this circumstance has not helped rural development to become a source of hope for the future. The Chinese development model relies on metropolises. Only today are the conditions of rural life improving. Model projects are making it possible to shape rural collective ownership in such a way that farms can emerge that are able to participate in economic life according to market economy principles.

At the end of our round trip we enjoyed a typical Chinese meal in the hotel restaurant in Taiyuan. Martha, who was staying in another, probably cheaper hotel, was our guest. We sat at a round table and passed around the various dishes which, as is usual in China, were placed on a turntable. Martha liked the atmosphere and we had time to talk about her personal wishes as well. I thought to myself at the end of the evening that her ideas for the future differed little from my daughter's: to see more of the world, to live abroad for some time, to be able to afford a nice flat, and perhaps to meet an interesting man who would accept an equal partnership.

In the book *China, Wer Bist Du?* (China, who are you?) German author Simone Harre gives accounts of various life situations of Chinese people: a sick farmer who lives off the rent from his small piece of land; a writer who doesn't want a car and would rather read a book than get married; an event manager who became enlightened by Buddhism; a teacher who became a real estate entrepreneur and millionaire; an environmental activist who suddenly gained political recognition. The book overall paints a positive picture of a society that offers many different life opportunities, favoured by good economic development.⁷ The book *The Good Women of China*, by Chinese author Xinran, on the other hand, looks a little deeper in its descriptions of women's life stories.⁸ The dark side of a prosperous China and the long shadows of the Cultural Revolution are

7 Harre, S. (2020) *China, wer bist du? (A Journey into the Soul of an Unknown Country)* (Berlin: Reisedepeschen Verlag).

8 Xinran (2002) *The Good Women of China* (London: Chatto & Windus).

also described. A woman otherwise enjoying the best of circumstances is disappointed by life and marriage. She had joined the Communist Party forty years ago full of idealism and married a Communist officer who has since become influential and wealthy as an important politician, but no longer has any interest in the family.

She also told of the prison inmate who, as a young girl during the Cultural Revolution, had been separated from her family and raped by Red Guards and could not get over it. Xinran's own biography also shows the dark side of modern China: as a successful journalist in state broadcasting, she felt restricted and left China to live in Britain. These are stories that expand our often one-dimensional picture of China as a communist dictatorship and show us an amazingly dynamic and diverse society. To take another example, Mo Yan has been particularly sensitive in describing the cultural changes of modern China in his novellas. He received the Nobel Prize for Literature for this in 2012.

3 | The long shadows of history

There are events that have shaped China's collective memory. They influence Chinese people's self-image and view of the world, despite the great differences that exist in people's social and economic situations, levels of education and life experiences. Some of these historical events are given special emphasis by the Chinese political leadership with the aim of contributing to a patriotic education of the population. Others are neglected in order to avoid a critical examination of the past. It is part of Chinese political culture to comment on and classify current developments and political disputes by referring back to historical persons and developments.⁹ But historical thinking is also present among Chinese entrepreneurs. At Huawei, for example, managers prepare for their tasks by studying the history of Western countries.¹⁰ This reflects the Chinese approach: to see economic action embedded in a cultural, social and political context.

Humiliation by the colonial powers

China's culture has evolved over several thousand years. This manifests itself in language, customs, traditional stories and a common historical heritage. Around 200 BC, Qin Shi, known in the West today for his army of terracotta soldiers, succeeded in subjugating other kingdoms and founding the Chinese Empire. Over the years a unified administration, common coins and a new form of writing were created. The construction of a road network, irrigation canals and a large protective wall against raids from the north began. The Chinese empire continued to expand, enduring changes of dynasties, peasant uprisings and wars with neighbours. In the Middle Ages, the Chinese empire was economically, technologically

9 Under Mao's Cultural Revolution, the 'struggle against Confucius' served as a denunciation of 'reactionaries'. Today, the CPC has adopted Confucian ideas, such as 'creating a harmonious society' as a policy goal. President Xi Jinping also uses many historical metaphors in his speeches.

10 Tian Tao, De Cremer, D. and Wu Chunbo (2017) *Huawei: Leadership, culture, and connectivity* (Los Angeles: SAGE), p. 129.

and civilly more advanced than the contemporary European feudal states and was admired by many European explorers and scholars. The reports of Marco Polo, who set out from Venice in 1271 on a journey to China that lasted years, showcased the attractions of Chinese culture, Chinese products and courtly life there. Polo reported on magnificent palaces, glamorous cities, a postal system with stations and riders and on paper money, which was still unknown in Europe at the time.

Historical sources prove that China's seafarers had larger and more seaworthy vessels than Columbus and had already undertaken long expeditionary voyages in Asia, to Africa and, according to some historians, even South America before the Europeans.¹¹ With over 50 ships and up to 30,000 sailors and soldiers, these expeditions reflected China's extraordinary power. At the end of the 15th century, however, China's rulers decided to concentrate on developing their giant empire. The fleet was dismantled, costly expeditions to foreign lands were stopped, and contact with foreign countries was restricted. This self-isolation prevented China from taking sufficient notice of industrial and military developments in Europe.¹² Many Chinese regard this decision as a tragic historical mistake. When confrontation with the European colonial powers was finally imminent, China was not prepared. The Opium War with Great Britain (1839–1842) and the following conflicts showed the Chinese the Europeans' military superiority and contributed to a 100-year decline that made China one of the poorest countries in the world. The confrontation with the colonial powers not only led to an economic catastrophe but is still seen today as a desecration of Chinese culture. The looting of the Temple of Heaven in Beijing by British and French troops during the Boxer Rebellion in 1902, with the theft of priceless works of art, is just one example of the violations China experienced during the colonial era.

11 Levathes, L. (1994) *When China ruled the seas: the treasure fleet of the dragon throne 1405–1433* (New York: Simon & Schuster). Gavin Menzies even claims in his book that Chinese ships sailed as far as America: Menzies, G. (2002) *1421, The year China discovered the world* (London: Bantam Books).

12 At the end of the 16th century, the Jesuit Matteo Ricci succeeded in gaining the trust of Chinese rulers. This enabled him to remain inside China's closed walls for decades and report regularly to his church superiors. These reports also helped to persuade Spain's Phillip II that conquering China was not realistic. See Interview with Romano, A. "40 Cartes pour comprendre la Chine", *Le Monde Hors series*, May 2021, p. 107.

The Chinese Civil War

After severe unrest and uprisings, the Republic of China was proclaimed in 1912, and the Emperor Puyi declared his abdication. This marked the end of the Qing Dynasty after 200 years. A period of upheaval began, leading to a certain political democratisation and modernisation, but also to an ongoing civil war in which competing provinces with ambitious military leaders fought each other. The Chinese Communist Party was founded in Shanghai on 23 July 1921. It was a small organisation to begin with, founded by urban intellectuals. The dominant force at that time was Chiang Kai-shek's movement, the Kuomintang. Its goal was a nationalist China, while the Communist Party was oriented towards Marxist ideas. The increasing advance of Japan and the great invasion in July 1937 with the bombardment of Shanghai forced all Chinese to stand together. The question of power within China was therefore decided only after the defeat of Japan and the end of the Second World War. Mao's communists won the civil war (1947–1949) with the help of the rural population and Soviet support. Chiang Kai-shek's troops, on the other hand, were supported by the US and found backing in the cities. After their defeat, Chiang Kai-shek and his followers retreated to Formosa Island, now Taiwan. They established a military dictatorship there, which later became a democracy. For the government of the People's Republic, Taiwan, just like the territories of Hong Kong and Macao that have since been handed over by the former colonial powers, belongs to Chinese territory.

Deng Xiaoping opens China to the world

China's reform history begins with the end of Mao Zedong's rule. After the turmoil of the Cultural Revolution and Mao's death in 1976, Deng Xiaoping was able to assert himself in the Communist Party. He belonged to its founding generation and had lived through a long and painful party career. He was one of the first Chinese youths to go to France in 1920 with the help of a foundation to learn French and work. He experienced the harsh working conditions in the French factories and steel mills and joined the Communist Party there. Before returning to China, in January 1927, he was able to spend eleven months studying at party schools in Moscow. He took on important tasks for the party in China and experienced recognition, banishment and rehabilitation in the following eventful decades. Under his leadership, a policy change was initiated in 1979. The People's Republic of China opened up to the international economy. The

focus was no longer on ideology, but on practical results. However, this did not mean that he questioned the Party's claim to rule. Therefore, his criticism of Mao's Cultural Revolution¹³ was very cautious, although he and his family were among its victims. His saying: 'It doesn't matter if the cat is black or white, as long as it catches mice' is well known.

In May 1980, the first Special Economic Zone was created in Shenzhen, a fishing town directly opposite Hong Kong. It was a good strategic decision to build the first gateway to the world in front of the established international economic and financial centre, which at that time still belonged to the British Empire. In the following years, rich Hong Kong Chinese, but also international investors, were to set up factories in Shenzhen and many Chinese from rural regions were to move in and find work. The Chinese government created more special economic zones for foreign investors. China became the 'workbench of the world' as a supplier and production location. The US strongly supported Chinese integration into the world economy. President Jimmy Carter's administration concluded trade agreements on aviation, shipping and textiles with the People's Republic as early as September 1980.

Politically, too, there was US interest in closer contacts with China. This was to prevent the People's Republic from supporting the Soviet Union in the Cold War. US President Ronald Reagan continued Carter's policy and offered China a strategic partnership in 1981, including the supply of American weapons technology. It was part of Reagan's global strategy to integrate the Pacific region into the world economy. Of course, the People's Republic was particularly important for this. The close economic relations with the US also corresponded to Deng Xiaoping's wishes. Originally, based on his experiences in France, he had oriented China towards Western Europe. However, a visit to the US in 1979 changed this. A round trip from Washington to Seattle made an enormous impression on him. He saw American technology and productivity as a model for Chinese development. In the following years, many Chinese studied at American universities and contributed to the US becoming the reference model for China. Bilateral trade between China and the United States

13 The non-fiction book by Leese, D. (2020) *Maos langer Schatten: Chinas Umgang mit der Vergangenheit* (Munich: C.H. Beck), describes the terror during the Cultural Revolution, based on source studies.

developed particularly dynamically in the first decades after the opening up, rising from US\$374 million in 1977 to almost US\$18 billion in 1989.¹⁴

Today, Shenzhen is bigger than Paris, and wealthier and more dynamic than Hong Kong. Perhaps no other place can embody China's breathtaking economic development in the past forty years better than this metropolis. From a fishing village to an industrial workbench for international companies and from there to a research, technology and service centre. An important part of China's technological and international future is being prepared in Shenzhen. Global companies such as Huawei, BYD and Tencent have their headquarters here. The metropolis is part of the new pilot region 'The Greater Bay Area', which comprises over 70 million people. New infrastructure, handsome subsidies and simplified approval procedures, special regulations for investors, company founders and highly qualified experts are creating a dynamic Greater Bay Area whose goal is to put Silicon Valley in the shade.

Anyone who has the opportunity should not miss out on a visit to the Shenzhen City Museum. The history of Shenzhen's opening is told in an architecturally impressive building, crowned by a futuristic swinging roof. In the entrance hall, visitors are greeted by a statue of Deng Xiaoping, who is revered here as the father of the economic miracle.

The official narrative of Chinese history

The official view of Chinese history focuses on one dominant topic: the heroic struggle against the colonial powers.¹⁵ The territorial border conflicts and wars that China has had with its neighbours are hardly mentioned.¹⁶

The social conflicts between an urban bourgeoisie that participated in the colonial economic system and an oppressed working class and

14 See Spohr, K. (2019) *Wendezeit. Die Neuordnung der Welt nach 1989* (Munich: Deutsche Verlags-Anstalt), pp. 47–49.

15 This view can be found in Cao D. and Sun Y. (2010) *China's History* (China International Press).

16 There were border wars with India in 1962, with the Soviet Union in 1969 and with Vietnam in 1979. While the territorial conflicts with the Soviet Union and Vietnam have largely been settled, border conflicts with India remain on the agenda. In June 2020, there were more than 20 deaths in military clashes.

impoverished rural population are nowadays rarely discussed in official Chinese statements about historical events. Yet it was precisely the treatment of the 'bourgeois class' that determined the internal party disputes in the CPC. Mao's Cultural Revolution was supposed to eradicate bourgeois thinking in the party once and for all. After Deng Xiaoping's policy of opening up, it only took a few years until the Communist Party also accepted entrepreneurs. The class enemy became a comrade of the people. In the meantime, socialist China's economic boom has produced a wealthy class and, together with the US, the most billionaires in the world.

Influential party leaders in the Communist Party are granted the privilege of presenting a resolution on history and thereby setting political orientations. Only Mao Zedong and Deng Xiaoping previously enjoyed this privilege. Deng Xiaoping's fundamental reflections contained a critique of the Cultural Revolution and therefore enabled a policy turnaround that led to the opening up of China. Xi Jinping, shortly after the centenary of the founding of the Party, also presented a historical resolution for further discussion in the CPC in November 2021. It describes China's successful resurgence during the past century. China wants to focus on its further economic, social, ecological and cultural development. The official major goals of Chinese policy are national rebirth and reunification, which Beijing believes have already been partially achieved with Hong Kong and Macao. For Taiwan, the aim is reunification, albeit 'peacefully', as they still put it today.¹⁷

Fear of the US

I experienced how formative such views of history are for the Chinese self-image. It was at a dinner with an entrepreneur from a wealthy Chinese family in Hong Kong. He had spent part of his youth and studies in Britain before returning to Hong Kong. Most of his business activities took place in mainland China. As the evening wore on, the more open the conversation became. We were also able to talk freely about the political developments in Hong Kong, the US–China conflict and about the Chinese Communist Party. He described with some irony the drinking and smoking

17 Xinhua, Full Text: Resolution of the CPC Central Committee on the Major Achievements and Historical Experience of the Party over the Past Century, 16 November 2021.

habits of the bureaucrats in Beijing with whom he regularly met for business reasons. His attitude towards the Communist Party was highly critical. Nevertheless, he was deeply convinced of the peacefulness of the Chinese government. He reasoned that historically China represented a culture of peasants with a feeling for nature. In contrast, the US was a society of hunters and adventurers. Therefore, the US would be bent on military conquest, as shown by the numerous US military interventions. The Chinese, on the other hand, would use their military only to defend their country. This dubious historical argumentation is widely held. Western politicians who knew China well argued similarly for a long time. In 2012, former German Chancellor Helmut Schmidt declared at the German-Chinese economic conference in Hamburg: "China is the most peaceful large country in the history of the world. It will not break away from this tradition".¹⁸

18 See the article in *Die Welt*, "China ist das friedlichste Land der Weltgeschichte" [China is the most peaceful country in world history], 29 November 2012.

4 | What characterises modern China today?

The political system: party dictatorship or democracy in the making?

China's political system is often summarised in the West as the communist dictatorship of a single party. To understand politics and society, however, it is necessary to take a closer look. Terms such as dictatorship and democracy are not sufficient to understand China's development. Political science has developed two yardsticks for the acceptance of a government system: input legitimacy and output legitimacy. In simple terms, this means that rulers are accepted if they came to power through a transparent and accepted process. (In democracy, this is fair, secret, free and equal elections). But this alone is not enough; the rulers must also achieve results that satisfy a majority in society.

The Chinese system of government is complex. There is the ruling Communist Party (CPC) and eight other parties. The Communist Party's claim to leadership is enshrined in the Chinese constitution. According to the Chinese constitution, the National People's Congress, as the legislative assembly, is the highest organ of state power. All parties and provinces are represented in it. An overwhelming majority of the approximately 3,000 delegates belong to the Communist Party. The People's Congress meets only once a year. The two-week session usually takes place in March in the Hall of the People in Beijing. In order to reach decisions, there is extensive and regular consultation at all levels of government. Prior to the deliberations of the National People's Congress, the People's Congresses in the provinces and regions meet. Their opinions are taken into account in national decision-making. There is also the People's Congress Consultative Assembly (CPPCC), which is made up of representatives of all social groups and meets one week before the People's Congress. The CPPCC issues opinions on the draft decisions of the People's Congress. The CPPCC's recommendations are also comprehensively prepared through regular consultations throughout

the year at the regional level, in citizen consultations and expert meetings. In addition, there is the local government with direct democracy for many cities and municipalities. In 503,000 municipalities and 112,000 cities, the councillors are thus directly elected by the citizens.

The Chinese government presented a white paper in December 2021 entitled “China: A Democracy that Works”. In this document, the history of the emergence of the People’s Republic and the development of the Chinese system of government are outlined. It is noteworthy that the Chinese understanding of democracy includes not only lawful action by state organs but also, above all, benefits for citizens: “Democracy is a common good of mankind and an ideal that has always been valued by the Chinese Communist Party and the Chinese people. Comprehensive people’s democracy is the result of Chinese history. People’s democracy guarantees that the will of the people can be expressed, that national independence is safeguarded, and that prosperity for the country and well-being for the people are pursued”.¹⁹

This Chinese understanding of popular rule contrasts with the Western understanding of democracy, which places particular emphasis on individual liberties, such as freedom of speech, freedom of the press, freedom of assembly and separation of powers. A closer look, however, shows that there are also major differences between Western democracies. Democratic ideals and their implementation in practice are an intensively and controversially discussed topic in many societies. This is shown by disputes about the financing of political campaigns and the rules for elections in the US, and the controversies in the EU about the independence of the judiciary in Poland and the freedom of the press in Hungary.

The Communist Party of China (CPC)

Policymaking in China in important areas is undertaken by the CPC Central Committee (CC). The CC elects the Politburo’s 25 members and the Politburo Standing Committee, currently with seven members.

¹⁹ See ‘China: Democracy that Works’, State Council Information, Xinhua, 4 December 2021.

The Communist Party has over 95 million members and is the world's largest mass political organisation. People who want to become members of the Communist Party have to go through a selection procedure and a probationary period. The Communist Party has members from all parts of the country and from all social groups. It can happen that particularly respected people – athletes, artists, entrepreneurs or village elders – are approached to join the CPC. In my conversations, I had the impression that many party members see themselves as part of an elite that has the task of leading the country. At the same time, they are subject to control and performance evaluation according to their respective functions.

China is a huge, very diverse country. This also affects the CPC. Therefore, there are also very different ideas within the party, although they rarely reach the public. In September 2021, there was an internal party debate that was so intense that the public also learned about it. President Xi Jinping had set a new policy goal. In view of the great wealth inequality in China, wealth is to be better distributed in the future. 'Shared prosperity' is the political buzzword for this. This led to an intense debate within the Party over an article by Li Guangman that referred to this policy goal. Mr Li is a retired newspaper editor known for his decidedly left-wing positions. He castigated the lavish lifestyles of businessmen and celebrities and called for action against the rich. While some in left party networks welcomed this and called for more resolute socialist policies, *The People's Daily*, the official party newspaper, confirmed in an editorial that the party adheres to a socialist market economy.²⁰ An internationally experienced interlocutor who knew the inner workings of the Party well told me that the differences of opinion within the CPC are probably greater than between politicians in established European democracies. The gap between the views of a soldier from a peasant background and an entrepreneur from rich, dynamic Shenzhen is difficult to bridge, even though they are both Party members.

China's political decisions are prepared and discussed at great length. The party and the state apparatus, at the various levels, have developed consultation procedures that allow for the inclusion of various social and regional interests. Chinese politics is oriented towards the long term and first tests in localised pilot projects which measures are best

²⁰ See the "Essay sets off a guessing frenzy in China", *New York Times*, 13 September 2021.

suited for achieving certain political goals. The experience gained from these pilot projects is then used to decide on national measures. For example, there have been and still are special economic zones and pilot projects to attract foreign investors for certain economic sectors, further liberalise the financial markets, promote the digital economy, extend CO2 emissions trading, develop a sustainable and environmentally friendly city, fight extreme poverty and build modern health care. Although decision-making power in the Chinese political system lies with only a small group, namely the Central Committee of the Communist Party, important policy directions are no longer developed in a backroom by a few functionaries. Instead, a political method has been established that incorporates social interests and evaluates international experience.

China's policy is very cautious and relies on a step-by-step approach. This was also evident in the introduction of the market economy. At the beginning of Xi Jinping's term of office, the CPC Central Committee once again set the direction. The Party would have to take an even stronger lead in China's reforms. The fundamental challenge is to strike a balance between the roles of the government and the market. The market should play the decisive role in allocating resources, and the government should do its own job better.²¹ To the chagrin of market advocates, Chinese policy is liberalising the Chinese economy only step by step.²² China's opening up to the international economy began in the coastal regions and has now reached the metropolises of the interior. In contrast, in a large part of Chinese society, namely agriculture, many norms of a collective society still prevail. With this cautious approach, the Communist Party has so far succeeded in securing social approval for its policies.

However, this does not prevent conflicts, some of them violent, from arising again and again in the course of policy implementation. In view of the rapid expansion of the cities, the widespread conversion of agricultural land into building land in particular leads to conflicts. The village collective is often inadequately compensated because the profit

21 See the resolutions of the 3rd plenary session of the 18th meeting of the Central Committee of 14 November 2013.

22 This step by step approach is confirmed by the Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization: the market itself is not adequately developed; the relationship between the government and the market needs to be further straightened out. 22 July 2024.

from this conversion is an important source of funding for the local authority. As wealth and income inequality grows beyond urban–rural differences, social timebombs proliferate. Xi Jinping has recognised this and therefore announced the new political priority under the slogan ‘shared prosperity’. Politics and business must do more to ensure that prosperity is created for the many, and not just for a small group of rich entrepreneurs and investors.

The fiscal system: dominance at the local level

Politically, China is a centralised state, but fiscally it is an extremely decentralised country. The tax system draws revenues from the central, regional and local levels. There are also taxes that are shared between the territorial levels. Another important source of revenue for local governments is the conversion of agricultural land into building land. Local and regional authorities are responsible for 85% of public expenditure. However, autonomy in the use of funds is limited, as there are central instructions and laws that must be followed. Only 15% of expenditure is at the national level.²³ This public expenditure structure reflects the country’s lagging development, with an underdeveloped welfare state. Even in federal systems of government, such as those of the Federal Republic of Germany and the US, with many powers residing at the regional and local levels, around half of public expenditure is at the central level. In China, local governments are responsible for public services such as health care, education, pensions and unemployment benefits. Those who live in a rich metropolis enjoy good health care and good schools. The many peasants who live in poor villages have to make do. As the welfare state expands, the distribution of public expenditure begins to shift. Through national pension subsidies and joint programmes for health care and education, attempts are being made to achieve better public services everywhere. However, it will still be years before a more equitable balance is struck.²⁴

23 For a brief overview, see 2019 Report World Observatory on Subnational Government, Country Profile China, OECD 2019.

24 Wingender, P. Intergovernmental Fiscal Reform in China, IMF Working Paper 18/88, April 2018.

Political and economic governance: the Five-Year Plans and challenges of implementation

The preparation and implementation of the Five-Year Plans are an important framework for public debate on policy priorities and developments. Commentators often suggest that China's Five Year Plan is an instrument of the centrally planned economy, comparable to the state plans in the former Soviet Union. This was true in Mao's time, where quantitative targets were set for economic sectors and enterprises. This mentality is now history, however. These days the focus is on orientation debates on future technological and economic developments and setting priorities for state action. The aim is coordination between the provinces and the national level, macroeconomic balance, and orientations for sectoral policies. Coordination is particularly important in such a vast country, which has a long tradition of evading central directives. The image of a powerful ruler in Beijing with a central administration has been more wishful thinking or propaganda than reality throughout China's history. The subordinates feigned obedience to the emperor, but acted at their own discretion. In the decentralised Chinese political system of today, much of this tradition still remains.

I saw this distance from the leadership in Beijing during a stay in Tongjian in October 2014. Tongjian is a small Chinese town in the interior of Sichuan Province. It had less than 200,000 inhabitants at that time, preserved many rural traditions and was located in the middle of an impressive mountain landscape and much untouched nature. Once a year, the big Fungus Festival is celebrated with dances, political speeches and an exhibition of local agricultural products. The name Fungus Festival comes from a mushroom that is grown in the area and forms the basis for many traditional dishes.

The journey to Tongjian was bumpy, partly on dirt roads. We were travelling as a team from EDUI, a Chinese environmental organisation of which I was a member and scientific advisor. Our goal was to visit rural projects in the hinterland. While the twelfth Five-Year Plan in force at the time already mentioned a reorientation of the Chinese economy towards more environmentally friendly and sustainable development, this was still little echoed locally. The city administration and local enterprises defined economic development via the further construction of high-rise buildings and industrial settlements. The realisation that tourism and

sustainable agriculture represent a great economic potential in a region with idyllic nature was not yet widespread. On the final evening of our mission an official dinner was organised. I sat at the table of the local person in charge of economic development. He took great pains to explain the advantages of Tongjian to me, the only non-Chinese present. He exuded hospitality and warmth, which led to more and more familiar interaction as the evening went on. I found my assessment confirmed that many Chinese are emotional and value a personal relationship. As the beer consumption progressed, the evening led to a shared affirmation of German-Chinese friendship. I was also made to understand 'among friends' that the government and the party in Beijing are far away and comprehend little about local conditions.

The Bazhou municipality in Hebei province also showed how autonomous and 'creative' local leaders can be. In order to compensate for the decline in land sales and tax revenues, it began to 'collect' money from 2,500 local businesses. The collection of bus fines was increased tenfold. The owner of a chemical factory in Bazhou said, "Every authority finds ways to make up for lost revenue".²⁵ He described being required to install overpriced lighting by a company selected by the municipality. However, when the municipality's money-raising practices came to light, the Beijing government stepped in. The State Council, as the highest administrative body, issued a statement clarifying that the local government had violated both administrative rules and Communist Party instructions.

How decisions are made in China

I also experienced in everyday university life how complex Chinese decision-making processes are, the importance of personal contacts and how central guidelines can be interpreted differently. In the business school, too, there is an informal level in addition to the official decision-making bodies, taking into account the party discussion. Official faculty meetings were sometimes very general: problems are raised in detail, but there are no clear answers from the administration. Only some time later is a solution presented. Increasingly, I got an idea of which university teachers and which of my students belonged to the party and took part in

²⁵ Quoted from "The fallout from the Evergrande crisis", *Financial Times*, 7 January 2022.

the regular party meetings. This group definitely included people who were very open, well-informed and critical of the government in discussions.

A lot of cooperation with government agencies in China is informal. At the beginning of my teaching career, I had the idea of organising a conference on the European welfare state model. I hoped to get experts from Chinese ministries as participants. A Chinese friend with good contacts organised a working lunch with a senior public official during one of my regular visits to Beijing. We got on very well and agreed that such a conference could also be very important for shaping political opinion. I undertook to suggest suitable international experts and also to clarify the organisational requirements for a conference in Shenzhen. The next day I sent an email, thanked them for the interesting conversation and summarised the results. For me, this was a common way of working to implement projects. When I told my Chinese friend, he was annoyed: "You don't do that. You put an interlocutor under unnecessary pressure and expose him to internal criticism. The decision-making process in China is complicated. First there is a lot of talking, then decisions are made informally before anything is put on paper".

When I described my difficulties with the Chinese way of working to a Korean colleague, he said I had not yet arrived at an understanding of Asia. A purely fact-oriented approach does not suit Asian culture. The most important question is always, how can I place my business partner in an institutional and social context? At what point can I trust him?

He recommended I read a book by a Samsung manager who had spent decades in China: *5 Keys to understanding China*.²⁶

Given my experience, I can very well understand some of his conclusions:

- First of all, a personal relationship of trust is needed before business decisions can be made.
- There are many unwritten rules that are important, but not communicated.

²⁶ Jaeyun, R. (2016) *5 Keys to Understanding China: A Samsung veteran shares how to succeed in China* (Irvine, CA: Seoul Selection, 2016).

- Do not do anything that could cause the business partner to lose face.

For Germans accustomed to a more direct approach, this heightened consideration for the partner's reputation is a particular challenge. For example, the Samsung manager recommends never replying with an unequivocal 'no' to a proposal. This could be perceived as an affront.

The CPC is trying to reform China and change its administrative culture, starting from historically evolved structures and behaviour. To this end, five-year planning is also being developed into a modern instrument of political management. In a country with a great deal of provincial autonomy and an informal way of working, coordination and cooperation are particularly important. Extensive consultations are already taking place in the preparatory phase of the Five-Year Plan, involving all levels of government, from the cities to the provinces and national ministries. Experts at universities, research institutions and companies are also being consulted on individual issues. I could see that the Peking University HSBC Business School (PHBS) was involved in research projects. It was a matter of proposing concrete measures for the implementation of the political priorities of the multi-year plan. For example, how can Shenzhen's financial sector contribute to the further opening up of the Chinese financial market; which legal rules have to be adapted for this purpose; how can cooperation with Hong Kong on banking services be improved; how should the promotion of start-ups be designed within the framework of the 'Greater Bay Area' pilot project? The Communist Party's credo is now evidence-based policymaking. Ideology is no longer to be the basis for policy action but expertise. Implementation of multi-year plans is to be regularly reviewed and adjustments made on an ongoing basis. Discussions on the implementation of the multi-year plans are also an important instrument of political communication. This is particularly visible during the annual political consultations in March. Several thousand delegates from all over China gather first for the Consultative Committee (CPPCC) meetings and then for the People's Congress. The government provides information on economic, social and technological development and on implementation of the Five-Year Plan. The government presents bills and amendments proposed by delegates are discussed. The Prime Minister presents a comprehensive annual report and ministers explain developments in their departments. Many deliberations and press conferences are televised and allow an interested public to inform themselves directly. This major

political event is now closely followed not only by national but also by many international journalists and experts. The political consultations in March were an integral part of my annual agenda.

The processes reminded me very much of the way politics is conducted in the European Union. Despite fundamental differences between the European Union and the People's Republic of China when it comes to governance, it is interesting to look at some of the things they have in common. Both China and the EU are currently experiencing profound economic and social changes, which they are attempting to tackle with ongoing reform. Like China, the EU is characterised by major differences in the economic development of its regions, the quality and means at the disposal of local administrations, and political culture. Although China is a unitary state, the central government in Beijing sometimes finds it difficult to assert itself against strong provinces, which have a large share of national finances.

The EU must also coordinate the actions of different political levels. European policymakers are seeking, especially in the economic sphere, to reform existing national structures. The European single market and effective climate policy require that many national rules be replaced by European ones. In their efforts to achieve this the EU institutions depend on convincing national and regional leaders. National competences and limited European powers often lead to inadequate policymaking. The EU has therefore developed multi-annual policy planning, which is the anchor for intensive discussions between national and European leaders. In addition, the EU has created further political institutions alongside the European Parliament and the Council, the two legislative bodies.²⁷ These institutions advise the European legislator in a manner comparable to the consultative assembly of China's National People's Congress.²⁸ They facilitate the flow of information and the balancing of interests between

27 The European Economic and Social Committee represents employers, workers, farmers and consumers, while the EU Committee of the Regions is made up of elected representatives of local authorities and regions.

28 The European multi-level governance system is described in an article by Stahl, G. (2007) "In Vielfalt geeint: Wie kann das Europa der Staaten, Regionen und Bürger im globalen Wettbewerb bestehen" (United in diversity: How can the Europe of states, regions and citizens survive in global competition?), in Epiney, Haag and Heineman (eds), *Die Herausforderung von Grenzen* (The challenge of borders) (Baden-Baden: Nomos), pp. 438ff.

social groups and political decision-makers in cities and regions, on one hand, and the EU institutions, on the other. The European reform process, like the Chinese one, requires a vision of the future and a regular exchange of views. Only in this way is it possible to obtain the support necessary for policy implementation.

I discussed this admittedly bold comparison of political processes in the EU and in China with a CPPCC member from Guangdong province. He pointed out an important difference. European governance is mainly about consultation with different actors, with the aim of incorporating their ideas into European decisions. Since Xi Jinping took office, however, the focus in China has been on obliging delegates to actively represent the Chinese president's policies in the country.

General Secretary and President Xi Jinping

Xi Jinping became General Secretary of the CPC Central Committee in 2012 and was elected President of the People's Republic by the People's Congress in March 2013. In 2018, he was re-elected for a second five-year term. In advance, the People's Congress had also approved a constitutional amendment that lifted the two-term limit. This made it possible for Xi Jinping to be re-elected president in 2023. At the ceremonial inauguration of the President, at the March 2018 session of the People's Congress, I found one particular protocol innovation noteworthy. The President and members of the government swore a public oath to the constitution. This gesture underlined the legitimacy of those in power. The intention was to assert that Xi Jinping derives his power from the law. This exercise was repeated when President Xi started his third term in 2023 by pledging his allegiance to the constitution of the People's Republic of China.

This protocol procedure conceals a fundamental legal dispute, however. Expansion of rule of law in China was already an important political goal during Xi Jinping's first term in office. Judicial procedures became more transparent, and many politically responsible persons were held accountable for violations of the law, for example in the context of the large-scale anti-corruption campaign. It is also interesting how these measures were interpreted. Some saw the strengthening of the law primarily as an instrument of the central government and the party leadership in Beijing to expand their own power and carry out a political purge. Others assessed the development of the rule of law together with

the gradual market economy reforms more positively, namely as evidence that China's system of government is approaching the standards of Western states. In my Institutional Economics course, I also discussed the development of the Chinese rule of law with lawyers. There was one question that concerned my students a lot and to which we did not get a clear answer from Chinese legal experts: are Xi Jinping's decisions legally contestable and subject to judicial review?²⁹

As is so often the case in Chinese politics, two contradictory goals are being pursued simultaneously. The expansion of the rule of law is supposed to restrict political arbitrariness and should thus also subject the Chinese president to legal limits. At the same time, President Xi Jinping's power is increasing, especially since his re-elections. His ideas increasingly determine the direction of politics, and a personality cult is being developed around him that contradicts the collective decision-making procedures provided for by law. In the meantime, the statement "under the leadership of the Central Committee of the Communist Party with Comrade Xi Jinping at the centre" has become a standard formulation in political speeches.

What factors may explain the emergence of China's new 'strong man'? Xi Jinping was born in 1953. His biography is closely linked to the history of the CPC. His father was a senior Party functionary and for some time Minister of Propaganda under Mao. Like many of this generation, his father, and thus his family, lived through the horrors of the Cultural Revolution. The father was denounced as a 'counter-revolutionary', sentenced to factory work and later detained in a military camp. The family members were forced to work in the countryside. Despite this, Xi Jinping did everything he could as a young man to become a member of the Communist Party. In January 1974, he finally became a full member of the party and communist secretary of a village. After the end of the Cultural Revolution, his unstoppable career in the Party began. In Western media and by Western experts, he is described as a determined and assertive power politician. Some see him above all as an inward-looking

²⁹ The limitations on judicial control over presidents is a topic of discussion beyond China. The US Supreme Court's recent decision in relation to one of the cases involving former president Donald Trump to give the US president broad immunity from criminal prosecution is highly contested in US public opinion. See Shaw, K. "The US Supreme Court creates a lawless presidency", *New York Times*, 3 July 2024.

communist leader, modelled on Mao, who wants to isolate China from the West. However, a look at his biography shows that he also values international experience. He did not live abroad for several years, like Deng Xiaoping, but he did try to inform himself by spending time abroad. In 1985, he spent two weeks with an American family in Iowa, as a member of a Chinese agricultural delegation. His only daughter was allowed to study at Harvard.³⁰

On two occasions, I have been able to obtain a direct personal impression of Xi Jinping.

On 21 November 2013, the 16th EU-China Summit took place in Beijing. The buses of the European delegation stopped in front of the People's Congress Hall. This imposing neoclassical building is located on the west side of Tiananmen Square, in the centre of Beijing. I was part of the European delegation as Secretary General of the Committee of the Regions of the European Union (CoR). The delegation included not only the Presidents of the European Council and the European Commission, but also many mayors of European cities. That year, as an innovation to the traditional EU-China Summit, the EU-China Urbanisation Forum took place at the same time. While the established annual EU-China Summits, alternating between Brussels and Beijing, reviewed progress in EU-China cooperation, the Urbanisation Forum was a first. Mayors of European and Chinese cities met to ceremonially sign twelve partnerships for cooperation.

Xi Jinping opened the meeting with a welcoming speech in Chinese. China's successes were conveyed to the European participants with a great deal of self-confidence. As the event progressed, Li Keqiang, Premier Minister at that time, took over and also remained present for the ceremonial signing of the city partnership agreements. While Xi Jinping presented himself as a powerful president, Li Keqiang met the expectations of the European participants more closely. He particularly emphasised the advantages of international cooperation. He made himself available for relaxed interactions in English at the sidelines of the meeting.

30 See the article "Born Red" in the *New Yorker*, 30 March 2015.

On 1 April 2014, President Xi Jinping gave a keynote speech in Belgium on the occasion of his first major visit to Europe. He had chosen the College of Europe in Bruges, a renowned institute for European studies, for the occasion. This was a good and symbolic choice. Many national and especially European careers have started in the College of Europe. Politicians such as Margaret Thatcher, Angela Merkel and Emmanuele Macron have given keynote speeches on European development there.

His speech was delivered before a packed lecture hall. Not only professors and some students were invited, but also the King of Belgium, the Belgian Prime Minister, representatives of the EU institutions, MPs and diplomats. I followed his performance closely and took a lot of notes. As I had been given a seat in the front row as a visiting professor of the college, I was also able to study his body language. During his long speech in Chinese, he seemed stoic. His facial expressions showed few changes. He read the text deliberately, which made simultaneous interpretation easier. For me, this performance showed a politician who prepares everything well, leaves nothing to chance and does not allow himself to be carried away. A perfect representative of a political system that prepares everything well in advance and avoids surprises.

His speech, which contained numerous compliments for the hosts, also revealed much of the historical and political self-understanding of today's China. He reminded the audience that China is a 5,000-year-old cultural nation that has been a leader in the economy, science and culture for many centuries. The decline began when feudal China closed itself off in the 18th and 19th centuries. Due to this isolation, China missed out on modern development and was defeated in the conflict with the colonial powers. Foreign invasions led to a hundred years of economic decline, poverty, social and political unrest. During this time, China tried many forms of government, including parliamentarism and multi-party democracy. China's resurgence only began when the Communist Party came to power. China aims to build a socialist market economy, a harmonious and socially balanced society and a healthy ecosystem. China's resurgence is peaceful and offers many opportunities for the whole world. In the second part, he discussed European-Chinese cooperation and intensive economic exchange. He emphasised the advantages of even closer European-Chinese coordination and committed himself to multilateral cooperation and an open world economy.

His central message was that China is re-emerging as a leading nation and resuming its historic place as the 'Middle Kingdom', the centre of development. A reinvigorated China seeks international cooperation, but it will no longer bow to outside pressure. Many of the developments in the following years have confirmed this message. The 'New Silk Road' initiative, which has been expanding since 2014, strengthens China's central position. With the development of cross-border transport and communication infrastructure, partner countries are becoming increasingly tied to China.

Is China still a developing country?

This question has been the subject of controversial debate for several years.

The trade disputes between the United States and China in particular have led to an escalation. Within the framework of the World Trade Organization (WTO), special treatment is given to countries classified as 'developing countries'. Longer transition periods apply for the dismantling of trade barriers and greater freedom for subsidies. Almost two-thirds of the WTO member countries declare themselves developing countries in order to benefit from special rules. They include Turkey, Mexico, Brazil and Saudi Arabia.

The US, however, has disputed China's status as a developing country and accused the Chinese government of not honouring its WTO commitments. The Chinese government, on the other hand, continues to view China as the world's largest developing country, despite unprecedented economic growth in recent decades. The People's Republic does not insist on classification as a developing country in order to receive development aid and financial support. Rather, this status is intended to ensure that regional, industrial and trade policy instruments can be used comprehensively without being restricted by WTO regulations.

The US proposed to establish rules for classification as a developing country within the framework of the WTO. However, this proposal was rejected by China and other countries that declare themselves developing countries.

To many, it may seem completely incomprehensible, even a mockery, for China to classify itself as a developing country. Anyone who visits Beijing, Shanghai or Shenzhen probably comes home with the feeling that the future is being shaped there and that we are already lagging behind. Many statistics also seem to confirm this assessment. China is already the world's largest economy measured in purchasing power parity. It is the world's largest exporter, has many international companies that are successful on the world market, is becoming increasingly strong in research and development and has overtaken the US in the number of patent applications. It runs an ambitious space programme, has the largest army and, after the US, the second highest military expenditure. All of this should make it clear that China cannot present itself as a developing country.

I discussed the topic 'Is China a developing country?' with my students at the business school in Shenzhen. Those from Europe and the US mainly presented the arguments laid out above. Some Chinese students, however, drew a different picture from their own experience. In China, almost 500 million people still live in rural areas, sometimes under very poor conditions. The proportion of the urban population, at 65%, is still below the level of developed countries, despite rapid urbanisation. More than 4 million people have no toilet at all and more than half of all rural households have to be satisfied with an outhouse. The provision of drinking water, electricity and public infrastructure, such as roads and hospitals, is still poor in some rural areas. This is especially true in the provinces of Yunnan, Qinghai and Tibet. The average income of 600 million Chinese living predominantly in rural areas is around 130 euros per month.³¹ This is below the income levels of many developing countries such as Angola, Kenya or Bangladesh.

A visit to a village school in Sichuan province showed how closely backwardness and future orientation can go together. A member of EDUI was in contact with a young teacher at this school. To support her work, EDUI had provided books for a small library, as well as information materials on environmentally conscious behaviour for the classroom. We wanted to visit this school but had difficulties even reaching the small village in the mountains. The road was unpaved and partly under water

31 This figure was given by former Premier Li Keqiang. See *Le Monde*, "Prospérité commune, le virage de la Chine", 1 September 2021.

due to heavy rains. Eventually we found a cluster of half-timbered houses in need of repair, situated along a small valley stream. The surrounding mountains were forested, so wood was the preferred building material. The village school consisted of a single large room in a one-storey barn-like wooden house. Two women awaited our delegation of four. The older one was the spokesperson for the village community, the younger one the teacher. We walked past some houses to get to the school and saw only older people. The children's parents were working as migrant workers in the city. The children remained in the care of their grandparents. We arrived at the school and entered the classroom. Six students of different ages stood in front of a screen that was connected to the computer. The children were concentrating on their learning games and hardly noticed us. The teacher described how she taught children of different ages. She made a very motivated impression and pointed out two posters hung up in the classroom. The first showed Marie Curie with her famous saying "There is nothing to fear in life, you just have to understand everything!" in Chinese and English. The second poster showed Albert Einstein saying, "Imagination is more important than knowledge". The young village teacher said that these statements were especially important in China because far too often only rote learning was tested. On the way back, the Chinese colleagues agreed that such ideas are exceptional in the Chinese school system.

The different levels of development in this huge country allow us to better understand why China presents itself internationally as a partner in two domains at the same time.

- Towards developing countries, China recalls the common struggle against colonialism and for reform of the international world order that emerged after the Second World War. In addition, the efforts to combat poverty and underdevelopment at home are presented as a model. This continues a foreign policy tradition that began during the Mao era. Chinese Premier Zhou Enlai participated in the first major anti-colonial conference in Bandung, Indonesia, in 1955. This Asian-African conference of post-colonial states with over 300 delegates demanded an equal say in international politics and a reform of international institutions.
- Compared with the developed economies, it is underlined that China is now becoming the centre of the global economy and is closely

integrated into international supply chains as the largest exporter. The Chinese market, with the increasing consumption of a wealthy Chinese middle class, is presented as attractive to trading partners.

In the current competitive international environment China's official self-presentation is contested, as some Chinese experts admit. "China faces two non-recognitions: first, developed countries do not recognise China's market economy status; second, developing countries do not recognise China as a developing country anymore, given its substantial economic growth and per capita GDP surpassing \$12,000 for several years".³² Furthermore, India is becoming more active on the international scene and also presenting itself as the voice of developing countries and the Global South.

Is China a planned economy or a market economy?

Many of the difficulties experienced in dealing with China are related to the fact that the People's Republic is building an independent economic and social model as part of its opening-up policy and gradual integration into the world economy, namely the socialist market economy. At the same time, this Chinese economic model is very different in the various parts of the huge country. There is collective ownership in the countryside and intensive integration into the world economy in special economic zones and coastal regions. Moreover, the Chinese government is also unwilling to allow uncontrolled labour mobility. A household registration system ensures that the influx into cities and coastal regions can be controlled by the state.

After the Second World War, an understanding of the economy prevailed internationally that was oriented towards 'free-market' models, developed primarily in American universities: the so-called Washington Consensus emerged, which for a long time also shaped international institutions such as the World Bank, the International Monetary Fund and the World Trade Organization. Ideas about the free market, the free movement of capital and labour and the superiority of private enterprises over state-owned corporations were spread worldwide in economics departments

32 Xu Hongcai, Deputy Director of the Economic Policy Committee, China Association of Policy Science expressed this judgement in an expert discussion at the Centre for China and Globalization on 12 July 2024.

and business schools. On this view the state has only a limited role in economic development and the decisive steering function is attributed to markets. The focus was no longer on an overall view of the social, economic, ecological and institutional situation; instead, supposed economic laws prevailed.

After the collapse of the Soviet Union, China's entry into the World Trade Organization in 2001 was celebrated as the final victory of this economic policy model. It was expected that through the gradual dismantling of trade barriers and the privatisation of state-owned enterprises, China would also become a capitalist market economy after a transition period of ten years. Renowned economists also professed the view that a successful market economy must also inevitably lead to the spread of democracy in China. After joining the WTO, the Chinese government did indeed push through many market-oriented reforms, but the goal always remained a pragmatic further development of the country not guided by any dogma. Chinese policy terms this approach "Building a Chinese-style socialist market economy". Pragmatic Chinese policy is more clearly described by Deng Xiaoping's saying: "Cross the river by feeling for the stones".

In the Chinese system of government, the Communist Party is comprehensively responsible for the development of the country. However, this responsibility is exercised in an evidence-based and decentralised manner. State-owned enterprises are just as important as private enterprises. Efforts are being made to introduce private-sector thinking into state-owned enterprises through management reforms and the involvement of private investors. There is competition not only between enterprises, but also between local authorities and special economic zones. In the countryside, collective ownership is being opened up only cautiously. Provincial and municipal governments see themselves as political entrepreneurs and exploit the freedom of a state-planned but very decentralised economic system that is open to experimentation.

Strengthened by the economic successes of recent years, China has also begun to exert influence internationally. With the 'New Silk Road', the Chinese government supports other countries by financing and infrastructure investments. It is pursuing an interest-based realpolitik that does not shy away from imposing economic pressure. However, the maxim of respecting the governmental systems of other countries is

maintained. In contrast to the period under Mao, the aim is no longer to spread socialism internationally.

Compared with this pragmatic political style, Western countries have exhibited much more of a sense of mission in recent decades. For a long time, the market economy, in its neoliberal form, was propagated as the model suitable for all countries. Many international institutions were guided by the doctrines of an American-influenced understanding of the economy. Even Russia's failure to transition from a planned economy to a market economy did not shake confidence in the Washington Consensus. It was not until the great financial and economic crisis of 2008 that a controversial public discussion began about the hitherto prevailing neoliberal economic model in the US and Europe. The protest movement Occupy Wall Street emerged, demonstrating against inequality and the influence of money on political decision-making. While the US and later the EU struggled with a banking crisis, an economic crisis and a European sovereign debt crisis, China continued its economic boom largely unchallenged.

With former President Trump's 'America First' policy, however, along with the fight against climate change and the Covid-19 pandemic, the division of roles between the state and the private sector has become a topic of intense debate, also in Western industrialised countries and international organisations. We are facing a comprehensive redefinition of economic, trade, competition, financial and innovation policies. We are also witnessing a geopolitical conflict between China and the US for global dominance. In this process, distinctions between economic and political measures are becoming increasingly blurred. The American sanctions on Chinese companies and the export bans on American technologies are justified in terms of security policy, but have massive effects on companies' international competitiveness. The massive state promotion of research and innovation in China not only benefits the competitiveness of Chinese companies, but also shifts the military balance. In the promotion of so-called 'artificial intelligence', aircraft construction and space programmes, not only civilian but also military applications are emerging. The best way to understand this new world is not in terms of old, historically shaped terms such as market and planned economy to explain developments. We should take an empirical approach and deal with the multi-layered reality in an unbiased way. We need to concretely assess the performance and limits of state administration and the private

sector and determine how public-private cooperation should take place, depending on the specific tasks to be solved.

A Canadian entrepreneur of Chinese descent in Shenzhen explained to me how the interaction between business and the state works on the ground in China. This entrepreneur came from a Chinese family from Shanghai. His grandfather had left China around 1920. Like many urban Chinese, he sought his fortune in America. The family had achieved modest prosperity through trade in the US and later in Canada. My interlocutor was able to build on this and became a successful entrepreneur, investing in factories to produce electronic components in Canada and the US. He also wanted to set up a factory in China. He presented his plans to the local government in both Beijing and Shanghai, but could not find sufficient support. He then examined the perennial development priorities of the provinces and their industrial policy instruments even more closely and decided to try again in Shenzhen. Here, he received help with land selection, settlement support, permit procedures, and tax and visa issues. As the entrepreneur had grown up in a family that had always cultivated Chinese culture and language, he quickly managed to establish the necessary personal contacts. He attended business school events at which economic issues were discussed with representatives of the provincial government and companies established in Shenzhen. At our occasional meetings over cappuccino at the business school's Starbucks café, I quickly realised that his address book contained all the local contacts important for business. He enjoyed exchanging ideas with me, a European expert, and explaining the differences between Chinese business culture and North American business culture. The key to successful business relations is trust and personal contacts. This is particularly important in the complicated Chinese environment. He explained this as follows: 'There are very different regulations and developments in the provinces with their pilot projects. Therefore, very good knowledge of the local circumstances is important. Legal certainty is limited, despite an increasing professionalisation of Chinese courts. State actors can organise important support that goes far beyond what is possible in the US. At the same time, political influence also represents an entrepreneurial risk, which can be better assessed through personal contacts.'

This close interaction between politics and business also has a downside. The power of politics and the fact that much higher incomes are earned

in business than in the civil service leads to a high risk of corruption. The bribery scandals of party bigwigs fill the local newspapers and are now the subject of documentaries on state television. The former deputy governor of Liaoning province publicly stated that he had enabled small businesses to become big. Out of gratitude, they then gave him money. In total, he collected the equivalent of 55 million dollars. Another example: when Zhang Qi, former Party leader in Haiku, the capital of Hainan province, had a businessman accompany him to Canada to meet his son for graduation. The businessman gave the son \$80,000 as a 'scholarship'. Later, the son received loans from businessmen worth several million dollars. The family is said to have received a total of 17 million dollars in bribes. When he took office Xi Jinping proclaimed zero tolerance for corruption. So far, more than 4.4 million party members have been investigated and 4 million have been disciplined.³³

Hukou: the household registration system

For every Chinese person, the *hukou* is the most important document. It determines where they can live and what rights they are entitled to. Building on historical precedents, a household registration system has developed in the People's Republic of China that establishes a home municipality for all citizens. People born in the countryside receive a rural hukou, those born in the city an urban hukou.

In the European Union, we have become accustomed to being able to move freely. If you move to a new city for work, it goes without saying that your children will also be able to go to school there or, say, that you can also go to a hospital there. Such freedom of movement does not exist in China, however. The hukou determines where a Chinese person belongs. Someone with a hukou from a rural community who works legally in a city has the status of a migrant worker with limited rights. While at least one in three urban workers now has unemployment insurance, this is true for only one in five migrant workers.³⁴ An urban hukou is necessary for entitlement to many of the public services provided by cities, such as schooling, health care and housing. The hukou system is used by Chinese policymakers to control the influx of people into cities. Through the hukou system, affluent urban society protects itself from being

33 See "China's accidental exposé", *New York Times*, 12 February 2022.

34 IMF, 2020 Article IV Consultation, Staff Report, 1 January 2021, p. 10.

flooded by the rural population. This has also prevented the emergence of slums in metropolises. Nevertheless, a class society has emerged that favours city dwellers over rural dwellers. Chinese policymakers are only slowly beginning to reform this rigid hukou system and make it easier to acquire an urban hukou. At the moment, people moving to smaller cities find it much easier to obtain a hukou than migrants to much sought-after metropolises, such as Shanghai, Beijing and Shenzhen.

University teachers and graduates are also affected by the hukou system. An acquaintance would like to move to his daughter to Beijing when he retires, but he will receive his pension from Shenzhen and thus lacks the appropriate hukou. For some graduates, it is a decisive criterion when looking for a job whether a company will be able to procure a hukou in one of the sought-after cities.

Rural exodus

Despite the restrictions of the hukou system, China has experienced historically unprecedented urban development since Deng Xiaoping's opening up policy. While only 18% of Chinese people lived in cities in 1978, the urban population has now risen to 65%. Another 200 million people are expected to move from the countryside to the city in the next decade. New megacities will emerge, and this will ensure that China continues to have above-average economic growth for some time to come.

When the communists took power under Mao, China was an impoverished agricultural society. Over 85% of people lived in the countryside. As in the Soviet Union, agriculture was collectivised. This was the foundation of the Chinese economy. The first Five-Year Plan from 1952 to 1957 was still strongly influenced by the Soviet Union and aimed at building up heavy industry. In the early years, thousands of Soviet advisors aided the Chinese government. The second Five-Year Plan, from 1958 to 1962, envisaged a 'Great Leap Forward'. Industrialisation was to be stepped up rapidly. Agricultural collectives were even instructed to produce steel in primitive furnaces in addition to food production. The project failed. There were famines and migration to the cities increased. Criticisms of Mao Zedong within the Communist Party also increased. In response, Mao launched the so-called 'Cultural Revolution' in 1966, a political campaign against the so-called 'class enemy' – in other words, his critics. So-called Red Guards persecuted suspected counter-revolutionaries, many people

were killed. Millions of people were sent from the city to the countryside for re-education. The urban population receded again. A chaotic decade followed. Even though Mao declared the Cultural Revolution over in 1969, the Chinese economic miracle did not begin until after his death, with Deng Xiaoping's opening-up policy. Domestic migration resumed. Millions of people moved to the newly emerging metropolises on the coast.

Successful metropolises

Shenzhen, the first special economic zone, is the prime example of this development. Formerly a small fishing town it is now a world metropolis with over 17 million inhabitants. Shenzhen has become a rich city with 68 billionaires, many millionaires and a wealthy middle class. The cityscape is characterised by modern skyscrapers, luxurious shopping malls, amusement parks, industrial plants and green spaces. Despite a very efficient metro network, there are also tailbacks on four-lane city highways in Shenzhen.

Flats are expensive to rent, but especially to buy. There is hardly anything under 5,000 euros per square metre. In central locations, 10,000 euros and more are demanded. Nevertheless, many of my Chinese colleagues at the business school – although there are purchasing restrictions – have not just one, but several flats. It is another matter under the names of which family members these flats are registered. It was also a mystery to me how these flat purchases can be financed on the salary of a Chinese university lecturer. Monthly pay for academic professionals in Shenzhen is around 2,000 to 3,000 euros. A Chinese friend who runs a small business gave one plausible answer. He asked me whether I had noticed the number of cars parked at the business school on the weekend. Many business people attend courses at the business school, for example on human resource management, marketing and successful investing. These courses are given by the Chinese professors, and can pay very well. They may also develop into consulting jobs for companies.

Migrant workers are not part of this affluent urban society, however. When I arrived in Shenzhen in 2014, I experienced this urban class society every morning. On my way to the business school, I crossed some of the shopping streets with their many restaurants. They had simply put out their rubbish from the previous day on the street. Early in the morning, two workers would come in a rickety three-wheeled truck, sort the rubbish and

load it onto their vehicle. They came from the surrounding countryside and made a living from finding recyclable materials in the rubbish. Many food scraps, for example, were suitable for animal feed. But this kind of waste disposal was later discontinued as it was unhygienic, malodorous and messy.

China's urban development has been so successful that, according to *Forbes* magazine, the majority of the world's ten richest cities are now Chinese. It is important to mention, however, that *Forbes'* selection criterion is somewhat idiosyncratic, based as it is on the number of billionaires. Beijing is number one worldwide in this respect, with 100 billionaires, ahead of New York. Hong Kong follows in third place, and Shenzhen, Shanghai and Hangzhou also make it onto the list. The only European city is London, in seventh place with 63 billionaires.³⁵ In the developed rich metropolises of China, well-equipped schools, efficient universities and a modern public service may be found because access is reserved for registered citizens. In contrast, many rural regions still lack basic public infrastructure.

Consequences of the one-child policy

The one-child policy played an important role in the transition from a traditional agrarian society to a modern urban society. For peasant families, many children are important as potential labour for farm work. A modern urban society, on the other hand, demands skilled labour. This requires a better and longer education. The relationship between parents and children is also changing. In a one-child family, the child receives more attention, its development is supported by the parents, and the child's professional and social success becomes important for the whole family.

While during Mao's reign only occasional attempts were made to influence the birth rate through family planning, Deng Xiaoping realised that unrestrained population growth impeded economic and social progress. By the end of the 1970s, the Chinese population was already approaching the one-billion mark.

35 World's Richest Cities 2021, *Forbes* newsletter of 15 September 2021.

In 1978, a voluntary national programme was first launched to limit families to two children. When this was unsuccessful, the official one-child policy was introduced in 1980. With some exceptions in rural areas and for ethnic minorities, families were supposed to limit themselves to one child. To achieve this, contraception was promoted and one-child families were offered economic benefits. The implementation of measures varied in severity. While in some provinces even radical methods such as abortions and forced sterilisations were used, elsewhere moral appeals sufficed. Overall, this policy was successful. By the mid-1990s, the birth rate had already fallen below two children per woman.

In the meantime, the state leadership has abandoned the one-child policy. As life expectancy is continuously increasing in China, there are fears that an ageing society will develop. Policymakers now recommend that families have two or more children. However, so far there is no evidence that births are increasing. Couples are marrying later, and the costs of housing and the demands of raising children are rising. Many couples do not have children at all or stick to the nuclear family with one child. While in 2019 more than 14 million children were born, in 2020 the figure was only 12 million.

Family policy has profound cultural implications. In Mao's time, people were often perceived only as a mass, and large scale personal sacrifice was the norm. The nuclear family has greatly increased the value of individual lives in Chinese social perception. The state authorities have begun to experience this, for example, in the anger of parents when a school collapses in an earthquake and there are suspicions that building supervision was poor. Negligent food inspections of baby food have also led to massive protests. Under Mao, however, too strong a family bond was seen as a bourgeois relic. This is why many families were torn apart during the Cultural Revolution. In the modern nuclear family, on the other hand, family ties have grown again. It is impressive to see how much many urban middle-class parents care about the development of their only child: additional English lessons, sports and music are part of the daily programme besides school. This has already led to a debate on whether children might be overburdened by too much cossetting.

The urban middle class

Many in the urban upper middle class have an almost European ideal of education for their children. I found this confirmed by a businessman in Shenzhen. He was a supporter of our environmental organisation EDUI and had invited a Chinese EDUI colleague and me to his home. For China, such invitations home are rather rare. Normally, people meet in a restaurant. The family lived just outside Shenzhen in a new building complex that resembled multi-storey terraced houses. We were coming for dinner and were welcomed by the businessman's wife.

Before the meal with the family, however, there was a surprise. The daughter who was present played us Beethoven's "Für Elise" on the piano. More and more Chinese girls are studying European classical music. It is estimated that 40 million people in China play the piano. There are now eighty orchestras. Classical concerts with music by Chopin and Tchaikovsky are especially popular with young music lovers.³⁶ China is also home to the world's largest piano producer, the Pearl River Piano company. This state-owned company, which hails from the province of Guangdong, also took over the Wilhelm Schimmel piano factory in Braunschweig in 2016 and produces more than 100,000 pianos a year.

Wine was served at dinner, with Chinese food. The host proudly opened a bottle of Bordeaux and was pleased that we appreciated the wine. Enjoying wine has become part of the urban middle class lifestyle in the major metropolises. Wine is also regularly offered at official receptions. The prestige that now attaches to wine culture in China also has ramifications in France. Chinese investors have now acquired over 140 wineries. Jack Ma, the founder of Alibaba, for example, has acquired three wine châteaux.³⁷ Chinese provincial governments also promote domestic wine production. The mass-produced wines of the large Chinese wineries, such as Great Wall, are available in small grocery shops at an affordable price.

The urban lifestyle oriented towards education, qualifications and musical performance is experienced not only as personal enrichment. More and more people feel overwhelmed. The so-called 'Lying flat' movement has developed in particular among young people who want to

36 See "Why China is gripped by piano mania", *Financial Times*, 23 May 2019.

37 See "Le désarroi des châteaux chinois", *Le Monde*, 15 March 2022.

opt out of the stressful accomplishment-oriented life. Women may delay having children or do without them altogether. A popular song sums up this attitude to life, more or less: "Lying flat is good, lying flat is wonderful, lying flat is right, lie down so you don't fall".³⁸

Another mass phenomenon is worrying government agencies and many parents. Chinese social media have made it possible for a star and fan industry to emerge that generates large revenues. Young people in particular organise themselves into fan groups of their idols on the internet. These fan groups are used not only for PR for stars, but also to market products and collect donations. The Chinese fan community of the very popular South Korean singer Park Ji-min collected over \$150,000 for his birthday to finance his flights. The fan clubs have become well-organised marketing tools that place products and services for different income groups, depending on the composition and profile of their idols. The size of this market is estimated at over \$5 billion.

The one-child policy had another impact that strongly affects Chinese society. There is an increasing imbalance between the number of men and women. Parents tend to prefer male offspring and modern medicine facilitates such a prenatal choice.

I had a very lively discussion at the business school with Chinese students about the practical implications of this lack of women. A Chinese female student presented a spirited thesis on the unequal treatment of men and women in China. Her point of departure was women's lower chance of even being born. She went on to show that women are less successful in business and politics. While she acknowledged that there is formal equality, she emphasised that women are disadvantaged in everyday life both in the family and at work. During her lecture I could see that one male student in particular did not share this view at all. He became quite emotional in the subsequent discussion. It is so difficult to find a woman. The demands on men were becoming worse and worse. To get a woman to agree to marry him, a man not only had to earn a good income, but also own a flat. Furthermore, as soon as a man's career takes a down turn, there is a danger that the woman will seek a better partner.

38 See Kynge, J. "China's young 'lie flat' instead of accepting stress", *Financial Times*, 3 August 2021.

I saw how choosy well-educated young Chinese women can be with my first teaching assistant. Amy had graduated with good grades and got a job at a bank in Beijing. When she found out that I was in Beijing for a conference, she wanted to meet me in a restaurant and introduce me to her boyfriend. I gladly accepted, as I was interested in how she had got started in working life. I learned something about the hierarchical way of working in a big Chinese bank. Her boyfriend, who spoke very good English, told me about the marketing strategy of the company he worked for. At the end of the evening, Amy asked her boyfriend to wait in the car for a few minutes as she had something private to discuss with me. She asked for my evaluation of her boyfriend. She shared some doubts with me and wanted an answer: Does he give the right impression; will he respect and support her; would he be able to take responsibility for a family? As I had found him very likeable, I gave a positive assessment. Of course, I did not omit to mention that a dinner only allows an initial superficial impression and that the quality of a relationship can only be determined over time. After we said goodbye I continued to dwell on what to think about such a matter of fact approach to choosing a partner. The rather intense student at the equal opportunities discussion came to mind and I felt I now understood him better.

The expectations of well-educated young Chinese women not only affect private relationships, but also influence the economy and politics. In the age group 20 to 34 more women than men now have a university degree. Liu Xin, creative director of an advertising agency, notes that most women under 35 are consumption-oriented and want to enjoy their lives. Happiness is no longer associated with marriage and children. Advertisers therefore use the slogan 'Live for yourself' to win over female consumers.³⁹ A survey of young women under 26 by the Communist Youth League found that 43% expect not to marry. Qualified young women demand not only equality in their private lives, but also equal opportunities for development in their professional lives. Astronaut Wang Yaping, who performed a six-hour spacewalk, has become a media star and important role model for women. Time and again, women's groups protest when it becomes known that quotas for women are set for certain jobs – for example, in the police, the military or even in art schools – that female applicants do not stand a chance. Scandalous cases of mistreatment of

39 *South China Morning Post*, "Why are China's Gen Z women rejecting marriage, kids more than their male counterparts?", 6 January 2022.

women and criminal practices in the countryside are increasingly being highlighted on the internet. This underlines the completely different reality of life in the city and in the countryside. For example, the case of a woman who was chained to a hut by her husband led to a nationwide campaign. It has also come to light that there are criminal networks that sell women to farmers for marriage. Given the shortage of women, this is a lucrative business. Feminist media outlets that are too vocal about women's disadvantages risk being taken out of circulation by the censors. This happened to the internet magazine *Feminist Voices*, which was shut down in 2018.

5 | From the world's workbench to a technology and innovation centre

Since the beginning of its opening-up policy, China has pursued an industrial policy aimed at improving the competitiveness of the Chinese economy. Foreign investors were attracted to build up an export industry. The domestic market was opened only cautiously to protect domestic enterprises. In many investments, there was an obligation to allow Chinese companies to participate. In some cases, quotas were also set for Chinese suppliers. China has also systematically promoted research and development. This policy has been successful and made China the largest exporter in the world. Its economy has also become increasingly competitive.

Innovation policy

Chinese policymakers have long recognised that China's economic future depends on its own ability to innovate. It is no longer enough to produce cutting-edge products for Western companies on a contract basis. As usual, long-term preparations and comprehensive discussions began to develop a new innovation policy in China. As early as 2006, a long-term plan for scientific and technological development up to 2020 was presented. This led to a reorientation of state policy in 2014. Nearly 100 independently managed science and technology projects were consolidated into just five programmes. Comprehensive innovation funding was established. Some 1,660 funds with state participation are now available. Extensive tax breaks and write-offs for R&D expenditure have been introduced for companies.

R&D expenditure has increased year by year and reached \$372 billion in 2020. This corresponds to 2.4% of GDP. Only the US spends more money on R&D. By far the largest share of R&D spending comes from companies themselves. Their share has steadily increased over the years and is now around 80%. In China, 850 research laboratories are operated by foreign companies, 349 of which are owned by European companies and 324

by American companies. Chinese companies have now opened 235 research centres outside China, 56 of which are in the US and 86 in the EU.⁴⁰

Industrial policy has protected Chinese tech companies from foreign competition in many areas. Chinese companies are now leaders in, for example, telecommunications, drones, high-speed trains, wind turbines, solar panels, quantum computers, satellite and missile systems.⁴¹ The strategic goal of the 14th Five-Year Plan (2021–2025) is to make China independent of foreign expertise in cutting-edge technologies. This is China's response to increasing US export restrictions on technology. Global standards for 5G, the 'Internet of Things' and artificial intelligence are to be set by China in the future.

International patents

Patents are a good indicator of economic performance. In 2005, the People's Republic applied for just 4,800 international patents. German applications numbered 31,000 in the same year. Chinese companies are now leading the way in innovation. In 2020, Huawei filed 5,464 international patents, making it the most innovative company worldwide. Its American competitor Qualcomm filed only 2,173 patents and the European company Ericsson 1,989.⁴² China has become a leader in international patents.

Biotech company BGI: a world star in trouble

The biotech company BGI shows how quickly the transition can take place from research to commercial application in China. It began in 1999 with the founding of an independent research institute in Beijing by four Chinese scientists. The researchers participated in the international research project to decode the human genome. After the project achieved its aim in 2001, the research funding came to an end. BGI was unable to find follow-up funding in Beijing and so settled in Hangzhou for a few years and entered into collaboration with the university there. In 2007,

40 See China, Industrial and Innovation Powerhouse, Joint Research Centre, February 2019.

41 Compare Schüller, M. and Schüler-Zhou, Y., "United States-China Decoupling: Time for European Tech Sovereignty", GIGA, No 7, December 2020, pp. 2ff.

42 Source: WIPO, statistical database.

BGI moved to Shenzhen and received the necessary support to develop very quickly into a leading international biotech company. Already in 2010, offices were opened in Cambridge, MA (US) and Copenhagen. In 2011, BGI was able to decode the virus that led to the the Escherichia coli (EHEC) outbreak in Germany, with over 50 deaths within three days.

When I visited BGI in Shenzhen in 2017 with a group of students, the company was still located in a somewhat older high-rise building where hundreds of scientists worked. The start-up atmosphere from the early days was still discernible. On the upper floors, the employees sat at simple, cramped desks in open-plan offices in front of their computer screens. Several racing bikes were propped against the wall next to the lift. Even company president Wang Jian did not have his own office, but only an additional conference table for management meetings. These took place under the eyes of the staff. The exhibition and reception rooms on the ground floor, however, left a different impression. Here, the company's successes were showcased: the patents, the scientific awards and groundbreaking publications, the diverse achievements in medical diagnostics and therapy, the genetic analyses of animals and plants. There were also some sequencing machines on display. At the time, they looked like refrigerator-sized metal cabinets. With them, genetic material could be decoded.

At the presentation, BGI staff presented a company that was among the world leaders in human genome sequencing. Only the American company Illumina was still considered a serious competitor. BGI had developed collaborations with many partners, including hospitals in China, the US and Canada, pharmaceutical companies, universities and research institutions worldwide. The company was in the process of building up a huge database. From this data, it was expected, many more new insights could be gained. Critical questions from students about the protection of patient data and the risks of a biotechnological development that could lead to the manipulation of human genetic material did not unsettle the BGI employees. They were committed to their mission.

In the meantime, BGI has moved to a new, bigger and more attractive high-rise building in Shenzhen. It has continued its triumphant march as a company, establishing branches and subsidiaries in many parts of the world. BGI's pregnancy test is one of the biggest selling in the world. The

company has sold more than 10 million Covid-19 tests. BGI was also commissioned by the Chinese government to build a national gene bank.

Like other internationally successful Chinese companies, BGI is increasingly caught in the mills of the geopolitical conflict with the US. There are mutual patent infringement proceedings with Illumina. Two subsidiaries have been put on the sanctions list in the US. They have been accused of helping to collect genetic material from ethnic minorities in Xinjiang province. This means that American companies and institutions are prohibited from cooperating with these companies.

Ambitious space programme

The Chinese government is also very interested in space travel. This started in 1956 when the Ministry of Defence's 5th Research Institute was founded. For a long time, military applications were the order of the day. Missiles of various ranges were developed for the People's Army. Today the space programme also pursues scientific and economic goals. Since 1990, there have been commercial satellite launches. China has its own satellite navigation system, comparable to the European Galileo project. Private companies can now also develop launchers and participate in scientific space projects. China has sent unmanned probes to the moon and Mars. The first manned space flight took place in 2003. For space missions, China is building a space station. Chinese space activities are widely reported on in the Chinese public media.

Meanwhile, the competition between the US and China is also spilled over into space. The US has established a public-private partnership for the conquest of space, in which private companies play an increasingly important role. On 3 December 2021, the Chinese government sent a diplomatic note to the UN Secretary-General. It reported two incidents involving Starlink satellites operated by Elon Musk's SpaceX. These manoeuvrable satellites had twice come so close to China's Tiangong space station that there was a risk of collision. The UN Secretary-General was asked to pass on this information to all governments that have signed the International Outer Space Treaty.⁴³ Article VI of this treaty states

⁴³ This treaty had been negotiated for years within the UN framework and entered into force in 1967. Over 100 states have ratified the treaty, including the US and China. The aim of this treaty is to regulate the peaceful use of outer space.

that member states are also responsible for private space activities originating from their territory. A press conference by the Chinese Foreign Ministry on 28 December 2021 called on the United States to abide by its legal obligations and ensure that the safety of astronauts and space installations is not compromised. SpaceX already has 1,800 satellites in space and permission from the US Federal Communication Commission to launch another 12,000. According to Hugh Lewis, head of the Space Research Group at the University of Southampton, Starlink satellites are already responsible for almost half of the close encounters in space.⁴⁴

Many technological developments have dual-use properties, meaning they can be used for both civilian and military purposes. The American military was startled when on 27 July 2021 China flew a steerable space glider around the Earth in low Earth orbit at more than five times the speed of sound and came down close to its destination. If such a craft were to be armed with nuclear weapons, any previous air defence would be ineffective. General Mark Milley, then chair of the Joint Chiefs of Staff, called this achievement a ‘Sputnik moment’ that should spur the US into action. American scientists do not yet understand how this feat was achieved.⁴⁵

China’s digital economy

In China, there are 986 million mobile internet users, and 853 million people already use mobile payment systems. Building on this, an internet-based economy has developed in almost all areas of life. Alibaba is one of the world’s largest internet retailers. Tencent is currently the most important IT and software company in Asia in terms of stock market value and turnover. It was only founded in 1998 in Shenzhen with the help of American venture capital. It operates the messenger service WeChat, offers music streaming and social media and is the world’s largest developer of computer games. Tencent is also one of the largest venture capitalists. Among the world’s top ten internet companies by revenue in 2019, five were American and five were Chinese. Many Chinese startups are developing new services for health care, finance, education, social

44 Jinyuan S. “US-China row over Elon Musk’s Starlink satellites shows need for space cooperation”, *South China Morning Post*, 7 January 2022

45 See “Pentagon chief admits alarm over China’s hypersonic weapon tests”, *Financial Times*, 28 October 2021.

media and industrial applications. Chinese tech companies, to continue their rapid expansion, raised \$46 billion in the capital market in 2020. Of this, 64% was raised in Hong Kong and 35% in the United States. The digital economy now accounts for nearly 40% of China's economic output.

The development of the Chinese internet took place under an electronic protective wall (the Great Firewall) that hindered access to foreign services. For a long time, this compartmentalisation was only judged as a measure to exercise censorship and control the flow of information. It is only now being recognised that this was also an effective instrument of industrial policy. Bernard Charles, the general director of Dassault System, a leading European software developer with over 20,000 employees, has declared that the development of a digital economy needs territorial borders. Data is even more important than hardware in the modern economy. If a society cannot ensure that the data of its citizens and companies benefit its own economic development, but instead are used by foreign companies, then it will lose out in international competition. He therefore supports the goal of building European digital sovereignty, pointing to the successes of Chinese digital companies.⁴⁶

The made-in-China 2025 Strategy

In 2015, 'China 2025' was presented as a strategic plan to make Chinese companies market leaders in important future sectors. Industrial strategies have been proposed for information technology, automation and robotics, electric cars, medical devices, the pharmaceutical industry, renewable energy plants, high-tech equipment for space and aviation, maritime and rail transport. Market shares have also been set for products to be manufactured in China by 2025. The 'China 2025' programme startled business and politics in the US and Europe. China was increasingly perceived as a strategic rival. Disputes over fair international competition intensified. The trade conflict between China and the United States began.

In view of the criticisms, the Chinese government only mentions the China 2025 programme cautiously. However, the 14th Five-Year Plan (2021–2025) contains measures for its implementation.

⁴⁶ See Bernhard Charlès, *Redevenir sérieux sur la gestion de l'Internet*, *Le Monde*, 19 March 2022.

6 | China's new economic model and ecological civilisation

China's economic success has been achieved with an export-oriented economic model based on cheap labour, high consumption of raw materials and a high environmental impact. China has started to reduce its dependence on exports and its economic model is changing: from a preponderance of industry to greater development of the digital economy, high-tech companies and the service sector, from a foreign trade orientation to building domestic demand. The world's workbench for simple goods is increasingly becoming a centre of innovation for new products and a service economy.

Under the slogan 'the two circuits', on one hand the increased autonomy of the Chinese economy is planned; on the other hand China wants to remain part of the global and integrated world economy.

China has the world's largest greenhouse gas emissions, ahead of the US.⁴⁷ Whether the world can still control climate change will ultimately be decided in China. At the international climate negotiations, the Chinese government committed itself to achieving CO₂ climate neutrality by 2060. However, according to this plan, greenhouse gas emissions will continue to increase until 2030 due to economic growth. Only then will environmental policy measures take effect and cause emissions to fall. Outside and inside China, there are calls for Chinese policy to set more ambitious targets: emissions should start to decline as early as 2025.⁴⁸

47 However, the per capita CO₂ emissions of an American are twice those of a Chinese person. By international comparison, China is in the middle of the pack in terms of per capita emissions.

48 Risks in China's insatiable thirst for energy, *New York Times*, 9–10 October.

From quantitative to qualitative growth

The 14th Five-Year Plan provides for a shift from quantitative to qualitative growth. China has not only signed the Paris Agreement on climate protection. It has also included in its constitution the goal of creating an 'ecological civilisation'. A far-reaching restructuring of the raw material-intensive economic model is therefore necessary. Chinese policy has set ambitious targets and is taking action. For example, China reduced particulate matter pollution by 29% in just six years, from 2013 to 2019. It took the United States and Europe several decades to make such progress.⁴⁹ Nevertheless, environmental pollution remains a major problem. This applies to air pollution, as well as to soil pollution and water quality.⁵⁰

Strengthening domestic demand

The Chinese government has expressed its intention to increase domestic demand for several years. The current account surplus of almost 9% of GDP in 2007 has declined significantly. In 2019, before the Covid-19 crisis, the current account was almost balanced.

Wages have now increased significantly. A social security system is being built that allows people to reduce private provision. This should decrease the very high savings rate and further strengthen domestic demand. The consumption of the new affluent urban middle class is having an impact on imports. Not only German cars, French and Italian fashion and holiday trips are in demand. For education and health services, a private market worth billions has emerged, served in particular by Anglophone providers. Families are willing to pay a lot for private kindergartens, English lessons, private tutoring,⁵¹ international public schools and a Western university education. This education market has reached such a scale that the Chinese government decided to set new, more restrictive rules. Learning

49 See *Le Monde*, 7 September 2021, p. 16.

50 A very detailed description of the situation in China's 35 largest cities can be found in the UNDP's *2015 China Sustainable Cities Report, measuring ecological and human development*.

51 Some provincial governments have taken measures to limit the 'private school industry'. The aim is said to be to avoid overloading children and to reduce the financial burden on parents.

content is now also prescribed for public schools, and the possibilities for running schools for private profit have been curtailed.

China has the world's fastest growing health care market. Private hospitals complement public health care. In 2019, spending on health already amounted to \$931 billion. This puts China in third place after the United States and the EU in terms of health spending. Nevertheless, the People's Republic currently spends only 6% of GDP on health. That is far less than developed economies. The government has presented an ambitious plan called 'Healthy China 2030'. The aim is to improve health care further and comprehensively and also to achieve a comparable quality in rural areas as in cities. So far, funding has come from government subsidies (26.7%), health insurance (44.9%) and private co-payments. The booming health market offers many opportunities for foreign providers of medical services and medical products.⁵²

Even with these measures China is still an outlier compared with other economies. Unfortunately, in recent years the trend towards a more balanced current account has reversed. In June 2024 China achieved one of the highest monthly trade surpluses ever. The Chinese share of private consumption in GDP is currently 39%. This is far below the global average and US and EU consumption rates. Such a state of affairs easily leads to overcapacity and tensions with trading partners, and deprives the domestic population of some of the benefits of economic development.

Nationwide emissions trading

China introduced nationwide emissions trading in 2021 after a decade of preparation. A functioning emissions trading system makes it possible to include climate-damaging behaviour in pricing in a market-oriented way. The causers of environmental damage thus bear the burden.

Initially, emissions trading was tested in seven model regions. Subsequently, the trial run was extended to five more cities, including Shenzhen. Setting up emissions trading is a difficult undertaking. To which economic sectors and companies should emissions trading be

52 Compare the good overview in: China Healthcare Market: An Introduction, Australian Government, Intralink. 2021.

applied? How will emissions be determined? How are the certificates allocated and how is an appropriate price achieved?

Nationwide emissions trading will focus first on the electricity sector and later be extended to large companies in other sectors, such as steel, chemicals, building materials and aviation.

China thus belongs in the vanguard of international climate policy, together with the European Union, which has had emissions trading since 2005. In the US, there are only regional projects so far.

Radical energy transition

Another major task for Chinese policy is to implement a radical energy transition. Some 65% of electricity is still generated by coal. President Xi Jinping promised before the UN that China will no longer finance coal-fired power plants outside China. In China itself, however, new coal-fired power plants producing 247 gigawatts are still planned. This corresponds to six times the capacity of the coal-fired power plants still in operation in Germany. The share of renewable energy is rising steadily and had already reached 27% by 2020. China is now the world market leader in hydropower, solar and wind energy. However, this is not enough to secure the energy supply of a growing economy in the event of a rapid shutdown of coal-fired power plants. This was demonstrated in October 2021. In the eastern part of China, electricity suddenly had to be switched off for hours at a time. Environmental constraints had caused too many coal-fired power plants to stop generating electricity and suddenly there was an undersupply.

Protection of nature

Chinese policy is also beginning to act to protect nature. Since 2017, 138 million hectares, or two-thirds of China's forests, have been protected from logging.

However, this leads to Chinese importers buying up timber worldwide, as Chinese timber production can no longer come close to meeting demand.

French timber exports to China have increased by 42% in one year.⁵³ The price of wood has also risen sharply internationally, and this is having an impact on construction and furniture prices in Europe.

Starting from existing nature reserves, an ambitious programme to create national parks has been implemented since 1998 to protect China's impressive landscapes with their unique wildlife. In preparing to construct these large nature parks, Chinese experts studied the experiences of American nature parks, as well as European examples.

Shared prosperity

Under Deng Xiaoping, the motto was 'Let people get rich so the economy will grow'. This policy both made China's economic miracle possible and led to a very unequal society. While urban metropolises and coastal regions have developed, many rural regions remain underdeveloped. China now has a rich upper class with as many billionaires as the United States and a wealthy urban middle class. But there are also migrant workers with limited rights and the rural poor. A country that was poor but equal under Mao now has among the highest inequality of income and wealth. Some 1% of the Chinese population owns almost 31% of the country's wealth.⁵⁴ President Xi Jinping and parts of the Communist Party have recognised the politically and socially explosive nature of this inequality. "We cannot allow the gap between rich and poor to become unbridgeable". The new focus is therefore 'shared prosperity'. This is to be achieved through public spending that helps to equalise living conditions. So far, public services have been concentrated on developed cities and regions. In addition, redistributive measures are being discussed, both on a voluntary and a statutory basis. Wealthy entrepreneurs are being asked to contribute to the common good through donations. Jack Ma, the founder of Alibaba, has already announced \$15.5 billion for projects to promote shared prosperity. Tencent, the largest internet company, has also pledged more than \$15 billion for social programmes. In addition, a pilot project has been agreed in Zhejiang province, south of Shanghai. The provincial government has presented a 52-point plan for this. By 2025, disposable income in the province is supposed to increase by

53 See *Le Figaro*, 27 July 2021, p. 22.

54 This information comes from a study by Credit Suisse, quoted in *Le Monde*, "Prosperité commune", 1 September 2021.

40% to reach an average of \$11,500 per year. The costs of housing and child care are to be reduced. Excessive income is to be regulated without affecting economic growth.⁵⁵

Improving working conditions

Chinese regulators and Chinese courts have significantly improved the protection of workers from unreasonable working conditions. Standard working time in China is 40 hours. Longer working hours must be compensated with an overtime payment.

There once were companies that had a so-called '996' working week, including overtime. '996' describes a six-day working week from 9 am to 9 pm. Alibaba's Jack Ma praised such an excessive overtime regime as a blessing as recently as 2018. The practice has since been banned by the courts. The stricter regulations affect not only Chinese companies. The Siemens company Numerical Control in Nanjing had to pay a fine for violating working time rules.

New directives have also been adopted to improve the rights of bogus self-employed workers who work for delivery services and passenger transport, for example. Better pay must be provided for these new forms of employment with internet-based service companies. The Ministry of Transport recommends that transport service providers hire workers directly and also take out accident insurance. The cost increases associated with the new regulations have led to a significant drop in the share price of some of the service companies. Meituan, China's largest food delivery platform company, saw its share price plummet by 14% after the guidelines were announced.

New regulations of internet companies

The rapid development of large internet-based tech companies raises many competition issues. At the beginning of the network and digital economy the world looked simple. The initial phase of internet development in the United States happened without too many regulatory constraints. The promise of the global internet was to create a new world of unlimited access

55 The data refers to the *New York Times* article, "Beijing is pushing the wealthy to share", 8 September 2021.

to information and unprecedented opportunities for people everywhere to connect and to express themselves. In the meantime, however, internet companies are increasingly coming under criticism.⁵⁶ There are concerns about monopolistic behaviour. Furthermore, the unrestricted collection of personal data and the business derived from it are perceived as a threat to society and democracy. These companies' business model has been called into question under the rubric of 'surveillance capitalism'. Frances Haughen, who had worked as a project manager at Facebook, informed the public about dangerous business practices. For example, in order to keep users' attention for as long as possible the algorithms favour extreme opinions and supposed scandals. Social networks structured in this way do not contribute to better information, but facilitate the spread of agitation, xenophobia, conspiracy theories and disenchantment with the state. Instead of making citizens self-determined and responsible through better information, social media divides society. The political polarisation in the US and some European democracies is also attributed to this negative influence of social media.⁵⁷ The appropriate regulation of internet companies has become a controversial topic internationally.

The big American and Chinese internet companies have so far managed largely to evade state regulation. This also applies to taxation because profits from net-based international business can simply be shifted to tax havens. It remains to be hoped, however, that international agreement on minimum taxation of companies will provide some relief.

The EU has played a pioneering role in the attempt to regulate internet companies and to combat competition violations. As early as 1995, the EU adopted a Data Protection Directive, which has since been revised and replaced by the European General Data Protection Regulation (GDPR) in 2016. This was the EU's response to the challenges associated with 'big data' and new data processing techniques such as profiling, web tracking and cloud computing. Competition violations were sanctioned by the EU, and Google, for example, was fined heavily several times for abuse of its dominant market position. The Commission has also initiated proceedings against Apple and Facebook.

56 See Zuboff, S. (2019) *The Age of Surveillance Capitalism* (London: Faber & Faber).

57 See, to take only one of many examples, Farah, H. "The chaos in Britain has been coming", *New York Times international edition*, 13 August 2024, p. 9. He concluded that social media platforms play a central role in radicalising far-right extremists.

However, the previous EU regulations are still not considered sufficient to be able to act against the monopolisation of the large platform companies and against their hunger for data. The EU has therefore decided to adopt further legislation. The Digital Service Act obliges large online platforms with at least 45 million users to be more transparent and to combat illegal content. The Digital Markets Act provides for additional obligations, for example, to prevent traders other than the platform operators from being disadvantaged.

Chinese experts have been regularly exchanging views with Commission officials for several years and closely follow developments in the EU. Since 2020, Chinese regulators have also been taking increasingly decisive action against monopolistic behaviour and market power. In November 2020, new guidelines were published on preventing anti-competitive behaviour by internet companies. In the following months, Tencent and Alibaba were sentenced to heavy fines. Alibaba had to pay the equivalent of \$2.7 billion in total as a fine. And they were not the only ones.⁵⁸ The protection of personal data in line with European legislation was also strengthened by new rules. For example, it was revealed that the Chinese ride service provider and Uber competitor Didi Chuxing offered its customers different prices according to the personal profile they had created. The Ant group of companies had to sever the link between its payment platform and financial products. This change has forced the company to completely revise its business model. The regulation of online computer games even goes so far as to require Tencent to limit children's gaming time to three hours per week in order to combat gambling addiction. The regulations led to a significant drop in the share prices of the companies concerned.

Particularly forward-looking is an unprecedented regulatory intervention. In March 2022, China became the first country in the world to enact a law regulating algorithms. Users are to be informed about the use of algorithms and given the opportunity to exert influence. The new law aims to prevent internet platforms from abusing their data power. Article 17 of this law stipulates that providers of algorithmic recommendation services shall give users the possibility to select or delete attributes on which recommendations are based. According to this regulation,

⁵⁸ SCMP Research, China Internet Report 2021, presented by the *South China Morning Post*.

recipients of information must be informed about the grid according to which that information was created. They can then influence this selection. This regulation affects the heart of tech companies' business model, and it will be interesting to see how implementation of the law works in practice.

Some Western commentators saw these measures primarily as punishment of dynamic entrepreneurs by the Communist Party, additional censorship and a further disconnection of the Chinese internet from international developments. In particular, the controversy surrounding the business practices of Jack Ma's Ant group of companies was seen in the press as sanctioning an entrepreneur who had become too powerful and too independent.⁵⁹ But this reading is too simplistic. Chinese internet companies owe their success so far to a largely regulation-free environment. The companies were able to obtain the substantial financing they needed for rapid expansion on the American capital market and, more recently, increasingly in Hong Kong. They offered high returns to international investors, which resulted from the large Chinese market and monopolistic business models. In the meantime, however, it has become increasingly apparent that smaller competitors and consumers in China and other countries are suffering from the market power of the platform giants. Therefore, Chinese policy is following the European model of stronger regulation and turning away from the *laissez-faire* approach that largely characterised American practice. What is true about the criticisms of the Chinese approach is that without coordinated international regulations, companies will increasingly be forced to adapt to different, regulatorily separated markets.

Reorientation of the real estate market

A broad field for economic policy planners and regulators in China is the development of the real estate sector. Construction activity is not only a cornerstone⁶⁰ of the Chinese economy, but also has great significance for the Chinese financial system: 27% of all loans are granted to fund real estate purchases. Home ownership accounts for the largest share of

59 See "The Chinese billionaire who got too big", *Financial Times*, 1 April 2021, p. 16.

60 In 2017, the value of real estate sold was equivalent to 16.4% of GDP. Chang L. and Wei X. (2018) "China's Real Estate Market", NBER Working Paper Series, Working Paper No 25297.

private wealth. Around 90% of the citizens registered in the city own their own homes. This reflects the fact that Chinese households have hardly any investment options other than real estate due to an underdeveloped financial market.⁶¹ Cultural customs, such as the expectation that the husband should be able to provide housing for his wife on the occasion of their marriage, also support the real estate sector. In addition, local authorities generate a large part of their revenue by selling land for construction. The massive construction activity and high demand gave rise to large construction companies that financed their rapid growth through debt. After the 2008 financial crisis, the Chinese government further fuelled construction activity to support economic development. The construction boom not only helped many people to move from the countryside to newly built cities, but suddenly there were also high vacancy rates. In some cases, failed planning led to ghost towns that are only gradually being populated. In China as a whole, property prices have risen in parallel with personal incomes over the past decade. Thus, buying a home on credit was normalised. The housing market in particularly desirable cities such as Beijing, Shanghai, Hong Kong and Shenzhen, however, became increasingly out of balance. Despite the hukou system, such a high demand for housing arose in these metropolises that property prices rose much faster than incomes. To prevent a real estate bubble and limit the risks to the financial system, regulators felt compelled to tighten financing requirements for home buyers. Equity of at least 30% of the purchase sum was required for financing. For second homes, the equity requirements were often even higher. In addition, the equity requirements for large developers were increased. The biggest banking risk in the housing market is not the finances of individual homebuyers, but the financing models of the developers. The large, expansion-oriented developers are coming under additional pressure from the policy change in the Chinese economic model. The high share of the construction sector in the Chinese economy is to be reduced. In the future, economic activities are to concentrate more on the high-tech sector and services.

The problems of the property market create major macroeconomic risks beyond the financial sector. Falling property prices, and unsold and unfinished apartments in some cities undermine consumer confidence.

61 Capital controls and access restrictions on foreign financial institutions prevent ordinary private individuals from obtaining investment products with investments abroad.

The housing market also affects the financial resources of local authorities, which depend on the sale of land for property development. In addition, local government feels obliged to step in and support property developers in financial difficulty to avoid local housing crises. As a result the scope for public services and investments is reduced.

In 2008, the payment difficulties of American real estate buyers after the bursting of the real estate bubble led to the bankruptcy of Lehmann Brothers, which led to an international financial and economic crisis. Some international commentators feared that the real estate market problems in China, such as Evergrande's insolvency, could become the trigger for another global financial crisis.

Such a scenario is very unlikely, however, because of the measures taken by the Chinese public authorities and the regulated Chinese financial market.

The Chinese leadership resolves problems with short-term measures such as reducing interest rates for mortgages and rollovers of loans to facilitate financing. Additionally, cities are encouraged to allow migrant workers to buy apartments by changing hukou rules and to reduce limitations for property buyers. Furthermore, measures are announced to strengthen the financial basis of local authorities and to reform the tax system.⁶² This should lead to an orderly debt reduction of property developers in financial stress over the longer term.

The example of Evergrande: failed reorientation

The Evergrande company became known to a wider public in 2021 when it hit the headlines in the international business press due to liquidity problems.

The Evergrande company is an example of how difficult the planned reorientation of the Chinese economy is in practice. Evergrande is one of the largest property developers in China and had its headquarters in Shenzhen. Therefore, there were several opportunities for me to talk to Evergrande executives about the company's business development. In

62 Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization, p. 12.

the Business School, we had a project on sustainable urban development in China. Evergrande staff were willing to collaborate and discuss matters with the students. The city model on the ground floor of the company headquarters was impressive. It showed the plans for a new city district in Shenzhen. Skyscrapers, parks, water areas and underground stations were built true to the original in miniature and could be illuminated in different ways. One employee explained that this was only one of more than 1,000 Evergrande projects being built in China.

The company had been founded by Hui Ka-yan in 1997. Hui came from a poor farming family in the central province of Henan. He came to Shenzhen in 1992 and worked initially in the import-export business. In 1997, he founded Evergrande. By 2016, the company had become China's largest property developer by sales volume. Hui became one of China's richest men. In a 2018 speech, he said, "Everything I have and Evergrande has been given to me by the Party, the state and society".⁶³ There is much truth in this statement. Real estate development in China is driven by political decisions. On one hand, there is the politically planned urban development, with the mass migration of millions of people from the countryside to the city; on the other hand, there is the handing over of land as building land by provincial governments. Evergrande built its business model on this basis. Hui was well connected politically. Like almost all heads of the larger Chinese real estate developers, he was also present on political committees.⁶⁴ The company offered itself to provincial governments as a developer and was also prepared to take on heavy debt in order to be able to build quickly. In this way, Evergrande grew very fast, but at the same time accumulated a debt mountain of \$300 billion. The company developed many projects for wealthy buyers. These included the particularly ambitious Ocean Flower Island. This project on Hainan Island included apartments, hotels, theatres, convention halls, shopping centres, a marina and leisure facilities. The investment volume was said to be a phenomenal \$24 billion. This project had an economic justification as long as the government's goal was to create a luxury resort for the wealthy in Hainan: a Florida in China for the rich. In the meantime, however, political priorities changed.

63 Quoted from Bloomberg Businessweek, What China's Evergrande crisis means for the real estate market and the world, 16 October 2021.

64 The *South China Morning Post* of 25 October 2021 provides information on the debt of major Chinese developers and participation in political bodies in the article "Evergrande staves off default...".

Hainan is a tropical island in the South China Sea. In the 1980s, the island was still poor. In 1988, it became part of a special economic zone with many privileges. This was very successful in attracting investors and business people. Today, the island is one of the most popular tourist destinations in China. A Chinese friend invited me to Hainan for a long weekend in spring 2015. He had a flat there and was proud to show me the pleasant holiday life. The avenues of palm trees, the coconut sellers sitting by the side of the road, the yoga groups in the park, the swimming pools of the apartment complexes and the sea visible in the distance very quickly evoked a holiday mood. Out of interest, I visited the housing project of a local developer. As usual, the flats were already being marketed before completion. The shell was half finished and, according to the seller, more than 70% had already been sold. The seller assured me that I could also buy a property as a foreigner. The residential complexes were planned with all the luxuries: pool, restaurants, supermarket and green spaces. The sea could be seen from the balcony. However, this luxury concept for the island development received a political dampener in the following years. At the end of 2016, the CPC Politburo developed a new motto: 'flats are for living and not for speculating'. This indicated that Chinese policy will take measures against increasing inequality. The opportunities for rich Chinese to invest in real estate were to be restricted. The provincial government of Hainan seized on the policy change and adopted rules that made buying a home much more difficult. Only those who have been in Hainan for two years could buy a flat. Resale was possible only after five years.

As a real estate developer, Evergrande was very heavily involved in the luxury segment and was therefore particularly negatively affected by this political reorientation. The fact that a reorientation for the real estate market was looming in the longer term had already been noticed by Evergrande managers. In the discussions about the company's policy, we learned that the company was therefore diversifying. Attempts were made to build up new fields of activity in tourism and in the distribution of mineral water. Evergrande also wanted to develop electric cars together with a partner. However, this turned out to be a very costly and difficult affair. In November 2020, when Guo Shuqing, head of the banking regulator, called the real estate sector the biggest risk to financial stability and demanded deleveraging of real estate companies, the environment for Evergrande deteriorated further. Rating agencies downgraded Evergrande's bonds. The company began to have difficulty

servicing interest payments on time. Many international investors who had bought dollar bonds from Evergrande now realised that they would have no access to the assets in China in the event of insolvency. Evergrande has a shell company in the Cayman Islands, a tax haven. The investors only acquire shares from this shell company. This allows them to circumvent Chinese regulations, capital controls and restrictions on foreign investors. For investors, however, this also has the consequence that in the event of bankruptcy they only have access to the very small assets of the offshore limited liability company. Evergrande was unable to repay bonds due on 6 December 2021. The Guangdong provincial government sent staff to review risk management, strengthen internal controls and maintain normal operations. Evergrande assured them that the construction projects it had started would be completed. The Chinese central bank stressed that the problems of a real estate company do not jeopardise the longer-term financing of construction activities. It also stated that Evergrande's problems were caused by mismanagement and breakneck expansion.⁶⁵ In early January 2022, the company left its previous prestigious headquarters in the Excellence Centre for a more modest building with the aim of cutting costs. Several lawsuits against the company were filed by aggrieved customers and investors with the competent court in Guangdong and in Hong Kong.

In January 2024 the court in Hong Kong decided to liquidate the company. The Evergrande liquidators in Hongkong want to recover \$6 billion from its founder and other top company executives and started legal action against PwC, accusing the auditor of negligence. Because liquidation orders by a Hong Kong court are not automatically recognised in other cities of China a final solution might still be some way off. Furthermore other developers also have problems. Country Garden, the other giant, has more than \$200 billion in debts. Payment defaults are to be feared there as well. But Chinese city and provincial governments are stepping in where necessary and therefore an orderly debt restructuring can still be expected.

65 Reuters, "China's Guangdong summons Evergrande boss after debt repayment warning", 3 December 2021.

Market access for foreign companies

One problem remains despite the progress made in transforming the Chinese economic model: general market access and equal opportunities for foreign companies. This is described in detail in the reports of the European Chamber of Commerce. More than 1,700 European companies operating in China are organised in this chamber. They contribute everyday experiences to working groups that issue statements on economically important topics with demands to politicians.

Jörg Wuttke has been President of the European Chamber of Commerce in China for many years and has been re-elected several times. He has lived in the People's Republic for over 20 years and was the Managing Director of BASF (China). Hardly anyone knows the country better. At a meeting with Jörg Wuttke I found that he has an impressive knowledge of facts and people, and his sober and unvarnished assessment of Chinese politics is enlightening. He not only knows business reality well, but also the political context. When asked whether an alliance between China and Russia against the West was to be feared, he described in great detail how resolutely Chinese business partners assert their economic interests even against Russian companies. Under his leadership, the European Chamber of Commerce became a valued and respected interlocutor. Anyone interested in China's economic development should read the annual position paper 'European Business in China'. The Chamber is not only in communication with the Chinese government, but also regularly informs the European Commission and members of the European Parliament about developments in China. Their assessments also played an important role in the negotiation of the comprehensive China-Europe Investment Agreement. After seven years of negotiations, it was signed by the EU Commission and the Chinese government in December 2020. It contains provisions that further improve European companies' access to the Chinese market. Commitments to sustainable economic activity, the prohibition of forced labour and increased transparency in state subsidies were also agreed. However, the ratification of the agreement is on ice due to differing assessments within the EU (see chapter "19 | EU-China political and economic relations").

7 | The conquest of international markets

The past 20 years have seen the emergence of ever larger and more competitive Chinese companies. China is now *the* home of big business. Of the 500 largest companies in the world, 135 come from China.⁶⁶

From Africa to Europe

At first, it was the large state-owned enterprises that invested in the resource-rich countries of Asia, Africa and Latin America and also paved the way for Chinese construction companies and infrastructure investments. Subsequently, private companies established foreign subsidiaries. In the past decade, markets in developed Western economies have become increasingly important for Chinese foreign investment.

Chinese companies and investors are very present not only in neighbouring Asian countries, but also in Latin America and Africa. China is now the most important trading partner for the African continent; in many African countries, Chinese companies are among the largest foreign investors. In Ethiopia, China is number one, in Kenya number two and in the most populous African country, Nigeria, the Chinese are the fourth largest foreign investors.

Western commentary often associates Chinese investment in Africa only with access to natural resources by Chinese state-owned companies. There are also fears of a debt trap due to large infrastructure projects financed by China. The first comprehensive study of loans granted by China and the associated loan conditions came to the conclusion that China is the largest lender in the world. The loan agreements show that Chinese partners are very businesslike. The agreements contain detailed rules to secure the loans. It cannot be said that the agreements – with very

⁶⁶ China is thus number one, even ahead of the US. See the Fortune Global 500 list of world companies of 2021.

few exceptions – violate international standards and rules. However, it is regrettable that the loan agreements contain confidentiality obligations that limit transparency and public control.⁶⁷

The diversity of Chinese involvement is not widely known. A study by management consultancy McKinsey found that 10,000 Chinese companies are economically active in Africa. Of these, around 90% are private companies. McKinsey estimates that several million Africans are employed in Chinese companies.⁶⁸

I was able to discuss the advantages and disadvantages of Chinese investments with students. One of these students came from Ecuador. She had a degree and had already worked in the Ministry of Agriculture before obtaining a scholarship for PHBS. She underlined the advantages of Chinese infrastructure projects in opening up her country and thus also boosting its economy. However, she also stressed the risk of too much dependence. In Ecuador, she said, there is a debate on whether national sovereignty could be endangered by the many Chinese loans. Most of the oil production had already been transferred to Chinese companies as collateral.

An African student from Guinea was even more critical of debt-financed development. He also saw no difference between loans from Western countries or from China. The risk of bad investments, dependencies and corruption was always there. He argued for a copy of the Chinese development model with special economic zones: attract foreign investors under clear conditions, protect the national market and build up an export industry. He had looked into the seven special economic zones that Chinese investors had already implemented in six different African countries under the name 'African Shenzhen'. He criticised these special economic zones because the selection of economic priorities did not correspond to an African industrial strategy, but to the interests of Chinese investors.

67 Gelpern, A., Horn, S. et al (2021) "How China Lends, Kiel Institute for the World Economy", Kiel Institute for the World Economy, Peterson Institute et al.

68 McKinsey & Co., "Dance of the lions and dragons, how are Africa and China engaging, and how will the partnership evolve?", June 2017.

In Germany, the presence of Chinese companies was only discussed by a broader public when the Chinese household appliance group Midea took over the Augsburg robot manufacturer Kuka in 2017. Chinese investors had been investing more and more in Europe since 2010 and had already taken over important companies such as Volvo in Sweden, Pirelli in Italy, and Krauss-Maffei and Putzmeister in Germany. For a long time, these Chinese investments were viewed positively. They were seen as evidence of Germany's attractiveness as a business location. In Germany in particular, foreign direct investment was seen as normal for an open and internationally oriented economy. The concerns of the French government, which has traditionally been much more critical of foreign investors, were dismissed as protectionist. Moreover, for decades German companies had invested much more in China than vice versa. Only the takeover of Kuka sharpened the view that China's companies were proceeding strategically within the framework of a national industrial policy and becoming technological leaders in more and more areas. The assessment of Chinese investments began to change. In the meantime, the law has been tightened and makes it possible to protect strategically important companies against investors from non-EU countries. In the case of the intended takeover of the Westphalian special machine tool manufacturer Leifeld, a hint from the Federal Ministry of Economic Affairs and Technology was enough to make the Chinese company Yantai Taihai pull out. The German government also supported the establishment of a European information system on foreign direct investment, which became legally binding in 2019. This allows the European Commission to alert member states to foreign investments that threaten common European interests. Chinese direct investments in the EU have declined significantly since the peak of 2016–2017.

Huawei between business and politics

Huawei is the prime example of an internationally successful Chinese company. At the same time, the sanctions imposed on the company by the US government and several other states show that business and politics can no longer be separated in the globalised and increasingly polarised world.

Huawei was founded by Ren Zhengfei in Shenzhen in 1988. Within a few decades, it became an international company with more than 140 subsidiaries worldwide and more than 190,000 employees. It develops

and manufactures communication technology devices. The company is now the world's largest provider of telecommunications infrastructure and is leading the way in building infrastructure for the new 5G mobile phone standard. In addition, Huawei is also one of the largest smartphone producers. The new 5G standard is revolutionising data transmission. This allows for completely new applications: the Internet of Things, telemedicine, autonomous driving, facial recognition and artificial intelligence. 5G is seen as a key technology for the fourth industrial revolution.⁶⁹ In the competition for future markets, control over data communications is crucial. Huawei has its headquarters and research departments in Shenzhen, in the middle of a spacious park. Huawei also has its own university campus inland near Dongguan, a good hour's drive from Shenzhen. The university campus is architecturally unusual. The buildings were modelled on Heidelberg Castle. The architecture already manifests the company's international aspirations for future executives. Of course, Huawei operates research centres worldwide. In Europe, the first research centre was founded in Sweden in 2000. Today, the largest European Huawei research centre is located in Munich. The company maintains partnership agreements with 150 universities in Europe alone.

The Business School was in regular contact with the company. For international students, a company tour was part of the standard programme. Over time, I was able to establish good personal contacts with some Huawei employees. In 2015, I attended a meeting that took place in a villa in the mountains above Shenzhen belonging to the company. The location allowed for an impressive view of lower Shenzhen stretching along the coast. An American academic presented a study on the development of the digital economy to a small group of Huawei employees and external experts. The discussion then turned to the company's international strategy. At that time, the open trade conflict between China and the US had not yet broken out. Nevertheless, there were already initial restrictions on Huawei in the US, for example in supplying public institutions. Therefore, the American market was already considered difficult in 2015. When it came to the European market, on the other hand, there were very high growth expectations. Huawei had begun its international rise with successes in Africa, where it became

69 Klaus Schwab, long-time professor in Geneva and founder of the World Economic Forum in Davos, popularised the term with his book *The Fourth Industrial Revolution* in 2016.

the dominant equipment supplier for telecommunications infrastructure. The second step was to conquer the markets in the US and Europe with the latest technology and adapted services.

During company presentations to foreign investors and business partners, it is always emphasised that Huawei is not a state-owned company. It is owned by its employees. The founder Ren Zhengfei has only a small shareholding in the company. The self-image as an international company was emphasised; the largest part of its turnover of over \$110 billion was already achieved outside China.

Lecture by company founder Ren Zhengfei

I was able to experience firsthand that there is also a different focus when presenting the company to Chinese students at a lecture by Ren Zhengfei at the Business School. He had been invited to talk about his history and his experiences as a successful entrepreneur. Ren Zhengfei mentioned his simple background and the hard work that was necessary to be successful. He emphasised that only the unconditional commitment of all employees made it possible for his company to prevail against overpowering Western competitors. When China opened up, he said, the established Western companies came and sold their telephone systems at inflated prices. They acted arrogantly because they felt technologically superior. In this way, they failed to take sufficient care of customer needs. For Huawei, on the other hand, the focus was on the customer, not the technology. He took the wolf pack as a model for Huawei managers to follow. Look for new opportunities, stand together when attacking a competitor and be persistent. He could not hide his pride in being a world leader as a Chinese entrepreneur.

Huawei's corporate culture

I discussed Huawei's phenomenal rise with my students. We also analysed publications by and about Huawei.⁷⁰ The results can be summarised as follows: Chinese employees are connected to the company through company shares. Everyone is expected to work extra hard: 'Working 40

70 Tian Tao (2017) *Huawei, Leadership, culture and connectivity*. Tian Tao and Wu Chunbo (2015) *The Huawei Story* (New Delhi: SAGE). Huang Weiwei (2016) *Dedication: The Huawei Philosophy of Human Resource Management* (London: LID Publishing).

hours a week will only make you ordinary – you will never become a successful musician, dancer, scientist, engineer, or business person.⁷¹ Employees are asked to identify with the company and its goals. Only then will Huawei be among the best.

Huawei spends a very high proportion of its turnover on research, over 15%. Some 40% of employees work in research and development, 35% in sales and marketing and only 15% in production. The founder Ren Zhengfei is still very present, although the day-to-day work is left to managing directors. These managing directors rotate regularly. The employees are young, highly qualified and very motivated. There is an increasing proportion of foreign employees, even at headquarters in China. These foreigners cannot acquire shares in the company, but they receive a performance-related bonus payment.

One employee who had been poached by the Swedish company Ericsson told me that relations between Chinese and international workers were tense. In particular, the lack of transparency was a problem. He had the impression that the important decisions are made only in a small circle of Chinese employees.

Three reasons explain the company's rapid rise:

- (i) Deng Xiaoping's opening-up policy: start-ups were suddenly politically desirable and companies were state-subsidised.
- (ii) At the same time, there was fierce competition between companies. This first Chinese generation of entrepreneurs had an unconditional will to succeed and was also prepared to break rules. There was a 'goldrush mood' in the sense that anything that contributed to business growth was allowed.
- (iii) Huawei differed from the other Chinese telecommunications companies such as ZTE or Great Dragon through the corporate culture that Ren Zhengfei cultivated. He honed his employees for performance and success. For example, he had his management study the history of European colonial states. He wanted them

71 Quotation from Ren Zhengfei in Huang, *Dedication*, op. cit. p. 33.

to understand what makes organisations successful and what developments lead to their downfall. In his many management recommendations, he repeatedly emphasised that companies have to fight in order not to go under. He stressed that sales success is the benchmark. "Salespeople must persevere and be aggressive like wolves or sometimes even like militant gangsters. They must not back down".⁷²

At the same time, it allows the employees to participate directly in the financial success of the company through share ownership. In order to inculcate in employees an understanding that belonging to this community requires full commitment, they are asked to sign a declaration in addition to the employment contract. In this declaration, the employee commits to the principles of the company.⁷³

The Chinese students exhibited mixed views when discussing Huawei's corporate culture. A few were enthusiastic about the concept of success. Others were concerned about the lack of balance between work demands and free time.

US sanctions against Huawei

Huawei has been the target of numerous administrative and legal actions on the part of the US government. As early as 2012, the Congressional Intelligence Committee published a report stating that national security was threatened by Huawei's access to the American telecommunications infrastructure. According to this report, Huawei's products and services were a security risk because the Chinese government could force the company to share confidential information. Legislation was passed to exclude Huawei from public tenders. Measures against Huawei were tightened in 2019 and 2020. In May 2019, Huawei was placed on the so-called 'Entity List'. This restricts the ability of American companies to sell products and services to Huawei. American telecoms companies were required to replace Huawei products in their networks with technology from other vendors. The US government also asked friendly governments

⁷² Translated and quoted from Tain, *The Huawei Story*, op. cit., p. 90.

⁷³ An employee who worked for Huawei in Belgium told me that this practice of having the employee sign a declaration has also led to controversy. Some Belgian employees refused because this is not provided for in Belgian labour law.

not to approve Huawei products for telecommunications infrastructure. In addition, several criminal cases have been brought against Huawei employees. On one occasion, Huawei was alleged to have stolen trade secrets from the T-Mobile company. In addition, financial director Meng Wanzhou – daughter of the company's founder – and other employees were accused of circumventing the sanctions against Iran. Huawei is alleged to have supplied products containing proprietary American technology through a subsidiary.

In December 2018, Ms Meng was arrested in Canada and placed under house arrest. The US had requested her extradition. In the same month, two Canadian citizens were arrested in China on suspicion of espionage. Ms Meng reached an agreement with the New York prosecutors after almost three years of negotiations. Her house arrest was lifted. She flew back to China from Canada in early October 2021. At the same time, the two detained Canadian citizens were able to fly back to Canada. Despite this agreement, Huawei remains at the centre of the US-China geopolitical conflict, with a massive impact on its business. The sanctions also affect European companies. Any company that does business with Huawei outside the US market and without a special exemption will face legal action in the United States.

The fact that Huawei could no longer use the Android operating system for its new mobile phones has had a particularly negative impact. The company's 2021 sales fell by almost 30% compared with 2020. Huawei was forced to significantly restrict its business activities. In Europe, the company had to lay off employees. But very quickly the company made a roaring comeback in its Chinese home market with a number of new models, challenging the leading position of Apple's iPhone.

8 | China's geopolitical position

The New Silk Road

While under Deng Xiaoping China was still very cautious in its foreign policy, this has changed with Xi Jinping. China is becoming aware of its strength and the government is developing means of influencing international development. The New Silk Road has become a symbol of China's international aspirations. In September 2013, Xi Jinping gave a keynote address at Nazarbayev University in Kazakhstan entitled "Promote friendship among peoples and create a better future". This speech introduced the idea of a New Silk Road for the first time. As usual, his speech included references to history. He mentioned that 2000 years ago, the imperial envoy Zhang Qian had been sent to Central Asia to establish friendly contacts. Exchanges developed along the historic Silk Road, which connected the peoples of Asia and Europe for many centuries. Xi Jinping proposed to establish a new economic Silk Road. At that time, it was still a buzzword, a political aspiration that had to be filled with content. In accordance with China's long-term policy, this political idea was concretised step by step. Suggestions were gathered, studies commissioned and international experiences compared. In April 2014 I participated as expert in one of the many conferences that were held on the New Silk Road. It was planned as an academic exchange of ideas. The Chinese hosts had invited high-ranking people and gathered a lot of professional and political expertise: a former Greek EU Commissioner, a former Spanish Foreign Minister, a former Italian Minister of Economic Affairs, ambassadors from European and Asian countries, the Secretary General of the Shanghai Cooperation⁷⁴ and a few other experts. On the Chinese side, there were representatives from ministries, the National Development and Reform Commission, research institutions and universities. For me, the conference showed that the New Silk Road was

74 The Shanghai Cooperation is an international institution based in Beijing. It deals with cooperation in security policy matters, economic and trade policy issues. It currently has nine members, including Russia and India.

about developing a strategy aimed at expanding China's international influence. Some of the foreign experts made the mistake of assessing the New Silk Road only as an economic project. Others focused their comments on the technical aspects of infrastructure financing to improve trade routes. They were therefore confused when Chinese speakers introduced the idea of a peace prize for the New Silk Road into the discussion. For China's policy planners, economics and politics always belong together. Therefore, the New Silk Road was also only conceivable as an all-encompassing strategy. In my contribution, I presented the EU Baltic Sea Strategy as a model for international cooperation. The Chinese participants found this interesting because it was characterised by an overall concept. Regions, states and EU institutions work together on the EU Baltic Sea Strategy. It is about the economy, but also the environment, research and common infrastructure. There is also a geopolitical dimension, namely competition and cooperation with Russia. Through Kaliningrad, Russia is directly connected to the Baltic Sea and therefore directly affected by many Baltic Sea issues. The EU Baltic Sea Strategy allows many actors, such as cities, ports, universities and chambers of commerce, to bring their existing Baltic Sea cooperation into the framework of a larger strategy.

This is precisely the idea that Chinese policymakers pursued, to build a platform that provides a common framework for diverse Chinese initiatives, combining domestic policy goals with foreign policy goals.

During the conference, some of the international experts expressed a rather sceptical view and saw only limited potential for the new initiative. After all, there were already many programmes involving the World Bank, the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank. They were to be proved wrong. The New Silk Road has become a great political success. Over the next few years, the New Silk Road Initiative took on more and more precise content. On 16 May 2017, a major conference on international cooperation was held in Beijing. The declaration stated that the New Silk Road is also open to cooperation with Africa and Latin America.⁷⁵

75 Joint Communiqué of the Leaders Roundtable of the Belt and Road Forum for International Cooperation, 16 May 2017.

Meanwhile, under the new name 'One Belt One Road' (OBOR), the strategy includes six land corridors connecting Asia with Europe. There is also the Maritime Silk Road, which includes ports not only in Asia and Europe, but also in Africa. The New Silk Road has become China's global geopolitical programme with targeted infrastructure projects amounting to almost a trillion euros. More than 130 countries in Africa, Latin America, Europe and Asia have signed OBOR agreements with the Chinese government. The Chinese government has also built a national Silk Road Fund and established a new international financial institution, the Asian Infrastructure and Investment Bank (AIIB), with the participation of more than 100 countries. The AIIB began operations in December 2015 and is headquartered in Beijing. The bank is housed in an architecturally attractive office complex. There is a 360-degree view of the city and nearby mountains from the upper floors of the buildings. Important European states such as Germany, France, Italy and the United Kingdom have contributed capital to the AIIB as founding members. In this way, they had the opportunity to influence the way the bank operates. This is linked to the hope that European companies will also have a chance when it comes to lending. The US and Japan, on the other hand, have refused to participate. The bank's task is to finance infrastructure investments in Asia. So far, however, most of the more than 1,000 OBOR projects already agreed upon have been financed by Chinese state banks. The tendering and transparency rules that apply to AIIB lending were not applied to these projects. The hope of European companies of involvement in OBOR projects has scarcely been fulfilled so far. This is the sobering conclusion of a survey by the European Chamber of Commerce. OBOR tenders go mainly to large Chinese state-owned enterprises. These companies receive comprehensive state support and advice for foreign activities. This allows for *vertical integration* in many Chinese OBOR bids: in other words, Chinese companies present an overall offer, from planning and financing to implementation and services after completion. This gives Chinese companies a good chance of gaining a foothold in third markets and also of displacing already established European companies.⁷⁶ OBOR not only allows the Chinese government to gain international influence, but also to solve internal problems. The underdeveloped western provinces are promoted as parts of the land corridors through improved infrastructure

76 The road less travelled, European Involvement in China's Belt and Road Initiative, European Chamber of Commerce in China, 2020: <https://www.europeanchamber.com.cn/en/publications-archive/762>

and increased economic activities. The infrastructure projects will open up new international markets for Chinese companies with overcapacity in the face of slowing domestic demand. China will increase security for its commodity and oil imports through new transport links and pipelines. The development of telecommunications and transport infrastructure will allow industry standards to be set for the benefit of Chinese companies. OBOR projects also allow China's large foreign exchange reserves to be better invested and strengthen the yuan's role as an international currency. Most OBOR projects to date are in the energy and transport sectors in Asia and Africa. In Europe, only smaller projects are being financed, for example an insurance company in Portugal for €2 billion, a wind farm in Greece for €1.64 billion and the modernisation of a power plant in Serbia for €1.2 billion.

The economic part of the New Silk Road Initiative has been successful for the Chinese government so far.⁷⁷ This overall positive assessment is not called into question by the fact that some projects have failed and that debt sustainability is becoming an issue for partner countries.

Less visible so far have been other initiatives associated with the New Silk Road. The increased exchange of scientists, artists and students suffered from the Covid-19 restrictions. The New Silk Road Peace Prize was established and awarded by Chinese NGOs. However, it has failed to gain international prestige comparable to the Nobel Peace Prize. The choice of the Kazakh president as the first winner certainly contributed to the perception of the Peace Prize as a reward for China-friendly behaviour.⁷⁸

New international organisations are emerging

As China's economic strength increases, so does its influence on international politics. China is a driving force in building new international structures. This is changing the international order created after the Second World War and oriented towards the US.

⁷⁷ This is also shown by the many events and political meetings that have been organized internationally on One Belt One Road in recent years.

⁷⁸ See China Public Diplomacy Association press release, Li Zhaoxing presents 'Silk Road Peace Award' to Nazarbayev, 23 May 2014.

The Shanghai Cooperation Organisation (SCO) is an international organisation that deals with security, economic and trade issues. It has eight full members, including Russia, China, India and Pakistan, and other states that participate in regular meetings as observers and dialogue partners. The SCO was founded in 2001 and is based in Beijing. SCO members do not meet only for regular exchanges of views. There is also military cooperation with joint manoeuvres.

The cooperation of the BRICS countries started with the five emerging countries Brazil, Russia, India, China and South Africa. The organisation is based in Shanghai, and the first summit took place in 2009. In the meantime, there have been annual meetings of the heads of government and complementary meetings of specialist ministers. In 2014, the New Development Bank was founded on the initiative of the Chinese government with the aim of promoting economic development in BRICS countries and developing countries. The bank is headquartered in Shanghai, with regional offices in Africa, Latin America and Russia. The New Development Bank is open to other members. Bangladesh and the United Arab Emirates have already joined, and other countries have applied for membership. Even if the bank is enlarged, the BRICS founding states are to retain at least 55% of the voting rights.

The Asian Infrastructure and Investment Bank, which was built by China together with 57 founding members, is expanding its membership. This will increase its share capital and financing volume. In October 2021, the AIIB already had 104 members and capitalisation of \$100 billion.

China is also increasing its participation in existing international organisations. For the UN, China now provides the largest contingent of soldiers in peacekeeping operations. Chinese staff also work in important administrative positions in the World Bank and the International Monetary Fund. Politically, China is pushing for reform of the international financial institutions to strengthen its position and to give developing countries greater influence in decision-making. The head of the International Monetary Fund, Kristalina Georgieva, has had painful personal experience of how politically sensitive the handling of Chinese issues has become in the international institutions. She was accused of having exerted influence in her former function as Vice-President of the World Bank to improve China's rating in the Business Ranking publication. These

accusations led to calls for her resignation, and Georgieva feared for her position.⁷⁹

New trade and investment agreements

The competition for power and influence also affects negotiations on free trade and investment agreements. Under President Obama, after years of negotiations, an agreement was reached in 2015 on a Trans-Pacific Partnership (TPP) between 12 participating states. China was not invited to the negotiations. This agreement aims to reduce tariffs and technical barriers to trade, liberalise trade in services and open up procurement markets. It also includes rules on the protection of intellectual property, investment and state-owned enterprises. The political goal of TPP for the Obama administration was to create a counterweight to the economically ever stronger China. After Trump's election victory, the US withdrew from the agreement in 2017. It entered into force in 2018 with the remaining eleven member states. China has since applied to join.

At the same time, after eight years of negotiations, a regional partnership with 14 Pacific countries – including China, Japan, Korea and Australia – was concluded at the end of 2020. The agreement reduces tariffs and establishes common trade rules. This created the largest free trade bloc in the world with the participation of China but without the US.⁸⁰ Even though this agreement is not very ambitious and provides for manageable tariff reductions with transition periods, it will help to increase the exchange of goods between Asian countries. China, as the economic centre of Asia, will particularly benefit from this.

79 On the allegations see "Massive accusations against the IMF chief – data falsified in favor of China?", *Handelsblatt*, 3 October 2021.

80 Compare on trade agreements: Hilpert, H. G., "New Trade Agreements in Asia", SWP-Comment No. 23, 23 March 2021.

9 | China's soft power

In 1990, the term 'soft power' was used for the first time by US political scientist Joseph Nye. He saw soft power as a state's ability to achieve its goals through force of attraction, without the use of physical force or payment. The term quickly caught on and is now used by scholars and politicians to describe the soft instruments with which international influence can be exerted. The US, in particular, is seen as having a lot of soft power due to the cultural appeal of the American way of life. Hollywood's film industry, American multinationals, music, sports, culture and science – as well as a vibrant civil society – have contributed to the spread of American values worldwide.

In my conversations with entrepreneurs, government officials and students, I have experienced time and again how fascinated the Chinese are by the US. While at the beginning of the twentieth century France and Great Britain in particular still played a role as models for China's modernisation, the US is now the reference. However, their attractiveness has suffered greatly due to Donald Trump. This was also confirmed to me by the Chinese entrepreneur from Canada mentioned earlier. He says that the worst thing about Trump's approach was not his trade measures against China, but his attacks on the press. This leads to a situation in which people in China no longer believe in independent journalism and a free press. His Chinese business partners have always been sceptical about Chinese media because they are state-controlled. In the meantime, however, they no longer believe any Western media either.

The Communist Party keeps a very close eye on how Western ideas influence Chinese society. This does not prevent Chinese policy from promoting international contacts and encouraging young Chinese to study abroad. Foreign education providers, for child-rearing, school or university studies, can also be found in Chinese metropolises. China is in the process of building its own instruments of influence in other countries. This concerns all areas that play a role in China's soft power.

China's international media

The Chinese government has long groused that the international press is dominated by Western media. In 2016, a new global media company was therefore established: the China Global Television Network (CGTN). CGTN has an international presence with bureaus and journalists in the Americas, Europe, Africa and Asia. It broadcasts programmes in five languages (English, French, Spanish, Russian and Arabic). CGTN's mission is to be China's voice in the world. In a letter to CGTN staff, President Xi described the mission thus: let the world know about a three-dimensional, colourful China, show China's role in creating a peaceful world.⁸¹

The Chinese state media regularly invite foreign journalists, especially from developing countries and OBOR partner countries. At these events, colleagues are informed about the work of the Chinese media and seminars are offered. There are also agreements between the Chinese state news agency and foreign media partners to take over content. There is also increasing investment in foreign media companies. For example, a Chinese investor has acquired a 20% share in Kenya's second largest media company, and the provincial government of Guangxi has set up a new television station, Nice TV, with Cambodia's Ministry of the Interior. Here too, once again, business and politics go together.

A study by the International Federation of Journalists found that most journalists who have participated in Chinese programmes expressed satisfaction with them. At the same time, the study is concerned that China is exporting the model of state-controlled journalism.⁸² However, a study by the Australian Lowy Institute concludes that CGTN still has great difficulties in developing a clear editorial line. It seems to have had limited success in attracting a wider international readership.⁸³

81 See "China's state broadcaster CCTV rebrands international networks as CGTN in global push", *South China Morning Post*, 31 December 2016, <https://www.scmp.com/news/china/policies-politics/article/2058429/chinas-state-broadcaster-cctv-rebrands-international>.

82 "The China story: Reshaping the world's media", *IFJ Report 2020*.

83 Varrall, M., "Behind the news: Inside China global television network", Lowy Institute, 16 January 2020.

China's film industry

In 2022, China overtook the US in the film industry for the second time. There are 82,000 movie theatres in China and 472 films were released in 2021. Several thousand new cinemas are added every year. Meanwhile, the Chinese market is number one worldwide with a share of almost one-third of the international film market. It is therefore also very interesting for the non-Chinese film industry. Foreign films, especially the American blockbusters, do play in Chinese cinemas, but only after obtaining prior permission. Permission is granted strategically and selectively. For decades, the People's Republic was the most important foreign market for Hollywood's film industry. In the meantime, China has built up its own thriving film industry that competes successfully with Hollywood. Eight of the ten most watched films in China in 2021 came from domestic production. The Chinese war film *The Battle of Lake Changjin* was particularly successful. It shows a victory by Chinese soldiers over American troops in the Korean War. The film was the most expensive Chinese production to date and was released in time for the 100th anniversary of the Communist Party.⁸⁴

Confucius Institutes

To spread the Chinese language and culture, the Chinese government began establishing Confucius Institutes in 2004. There are now over 500 of them in 146 countries worldwide. In addition to language courses, cultural events, films and lectures about China are offered. Many Confucius Institutes cooperate with universities in their host country. The work of the Confucius Institutes repeatedly leads to controversy. In some countries, for example, there are fears that Confucius Institutes are carrying out propaganda on behalf of the CPC. The Conservative Party in the United Kingdom called for all 29 university agreements with Confucius Institutes to be terminated. In the US, half of the existing 110 institutes have already been closed. Sweden was the first country in the EU to dissolve all Confucius Institutes. In France and other European countries, too, accusations of political influence and censorship have been heard time and again.⁸⁵ Until 2020, the Confucius Institutes were

84 See "La Chine devance encore les Etats-Unis au box-office", *Le Figaro*, 7 January 2022.

85 See "Confucius en France: le si discrets relais chinois", *Le Monde*, 9 July 2021.

under the authority of the Chinese Language Council International Office, headed by a Politburo member. In response to criticism, the Confucius Institutes were decentralised and assigned to Chinese universities.

Participation in international sport

Sporting successes at major media events such as the Olympic Games enhance the reputation of any country. It is therefore not surprising that top-level sport is systematically and now quite successfully promoted by the Chinese government. But China's sporting successes have a long history.

Many of the sports that are now Olympic disciplines were first introduced to Asia by the European colonial powers. The Qing Dynasty's enforced treaties with the Western colonial powers not only opened up the country to opium and other goods. Unrestricted missionary activity by Christian churches was also permitted. This allowed the establishment of many denominational schools, which also had a Western sports programme on their curriculum. The imperial reforms of Chinese education adopted the Western idea of physical education in the mid-19th century. The first national sports competitions were organised at the beginning of the twentieth century. From 1932, Chinese athletes took part in the Olympic Games. In 1958, however, the People's Republic of China left the International Olympic Committee because of the participation of a delegation from Taiwan. It was not until 1980 that athletes from the People's Republic were again able to travel to international competitions.

As early as 1956, under Mao Zedong, a top-level sports system was introduced in China, modelled on the Soviet Union. Sports schools were set up where half-day 'cramming' took place, followed by training. National championships were introduced, held every four years. With the opening up of China by Deng Xiaoping, increased international cooperation also began in sport from 1980. Foreign coaches were hired for many Olympic sports. Chinese athletes are now among the world's best in many disciplines. At the Summer Olympics, which were held in China for the first time in 2008, they won 48 gold medals, ahead of the US athletes, who won 36. In the following Summer Olympics, too, Chinese athletes fought battles with their US counterparts for first or second place. Also in the Paris Summer Olympics 2024 Chinese athletes performed very strongly, gaining as many gold medals as the United States. In the Winter

Olympics, however, Chinese athletes have long been less successful and were only in the top quarter of the medal table.

The 2022 Winter Olympics in Beijing therefore provided a good opportunity to showcase top performances. However, the prestige gained was diminished in the international public eye by the fact that many countries allowed athletes to take part in the Winter Games, but demonstratively refrained from sending an official delegation. The United States, the United Kingdom, Australia, New Zealand and other states declared a diplomatic boycott because of Chinese human rights violations. India also decided at short notice not to be diplomatically represented at the opening event. This was in protest against one of the Chinese torch runners, a People's Army soldier who had been involved in the India-China border clashes in 2020 in the mountainous region of Ladakh in Tibet.

The sporting ambitions of the Chinese leadership go beyond the Olympic Games, however. In 2016, the Chinese Football Association announced its intention to make China a world-leading football nation by 2050. Football has been included in the curriculum of many schools. By 2025, 50 million pupils are to receive football lessons. Foreign football coaches have been hired for sports clubs. A Super League for Chinese football was established. Companies have invested large sums of money in the clubs and internationally famous players have been signed. For example, the club Shanghai SIPG paid Chelsea FC more than 60 million euros for the Brazilian midfielder Oscar in December 2016. The moderate successes in international football competitions so far do not yet justify the amount of money already invested. But there is still time until 2050.

10 | Taiwan: an unresolved historical legacy

Relations between the People's Republic of China and the government in Taiwan repeatedly lead to bilateral and international tensions. In the public debate in Western countries, the dispute is often presented as follows: the communist People's Republic wants to annex the democratic country of Taiwan. This simplified view does not do justice to the Taiwan conflict, however.

The history of Taiwan

Taiwan is an island about the size of the Netherlands with a population of over 21 million. The capital Taipei, with 2.6 million inhabitants, is the seat of government. The island lies between Japan to the north and the Philippines to the south and is separated from mainland China by a strait. In addition, numerous smaller surrounding islands are administered by the government of Taiwan. The island was discovered by Portuguese sailors who named it Formosa. In the mid-17th century, Taiwan was a colony of the Dutch East India Company for 40 years. An indigenous population lived on the island. The Dutch began recruiting Chinese peasants from mainland China to farm. In 1644, on mainland China the Ming Dynasty was overthrown by the Qing Dynasty. The defeated Chinese Ming general Koxinga fled with his troops to Taiwan and fought for control of the island. In 1662, the Dutch capitulated and left Taiwan. Twenty years later, the new rule also came to an end when soldiers of the Qing Dynasty took the island. Taiwan thus belonged to the Chinese Empire as part of Fujian Province for the next two hundred years. After the Sino-Japanese War in 1895, Taiwan came under Japanese rule until the end of the Second World War. In October 1945, the last governor general and commander of the Japanese troops handed over the surrender document to Chinese General Chen Yi. Taiwan was returned to the Chinese Republic, then ruled by Chiang Kai-shek, in accordance with the Potsdam Declaration of the victorious powers.

During the Japanese colonial period, economically the island had developed better than mainland China. After Japan's surrender, the Chinese mainland troops were initially given a friendly welcome. As the Kuomintang government became more repressive, nationalised or banned private trade in many goods and the economic situation deteriorated, unrest broke out. The Kuomintang (KMT) government brought in troop reinforcements from the mainland. Raids were carried out. The measures were aimed specifically at the educated, Japanese-influenced Taiwanese upper class. The casualties were numerous, with estimates ranging from 10,000 to 30,000 dead. Following the riots, a new cultural policy took hold. Chinese history was taught in schools and High Chinese had to be spoken. When the Communist Party won the civil war on the mainland at the end of 1948, the government of the Chinese Republic fled to Taiwan. Chiang Kai-shek moved to the island with the entire administration and his soldiers, a total of two million people. Both the People's Republic of China, which had been proclaimed on the mainland, and the Kuomintang government, which had fled to the island, claimed the right to represent China as a whole. Taipei was declared the provisional capital of the Republic of China by the Kuomintang government. While the US and its allies recognised the Kuomintang government as representing all of China, the People's Republic of China was considered legitimate by the socialist countries.

The Law for Combating Communist Rebellion restricted personal freedoms in Taiwan for several decades. The island was ruled in an authoritarian manner until the 1980s and the administration was staffed almost exclusively by mainland Chinese. The goal of the KMT government was to reconquer the mainland. This did not prevent Taiwan from developing well economically. Together with Singapore, Hong Kong and South Korea, it was one of the 'Asian tigers' that earned international admiration for its economic successes.

Diplomatically, however, Taiwan's situation became increasingly difficult in the early 1970s. More and more states established diplomatic relations with the government in Beijing. In 1971, the UN resolved that the government of the People's Republic of China represented Taiwan. UN Resolution 2758 states that the People's Republic is the only legitimate representation of China at the UN. It thus became one of five permanent members of the Security Council. Taiwan's participation in the UN and its subsidiary organisations came to an end.

Against the background of the East-West conflict and the confrontation with the Soviet Union, President Nixon travelled to Beijing in 1972. Relations between the People's Republic and the US improved. In 1979, the United States also recognised the People's Republic as the legitimate representative of the Chinese people. The US closed its embassy in Taipei. The new US-Taiwanese relationship was formalised in an act of the US Congress.⁸⁶ The resolution stated, however, that the absence of diplomatic relations with the Republic of China would not affect cooperation and that all American regulations related to other countries should also be applied to Taiwan. The American interest in good relations with Taiwan and peace and security in the Pacific was underlined. Included in the text is a demand that Taiwan's future be settled by peaceful means. The US also committed itself to supplying defence weapons. An American Institute in Taiwan was established under private law, which took over the tasks of the embassy.

The claim to sole representation and the One China policy were continued on the Taiwanese side by Chiang Kai-shek until his death in 1975. After that, his son, who succeeded him as president, continued them. Anyone who advocated an independent Taiwan was therefore breaking the law. In other areas of Taiwanese public life, however, there was a liberalisation of the authoritarian system. It was only under President Lee Teng-hui that martial law was ended in 1991. In the course of further democratisation and expansion of freedom of expression, it now became possible to campaign for an independent Taiwan. In 2000, in the person of Chen Shui-pien, a president who did not belong to the Kuomintang was elected for the first time. He was a member of the Progressive Party (DPP), which strives for greater independence from the People's Republic. During his term in office from 2000 to 2008, the development of Taiwan's own identity was promoted. In the 2008 presidential election, however, Ma Ying-Jeou, a Kuomintang candidate who sought good relations with the People's Republic and rejected a unilateral declaration of independence, won again. After his two terms, the political line changed once more. Tsai Ing-Wen, the leader of the Progressive Party, was elected. She was re-elected in 2020 with a programme that emphasised Taiwan's right of self rule, without formally declaring its independence. In May 2024 Lai Chiing-te, from the same party, was elected President. He intends to follow her line in relations with mainland China.

86 See Taiwan Relations Act, passed by the 96th Congress on 10 April 1979.

Conversation with President Ma

In August 2014, I was invited to participate in talks in Taipei. The request was made through Taiwan's representation in Brussels: international and national experts were asked to discuss peace, security and economic development at a forum. My first impression of Taipei on arrival was somewhat disappointing. I had met several Chinese in the People's Republic who described Taiwan very positively: Taiwan was the better China, combining the preservation of tradition with cosmopolitanism and modernity. Compared with the metropolises of the People's Republic, however, Taipei seemed rather provincial to me. Of course there were skyscrapers, this is part of Chinese cities. But these skyscrapers could not compare with the skylines of Shenzhen, Hong Kong or Shanghai.

The openness of Taiwan's political culture, which has now become a democracy, was evident in the political discussions. Before the Forum began at the Grand Hyatt, the foreign experts were scheduled to meet with the President of the Chinese Republic, Ma Ying-Jeou. The meeting took place in the Presidential Palace. This hundred-year-old five-storey building is more reminiscent of a well-kept colonial building than a Chinese palace. Compared with mainland China, everything was one step simpler. No elaborate protocol. Our group, which arrived in a minibus, was warmly welcomed at the stairs and led into a small meeting room. The seating arrangement was kept round and not, as usual for the People's Republic, with two parallel rows of seats and two seats at the top, one for the senior representative of the Chinese state and the other for the head of the delegation. Therefore, the Foreign Ministry was not forced to establish a hierarchy within our seven-member delegation. This would also have been difficult with a group of experts and government representatives from the US, Japan, Vietnam, Korea, Philippines, Indonesia and Europe.

President Ma was not long in coming. He started the conversation with remarks on the international economic situation and went on at greater length about the security situation in the South China Sea. Some islands are being claimed by several countries. This leads to conflicts time and again. Only a few weeks ago, Vietnamese fishing boats were driven away by the navy of the People's Republic.

Ma presented his political initiative for the peaceful resolution of the conflicts in the South China Sea: all parties should recognise the rules of

international law, freedom of navigation and air traffic had to be guaranteed. A code of conduct was to be negotiated to secure peace between states. This was to determine how disputes were to be dealt with. Even in the case of unresolved territorial claims, rules could be worked out for the joint use of the sea and air space. His appearance and excellent English illustrated this politician's international education. President Ma's parents had moved to Hong Kong from Shaanxi Province in northern China. He was born there, educated as a Catholic and able to study at Harvard Law School in the US. Before going back to Taiwan, he worked for some time in a law office in New York. As the meeting progressed, President Ma asked that each participant introduce themselves and briefly share their assessments of the political and economic challenges. He listened attentively and asked precise questions. His international experience and expertise were impressive. It speaks for the political culture of Taiwan that it can produce such worldly politicians. One question he asked surprised me. He wanted an assessment of German reunification. In a somewhat lengthy conversation, it turned out that he was very well informed. He had a positive assessment of Willy Brand's policy of détente, he knew the four-power status of Berlin and had also followed the international and European negotiations on reunification. It was obvious that President Ma had also studied the German experience closely with regard to a possible reunification of Taiwan with the mainland. After all, he and his party continued to stand in the tradition of the One-China policy. During his time in power, economic relations with mainland China became even closer. However, this repeatedly led to public protests. The younger generation in particular criticised a policy that was too lenient in favour of Beijing.

In 2016, Tsai Ing-Wen of the DPP was elected President of Taiwan. She was born in Taiwan and, like her predecessor, enjoyed a solid international education. First she studied law in the US, then graduated with a PhD from the London School of Economics. She initiated a change in policy and emphasised Taiwan's independence more strongly. She rejected the 'one country, two systems' concept that Xi Jinping also advocated for Taiwan. She also supported the protest movement in Hong Kong against the law on extradition to the People's Republic.⁸⁷ With this critical position towards the People's Republic, she was confirmed for a second term

87 For President Tsai's statement, see *Focus Taiwan*, "Tsai, Lai voice support for Hong Kong extradition bill protesters", 6 October 2019. <https://focustaiwan.tw/politics/201906100017>

in 2020 with a clear majority. During the election campaign, there was some criticism that the People's Republic was trying to exert influence in favour of the Kuomintang candidate. It is ironic that the CPC now sees the former enemy of the civil war, the Kuomintang, as its best partner in Taiwan.

The People's Republic has significantly toughened its tone against the current government in Taiwan. A sanctions list has been drawn up that includes supporters of independence and their family members. Organisations and citizens of the People's Republic are prohibited from working with the people on the list and are banned from entering the People's Republic. Incurable supporters of independence are threatened with criminal prosecution.⁸⁸ At the same time, the People's Republic has increased military pressure, with fighter planes repeatedly approaching Taiwan's airspace.

The Taiwan issue is becoming an increasingly hot point of contention in the dispute between China and the United States. Admiral Michael Studeman of the Indo-Pacific Command of the US Armed Forces, when asked about the risk of military conflict over Taiwan, replied: "For us, it is only a matter of time before this happens".⁸⁹

In Kinmen, a small island only two kilometres from the Chinese mainland, the traces of civil war and past military conflicts have now become a tourist destination. The island belongs to the territory of the Republic of China, but is within artillery range of the mainland. The island had been put on my itinerary by the Taiwanese Ministry of Foreign Affairs.

The troops of the People's Liberation Army were unable to capture the islands during the civil war in 1949. The Kuomintang, with American support, repelled the attackers. Afterwards, the island was developed as a veritable fortress, and it also succeeded in repelling all attacks in the following years. Kinmen is criss-crossed by underground canals and protective tunnels. Until the 1970s, there was repeated artillery fire. When

88 See Wang, A. "'Diehard' supporters of Taiwan independence face mainland China ban and criminal charges for living", *South China Morning Post*, 5 November 2021.

89 See the article by Buckley, C. and Myers, S. L. "Dangerous Territory, Taiwan's future at heart of deepening discord between US and China", *The New York Times*, 11 October 2021.

the People's Republic was admitted to the UN, the shelling stopped. Today, some of the fortifications are accessible to tourists. My travel companion, an employee of the Taiwanese Foreign Ministry, described the heroic defensive struggle of the National Chinese soldiers. Some destroyed tanks, which can still be seen as reminders of the fighting. She herself belonged to the post-war generation and knew this historical era only from records and stories. Before she started working at the Foreign Ministry, she had worked in the US. After she found out that I was also teaching in Shenzhen, she wanted to know everything about life on the mainland. I was amazed at how limited her knowledge of the People's Republic was. Of course, she knew her parents' stories about the impoverished mainland. It was therefore difficult for her to imagine that there are parts of the People's Republic that are now more prosperous and economically developed than Taiwan. After I learned that she can visit Europe and the US, but as an employee in her official capacity she is not allowed to go to the People's Republic, I understood her questions better.

A tourist highlight of the stay was the visit to an old blacksmith's workshop. At the back was the blazing fire of a forge, with shells stacked on the side. These grenades were from a period when the People's Republic had stopped bombing but continued the propaganda war. The grenades were no longer filled with explosives but with leaflets. The shell casings that remained on the island were later collected and put to better use. The blacksmith showed me several knife models and asked me which one I preferred. Then he took a shell casing to melt iron from it, which he hammered with powerful blows and repeatedly put into the water bath, eventually fashioning a knife. It was marked with my name, the date and a stamp. We agreed that making knives out of grenades was the right way to go. This was a symbol of the times. Exchanges between the two parts of China were increasing, new direct air links were established between Taiwan and the People's Republic. President Ma had even met President Xi Jinping in Singapore. The signs favoured détente. With the change of government and presidents in Taiwan, however, and the increasingly assertive One China policy in Beijing, conditions have deteriorated again.

The future of Taiwan is at the centre of the China-US conflict

Despite the political tensions, the economic ties between the two parts of China are becoming ever closer. Economic interdependence is in line with the strategy of the People's Republic, which particularly promotes economic relations with Taiwan. For example, a special economic zone for companies in Taiwanese business was established in the People's Republic with the aim of deepening trade and investment relations. In 2020, Taiwan's trade with mainland China set a new record: 44% of Taiwan's exports went to the People's Republic. Taiwan again generated a large trade surplus. The People's Republic is not only an important sales market for Taiwan's companies, but also a production location. The Taiwanese Foxconn Group, with its factories and one million employees, is one of the largest private employers in the People's Republic. As world market leader for advanced semiconductors the Taiwanese company TSMC is an indispensable supplier for Chinese industry. For quite some time the government of Taiwan has sought to reduce its economic dependence on the People's Republic, although this reorientation is not yet evident in everyday economic life. There are, however, international trading partners who, despite Beijing's criticisms, are willing to conclude trade and investment agreements to intensify economic relations with Taiwan.

Xi Jinping's historic resolution, adopted by the Central Committee after four days of deliberations in November 2021, also mentions Taiwan and declares that it, like Hong Kong, belongs to the People's Republic. The ending of the protest movement in Hong Kong by introducing the security law and changing the electoral system is assessed as a great achievement of the Party. The resolution makes it clear that Xi Jinping is striving for an appropriate solution for Taiwan and does not intend to leave the settlement of the Taiwan issue to future generations.⁹⁰

In the first direct video conversation between US President Biden and Xi, lasting over three hours, on 15 November 2021, Taiwan was high on the agenda. The Chinese president stated: 'If Taiwan's pro-independence and pro-separatism forces challenge or crosses red lines, then we have

90 See Zheng, W., "China's Communist Party backs Xi Jinping's firm hand on Hong Kong and Taiwan", *South China Morning Post*, 12 November 2021.

no choice and must take drastic measures.⁹¹ Joe Biden, on the other hand, declared that 'The U.S. remains committed to the One China Policy, in accordance with the Congressional Resolution, the three Joint Declarations and the six Commitments. The US is firmly opposed to unilateral efforts to change the status quo and undermine peace and stability in the Taiwan Strait.'⁹²

These mutual statements show how difficult it is for the United States to deal with the Taiwan issue. The Chinese government's position is clear and simple: Taiwan is part of China and all necessary measures will be taken to achieve reunification in the long term. The American position, on the other hand, is a diplomatic tightrope act with many ambiguities. The US only recognises the People's Republic as the rightful representative of the entire Chinese people. Taiwan and Beijing are supposed to come to a peaceful agreement on the modalities of cooperation and possible reunification. The US has promised Taiwan arms supplies, but has not given a clear guarantee of assistance. As long as the majority of the people in Taiwan feel they belong to a common China, this policy is tenable.

But surveys show that the young generation increasingly favours independence. What happens if the majority of people in Taiwan decide in favour of independence from the People's Republic? Applying the Biden declaration, the US would have to oppose such a decision because it would mean a unilateral change of the status quo. Politically, however, it is hard to imagine the American government condemning people who want to live in a democratic system of government.

American strategists point to another development that increasingly threatens to challenge the status quo. China's military capabilities are growing. The Chinese air force has 2,500 aircraft, including state-of-the-art stealth fighters that can barely be detected by radar. China now has the largest naval force in the world, with 360 ships compared with 297 US warships. However, with eleven aircraft carriers, the US is still well ahead of China, which has only two (with a third nearing completion). China

91 Delaney, R., Churchill, O. and Ng, T., "Xi Jinping urges Joe Biden to put US policy on China back on track", *South China Morning Post*, 16 November 2021.

92 White House Press Release, Readout of President Biden's virtual meeting with President Xi Jinping, 16 November 2021.

has a large arsenal of missiles and guided missiles of varying ranges. It has also caught up significantly in terms of nuclear weaponry, with 1,000 warheads.⁹³ The change in the military balance worries American military strategists. In the American Air Force's regular simulations of an invasion of Taiwan, the 'blue' team has already lost several times to the 'red' team. The Taiwanese defence minister also speaks of the most difficult situation in 40 years. In his assessment, the People's Republic already has the capability to invade Taiwan. At present, however, this would come at the price of heavy losses. From 2025 onwards, however, if the People's Army is further upgraded, an invasion with significantly lower losses could become possible.⁹⁴

The dramatic nature of these military analyses contrasts with the composure with which the Taiwanese population tends to react to the Red Chinese military exercises. The Taiwanese seem convinced that the People's Republic is not seeking a military solution to the Taiwan question.

93 Ziyu Z., "US-China rivalry, who has the stronger military", *South China Morning Post*, 12 June 2021.

94 See footnote 89.

11 | The US-China struggle for dominance

The first decades after the Second World War were dominated by an ideological confrontation, known as the Cold War, between a socialist bloc led by the Soviet Union and a western bloc led by the US. In Asia, this rivalry was fought out militarily in the Korean War and the Vietnam War, with millions of fatalities. Tens of thousands of American and Chinese soldiers also lost their lives in battle. Nevertheless, American policy saw the Soviet Union as the greater danger and therefore pursued the strategic goal of reconciliation with the People's Republic. Although Mao sharply criticised the policy of coexistence in the socialist camp and stuck to revolutionary rhetoric, a historic meeting took place in 1972. President Nixon travelled to China and met Mao Zedong. The talks concerned diplomatic recognition of the People's Republic by the United States as the representative of all Chinese people. American policy accepted the One-China policy, namely the People's Republic's claim to sole representation. However, it made it a condition that the Taiwan question be solved peacefully. Détente between the US and the Soviet Union, however, meant that the political motives for cooperation with China lost importance and economic issues came to the fore

China's integration into the world economy, after its opening up by Deng Xiaoping, was seen very positively for a long time. China developed into the 'workbench of the world'. Foreign companies engaged in manufacturing in the special economic zones with cheap Chinese labour for consumers in the developed economies. The outsourcing of production contributed to wage discipline at home. Cheap imports also increased purchasing power. Most economists praised the increasing internationalisation of the economy and assumed an increase in prosperity for all. The United States supported the admission of the People's Republic to the World Trade Organization in 2001. It was expected that China would follow the prevailing neoliberal economic model after a transitional period. China's expansionary growth policy made an important contribution to overcoming the 2008 financial and economic crisis in America and Europe.

However, China's successful industrial policy also led to the cheap supplier becoming a competitive rival. The emergence of a middle class in China offered many market opportunities for foreign companies, but overall Chinese companies generated a very high export surplus for many decades.

For a long time, the distributional consequences of the changed international division of labour and neoliberal policies were overlooked. There were not only globalisation winners – such as consumers in developed countries and the millions of people who escaped poverty in developing countries – but also losers. Structural change led to job losses in industries that faced increasing import competition. Investors who were mobile with their capital were particularly able to profit from the changes; many workers were not. In most countries, income and wealth inequality has increased. The US economic and social model has come under particular pressure. The real purchasing power of the American middle class has not grown since the 1960s. Income improvements in the US have particularly favoured high earners. Inequality between low and top earners has been exacerbated.⁹⁵ Capital income has risen significantly more than wage income in recent decades.⁹⁶ This too has contributed to further wealth inequality. The United States is divided. One part of its citizens is wealthy and well educated, the other is threatened by poverty and social exclusion. How difficult the developments of recent years have been for parts of American society is also shown by the fact that life expectancy in the US has been falling for several years. This is a worrying situation for a developed society that spends an above-average share of GDP on the health sector. It is therefore not surprising that the American public is increasingly critical of globalisation. Former President Trump picked up on this sentiment and promised to bring jobs back to the United States. He responded to the fears of many Americans of falling behind by whipping up xenophobia. One of his slogans is 'America first'. He rejected the free trade agreement with the Pacific states that had been negotiated for years. Existing trade agreements were cancelled and renegotiated. He has also accused China of using unfair trade practices to gain advantages at US expense. Market entry barriers, the obligation

95 Dessler, D. "For most US workers, real wages have barely budged in decades", PEW Research, 7 October 2018.

96 The Labour Share in G20 Economies, ILO Report for G20 Employment Working Group, 26 February 2015.

to transfer technology and anti-competitive state subsidies for Chinese companies were sharply criticised.⁹⁷ By imposing punitive tariffs, he started a trade war with China, which was further extended by sanctions and an export ban on certain high-tech products. But even during his term of office, inequality in the US continued to grow and the many social and political conflicts in American society intensified. Nevertheless, the US remains very attractive for many investors. The dynamism of the large American digital companies is unbroken. In 2020, despite a Covid-related decline, most foreign direct investment was made in the United States, ahead of China and the EU.⁹⁸ American share prices reached new highs in 2021. The US dollar's role as international reserve currency remains the foundation for a large and liquid capital market, internationally competitive banks, corporate financing and many start-ups.

When Joe Biden took office in January 2021, a change in economic policy was announced. A huge \$1.9 trillion stimulus programme was proposed. Its aim was to modernise American infrastructure and support the economy during the Covid-19 pandemic. New jobs were to be created, especially to benefit the less skilled and disadvantaged groups in American society. In terms of tax policy, a departure from the Trump line was envisaged as top incomes were to be less privileged than previously. But while a reduced stimulus package was approved by Congress in November 2021, the implementation of an ambitious tax policy did not find the necessary support.

An astonishing continuity of US policy is evident in relations with China, however. The Biden administration has tightened sanctions and technology restrictions from the Trump era. The official position is described as follows:

The US will work closely with partners and allies to defend our interests and values. We will pursue our economic interests and confront aggressive and threatening Chinese actions and preserve our military advantages (...) When it is in our interest, the US will work diplomatically with China on common challenges (...) in a results-oriented manner.⁹⁹

97 The US Trade Representative's Report to Congress, 2017 Report to Congress on China's WTO Compliance, January 2018 details the allegations.

98 See World Investment Report 2021, UNCTAD (New York, 2021), pp. 5 and 6.

99 State Department: <https://www.state.gov/u-s-relations-with-china/>

The two major parties have a consensus on a hard line on China despite their confrontation on domestic issues. In order to assess the further development of American policy, there is hardly a better way than to look at the deliberations and decisions of the American Congress. In 1986, as a staff member of the Budget Committee of the European Parliament, I was able to get to know the work of the Congressional Budget Office at the invitation of the American government. My respect for the extensive political work of the American legislature, which consists of two chambers, the Senate and the House of Representatives, stems from this time. Important policy questions are prepared over months, there are expert hearings, and at the end concrete guidelines are prepared for government action, including the necessary funding. Congress strongly sets the political agenda for the actions of the American government.

With regard to China, the US Senate passed comprehensive resolutions in June 2021 in the Strategic Competition Act 2021. It states that the confrontation with the People's Republic of China is the greatest current geopolitical and geo-economic challenge for the United States. The People's Republic under the leadership of the Communist Party is seen as a threat to American interests and values. The People's Republic is accused of undermining democratic institutions, disrupting financial institutions and forcing the economy to follow Chinese policies. In addition, the People's Republic and the Communist Party have been accused of human rights violations and genocide against the Uighurs in Xinjiang. The military advances and new weapons of the People's Army are seen as a threat to stability and peace.

In response, an action programme was established:

- National administrations and state agencies have to adjust their activities to the confrontation with China.
- The Indo-Pacific region must become a focus for military spending. Funds are earmarked for the training of foreign armed forces. Additional arms deliveries to Taiwan are considered necessary.
- American security guarantees for Japan, Korea, Australia, New Zealand, the Philippines and Thailand are underlined.

- A strategic infrastructure fund to promote infrastructure spending in the Indo-Pacific is proposed.
- A programme with funding will be presented to advise and support American companies that want to leave the Chinese market.
- Close cooperation with US allies is seen as necessary. Cooperation with the EU is to be strengthened with the aim of harmonising export controls and reducing dependence on Chinese products.
- Media and NGOs should be supported to better present the risks of cooperation with China, for example in the context of the New Silk Road.
- The influence of the People’s Republic on the activities of international institutions will be examined.
- In their cooperation with Chinese partners, universities should not take money from actors close to the Communist Party. The transfer of research results that could be used for military purposes must be prevented.¹⁰⁰

In November 2021, a comprehensive new report was submitted to Congress by the US-China Economic and Security Review Commission. This commission was established in 2000 and has already produced several high-profile reports on China. It was the commission that identified Huawei as a national security risk in 2004.

The report presented had been prepared through seven expert hearings and many discussions with government agencies. There were 32 recommendations, the implementation of which further complicates and restricts relations with China:

- The development of an economic defence mechanism in cooperation with US partners is proposed. The aim is to support states that are under economic pressure from China.

¹⁰⁰ See the detailed transcript, Congressional Record, 117th Congress, Washington, Vol. 167, No. 101, 10 June 2021.

- American companies with operations in China are required to report annually on whether CPC committees are involved in company decision-making.
- The application of existing sanctions against Chinese companies is to be extended to new areas.
- A comprehensive report on American financial investments has been requested by the US Treasury Department. The report is to show which American institutions invest in China and into which sectors these investments flow. In the case of large investments, the name of the Chinese business partner is also to be included.
- Additional legislation is proposed to reduce the risks to American interests from investing in Chinese stocks and financial products.
- Tax advantages that could result from investments in China, such as loss offsets, are to be abolished.
- Companies must additionally collect information to ensure that supply chains do not include products or services that come directly or indirectly from Xinjiang province in order to avoid forced labour.
- Companies must also report on all business relationships with partners classified as belonging to the Chinese military-industrial complex.
- Additional efforts must be made by the administration to control compliance with export restrictions. To this end, it must be possible to identify the end user.
- The transfer of knowledge through Chinese recruitment of American experts should also be controlled.
- There are calls to blacklist Chinese universities, research institutes and science collaborations that work on military research or contribute to circumventing export restrictions.
- In addition, numerous proposals are still being made to ensure American military superiority in a conflict over Taiwan.

In the European discussion and recommendations made by a number of US research institutes, it has been pointed out that cooperation with China is necessary to solve global problems, especially in climate policy. However, this topic was not taken up in the Senate deliberations. Nor did it address the advantages of economic relations with China, at least for some American companies, investors and consumers. For the Senate, the focus is on the geopolitical and military conflict with China. This focus and its resolutions leave the impression that for Washington the Cold War has returned, only this time not against the Soviet Union, but against the People's Republic of China.

The Russian invasion of Ukraine will not change this focus on China. Antony Blinken, the US Secretary of State, made this clear in a speech to the Asia Society in Washington at the end of May 2022. He saw China as the only country that is capable of and intends to change the international order. He accused the Chinese government of undermining international stability and described the dispute as an ideological battle between democracy and authoritarianism.¹⁰¹

Henry Kissinger, one of the architects of reconciliation with China, made this assessment in his book *On China*: "China's rise is not primarily the result of its military strength. It reflects above all a declining American competitiveness, expressed in outdated infrastructure, inadequate research and development efforts, and a seemingly dysfunctional governing process".¹⁰²

Kissinger also cautions that those who use aggressive language for domestic political purposes, whatever their underlying aims, risks that the addressee will take it seriously. Aggressive rhetoric sooner or later leads to hostile actions.¹⁰³

The disintegration of the Soviet Union was a shock for the CPC. It led to intense internal discussions about the causes and continued to have repercussions for a long time. Deng Xiaoping was opposed to Gorbachev's *perestroika* and *glasnost* from the beginning.¹⁰⁴ This process to modernise

101 See "China poses greatest threat, warns Blinken", *Financial Times*, 27 May 2022.

102 Kissinger, H. (2021) *On China* (New York: Penguin), p. 546.

103 *Ibid.*, p. 545.

104 Perestroika means reconstruction or transformation and glasnost means openness

the Soviet Union envisaged not only economic changes but also a loosening of party control. Oriented towards Western ideas, freedom of expression and democratic processes were to be strengthened in the Soviet Union. This political opening up was rejected by the majority of the CPC. Deng Xiaoping declared in a speech that he feared a contagion from the reforms in Eastern Europe more than the ideas of the West. He even called Gorbachev an idiot because politics was more important to him than economics.¹⁰⁵ Gorbachev's ideas spread to China and found supporters in the CPC. During Gorbachev's first state visit to Beijing from 15 to 18 May 1989, students demonstrated in Tiananmen Square for more political freedoms. They carried Gorbachev placards and demanded *perestroika* and *glasnost*. When the state visit was over and the demonstrators did not cease their demands, the protests continued to expand, Deng Xiaoping agreed to the violent suppression of the protests on 4 June 1989. Zhao Ziyang, then General Secretary of the Communist Party and responsible for political reform, had spoken out against the use of the military. He was subsequently moved aside.

The CPC wants to ensure that the People's Republic does not suffer a fate similar to that of the Soviet Union. This also shapes the vigilant relationship with the US, the winner of the Cold War. It also explains a certain indulgence for Putin's efforts to govern a country that has still not overcome the collapse of the Soviet Union.

I had an interesting conversation about Gorbachev and the fate of the USSR with an older Chinese colleague who was a Party member and knew the Soviet Union from personal experience. He said: "Gorbachev's idea of fundamentally reforming Russia according to Western ideas was doomed to failure. People can't adapt to change that quickly". The country paid dearly for this mistake through a dramatic political, economic and social decline. Older people had still not psychologically overcome the end of the Soviet Union and Russia's loss of importance, also vis-à-vis China. He blamed the failure not only on Russian mistakes in the rapid transition from a planned to a market economy. He accused the US of a winner-takes-all mentality. He said that culturally, the people in the Soviet Union were not prepared for the rigours of international competition. The main characteristic of the market economy was competition. It was

or transparency.

105 See Spohr, *Wendezeit*, pp. 51–53.

not the common good that counted, but the strongest companies and money that prevailed. China had learned from this. The Communist Party controls and limits market dynamics and fights corruption. It does not believe in free-market doctrine, but analyses the facts and reforms step by step. When I asked what this analysis implies for relations with the United States, he said: "I don't think the US will tolerate China's rise, even if it is the result of economic competition".

Statements by academics such as historian Naill Ferguson, which have also been picked up by the Chinese media, are particularly worrying for those Chinese who are interested in openness and Western lifestyles. When asked, "What will future generations blame us for most?" Ferguson replied, "Losing the second Cold War against China". This is just the opinion of one scholar close to the Republicans. But if the view prevails in the US that Chinese policies are primarily the expression of a master plan of the Chinese Communist Party aimed at undermining Western democracies, this will have the effect of intensifying the conflict.

To date, the goal of the Chinese leadership has been to achieve the rise of the People's Republic within the framework of the existing international order and as part of the integrated world economy. Naturally, its interests are resolutely represented with all the means at its disposal. However, the intention was not to destroy the post-war order, but to reform it. In a telephone conversation on 6 May 2021 with UN Secretary-General Antonio Guterres, President Xi Jinping asserted that China is committed to the goals and principles of the UN Charter. He has rejected unilateral and hegemonic behaviour and supports genuine multilateralism.¹⁰⁶ But if the assessment grows among Chinese experts that the US and its allies intend to undermine the People's Republic politically, then successful international cooperation to solve common problems will become increasingly difficult. It is then to be feared that the authoritarian and nationalist forces within the Chinese Communist Party will be further strengthened.

With regard to the current rivalry between the United States and China, there is an important difference from the Cold War with the Soviet Union: back then, two blocs faced each other that were largely separated

106 Xi Jinping reaffirms genuine multilateralism, Press release of the Chinese Embassy in the Federal Republic, 7 May 2021

politically, economically and technologically. Today's globalised world, on the other hand, is closely intertwined. From 1990 to 2007, the value of international trade in goods rose from around 24% to 53% of global economic output.¹⁰⁷ Only the international financial and economic crisis, tipped over the edge by the bankruptcy of Lehmann Brothers, put a damper on unbridled globalisation. In the period from 2012 to 2019, world trade grew at a slightly slower rate – around 29% – than global economic output, which grew by 31%. A slight de-globalisation began.

107 See McKinsey Global Institute, "The new era of global flows", March 2016, p. 3.

12 | Human rights in a time of geopolitical conflict

The issue of human rights has become increasingly difficult in relations with China in recent years. The American government regularly submits reports on human rights violations in China. With the increasing geopolitical confrontation, they are gaining in severity. The State Department's China 2020 Human Rights Report describes how the predominantly Muslim Uighurs in Xinjiang are victims of Chinese re-education and are compelled into forced labour.¹⁰⁸ The Biden administration calls the treatment of the Uyghurs genocide. The EU also criticises the human rights situation in China. The Bundestag (German Parliament) dealt with the situation in Xinjiang at a hearing of the Human Rights Committee on 17 May 2021. Human rights violations were confirmed, but not classified as genocide for lack of clear legal evidence. The US and the EU imposed sanctions. The US had also decided on a diplomatic boycott of the Winter Olympics in Beijing. The *Financial Times* called this decision a "new front in the Cold War between the US and China".¹⁰⁹

Starting with the 18th century Declaration of the Rights of Man and of the Citizen, fundamental and human rights are part of the constitutional order of most developed states. For the European Union, it was not until the Treaty of Lisbon that an EU fundamental rights order was developed with the Charter of Fundamental Rights of the European Union. Poland, however, did not agree to the Charter of Fundamental Rights because of divergent national positions on religion and belief and the treatment of minorities. The EU institutions are bound in their actions by EU fundamental rights, but have a wide margin of discretion in interpreting them.¹¹⁰

108 See CHINA 2020 Human Rights Report, US State Department.

109 "The new front line in US-China cold war" in the article "Big Read, Beijing Olympics", *Financial Times*, 4 February 2022.

110 Klaus-Dieter Borchardt, K.-D. (2012) *Die rechtlichen Grundlagen der Europäischen Union* (Vienna: utb), pp. 110ff.

For some members of the European Parliament, human rights issues should be at the heart of EU-China relations.

The United States has imposed sanctions on China for several years and for various reasons. In July 2020, sanctions were passed by the Trump administration against Chinese officials because of the repression of the Uyghurs. On 23 December 2021, President Biden signed a new law banning imports from the Xinjiang region.¹¹¹

In March 2021, the EU imposed sanctions on the People's Republic for the first time in 30 years, also because of the repression of the Uyghurs. In December 2021, they were extended by one year. Specifically, the sanctions affect the Xinjiang Public Security Bureau and members of the Party. All assets will be frozen. Entry into the EU is banned. In response, the People's Republic has imposed sanctions on ten European citizens, including five MEPs, the European Council's Committee on Security, the European Parliament's Subcommittee on Human Rights and two think tanks, including the Mercator Institute for China Studies in Germany.

The Chinese justify their policy in Xinjiang in terms of security interests and the fight against Islamic extremists and separatists. Hundreds of Uyghurs have fought for Islamic State in Iraq and Syria. These forces are said to have carried out numerous attacks in the past. It is known that there has been a decades-long conflict with Uyghur separatists in the Xinjiang region. There have been repeated armed conflicts, attacks and riots.

Political disputes over human rights are having an increasing impact on companies. Coca-Cola, Allianz, Visa, Toyota and others have been criticised for sponsoring the 2022 Winter Olympics in Beijing. If H&M complies with US law and does not source textiles from Xinjiang, it will run afoul of Chinese law, which prohibits companies from complying with American sanctions. Human rights activists in the United States campaigned against North Face for removing a notice on its website banning forced labour. Members of Congress are calling on consumers to boycott companies that do not distance themselves from Chinese human rights abuses. At the same time, Chinese consumers sanction

111 Uyghur Forced Labor Prevention Act.

companies when it becomes known that they are complying with American sanctions.

In a course on Institutional Economics, I discussed the topic of human rights with the students of the Business School. A first discussion took place without any special preparation or guidelines. As expected, there were very different ideas about human rights. Students from Africa emphasised people's right to food, security, prosperity and self-determination, regardless of economic and political ties to former colonial powers. European and American students focused on individual freedoms: freedom of expression, freedom of the press, freedom of assembly, freedom of worship and an independent judiciary. The majority of Chinese students tended towards the African perspective, although some also emphasised individual freedoms more strongly. On the question of respect for human rights in individual countries, we quickly ended up in a purely political debate with a certain amount of recrimination. American military interventions, US measures against international terror such as the extra-legal killing of alleged terrorists outside the US, the prison camp in Guantanamo and the treatment of whistleblowers were set against the re-education of the Uyghurs, the arrest of political activists and state censorship. Corrupt governments that used terrorist means were linked to geopolitical conflicts and economic interests. Very quickly, it was clear to all that without a common understanding of human rights no meaningful debate could take place. However, societies have different values depending on their history, culture and level of development. The Israeli professor Yuval Noah Harari gives many historical examples of this in his book *Sapiens. A Brief History of Humankind*.¹¹² He describes how Europeans, claiming to spread a superior Western culture, conquered large parts of the world and how billions of people not only learned English, Spanish and French, but also began to believe in human rights, self-determination, liberalism and capitalism.

Is the human rights discussion therefore about a systemic conflict in which the question is: which political system will be able to enforce its norms? Who decides whether Chinese or American measures to combat terror are appropriate? Do we have to choose between a Chinese or perhaps Asian view and a Western understanding?

112 Harari, N. Y. (2014) *Sapiens. A Brief History of Humankind* (London: Vintage).

After studying the human rights issue more thoroughly, the students arrived at an answer: within the framework of the United Nations, these issues have been discussed for decades and generally accepted principles and targets have been developed.

The People's Republic of China has been a member of the United Nations since 1971 and, just like the US and the European states, has signed the UN Charter on Human Rights. This resolution defines in 30 articles both personal protection rights (right to life, prohibition of slavery, prohibition of arbitrary arrest and so on) and rights to political freedom (freedom of expression, freedom of religion and so on), as well as social rights (such as health, food and education). Although the UN Charter is not a legally binding document, it provides generally accepted principles for political action. In the following years, international conventions with legally binding effect were developed in individual areas, based on the Charter. The Chinese government stated: "China has always supported the objective and principles of the UN Charter to protect and spread human rights".¹¹³ It has acceded to 17 human rights conventions and has also completed ratification in other cases. The People's Republic has accepted a regular human rights dialogue with several countries, including the Federal Republic of Germany. This dialogue also exists with the EU. The UN Human Rights Charter was adopted in 1948, still under the shadow of the terror and horror of the Second World War and its political reappraisal in the Western countries. Therefore, a lot of emphasis was placed on individual freedom rights and protection against arbitrary state action. In later decades, developmental and environmental goals became increasingly important for the organised world community. The United Nations therefore adopted the 17 Sustainable Development Goals (SDGs) in 2015 with the 2030 Agenda in a long political coordination process. The 17 Sustainable Development Goals (with 169 sub-goals) can be grouped into five thematic areas:

- 1) people (ending poverty and hunger, access to education and health care, human development with dignity and equality);

113 Relations between China and the UN Human Rights Mechanism, Statement by the Chinese UN Mission.

- 2) planet (protecting the planet through sustainable consumption and production, sustainable management of natural resources, action against climate change);
- 3) peace (promoting peaceful, just and inclusive societies, free from fear and violence);
- 4) prosperity (prosperity for all, shaping technological progress in harmony with nature);
- 5) partnership (implementation of the sustainable development agenda is done in global partnership and solidarity, focused on the needs of the poorest and with the participation of all countries).

The SDGs explicitly refer to human rights: “The new agenda is guided by the purposes and principles of the Charter of the United Nations, in particular full respect for international law. It is based on the Universal Declaration of Human Rights (...)”.¹¹⁴ The SDGs are considered universally accepted, they are regularly reviewed and have been adopted by all UN member states.

Students argued that implementation of the SDGs should also be the framework for a human rights discussion. The United Nations was seen as an appropriate place to hold this debate. This would prevent human rights issues from being instrumentalised by individual governments for political purposes.

It was also proposed that all states should join the International Criminal Court in The Hague. This court investigates genocide and crimes against humanity. It has already been joined by 123 states, including all EU states. However, the United States and China do not yet recognise the Court.

Those who want to make rapid progress in improving human rights may have doubts about these proposals. After all, UN negotiations do not always contribute to clear position statements. International court proceedings can be very lengthy. But what is the alternative? Discussions with Chinese and international students have shown once again that the

114 UN resolution of 25 September 2015, paragraph 10.

West is no longer automatically recognised as a moral authority. In the case of the People's Republic of China, targeted Western human rights campaigns or even sanctions are unlikely to be successful. It is to be feared that this may even lead to a solidarisation of the Chinese public with national politics. In order to exert influence, bilateral and multilateral human rights dialogues should be used.

13 | Alliance of democracies against China?

On 9 and 10 December 2021, the first international online summit on democracy took place at the invitation of US President Biden. Two further summits were also held. In March 2023 the United States hosted, with other partners, the second summit and in March 2024 the government of the Republic of Korea hosted the third. Around 100 government representatives took part in the debates. Trade unionists, NGOs and academics were also invited. The meetings focused on discussions about strengthening democracies and stopping authoritarianism, improvements of human rights and the fight against corruption. The difficulties besetting such discussions were already shown by the trouble over the invitation list. The Philippines, Pakistan and Poland were invited, Hungary and Turkey were not. The People's Republic of China and Russia were of course not scheduled, but Taiwan was. President Biden kicked off the summit by saying, "We must stand up for justice and the rule of law, for freedom of speech, freedom of assembly, freedom of the press, freedom of religion, for all the inherent human rights of every individual".¹¹⁵ Biden mentioned studies showing that in the past decade democracy has declined in many countries. He admitted that this is also the case in the United States, where at the level of several states, electoral districting and voting arrangements have been changed in favour of one party. Olaf Scholz, as the new German Chancellor, also took part in the deliberations. He underlined how important it is for the German government to strengthen democracy, maintain a rules-based international order, and uphold the rule of law and human rights. Chinese politicians reacted to the summit. Inviting only a few selected countries and thus judging who should be considered a democracy and who should not was criticised as the expression of a Cold War mentality. The state

115 Translation of Remarks by President Biden at the Summit for Democracy Opening Session, 9 December 2021: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/12/09/remarks-by-president-biden-at-the-summit-for-democracy-opening-session/>

news agency Xinhua pointed out that after the end of the Cold War, the US had tried to export its democratic model even by force. The interventions in Afghanistan, Syria and Iraq were mentioned. In none of these countries did the standard of living improve, nor democracy make any progress. The US is accused of using the spread of democracy only as a pretext to extend its influence.¹¹⁶

116 President Xi Jinping said: "Whether a country is a democracy or not depends on whether the people can really decide their own fate. If people are only called to vote and forgotten in the cold afterwards, then this is not true democracy". Xinhua, "All roads lead to democracy", *People's Daily Online*, 10 December 2021.

14 | Is globalisation coming to an end and will it be replaced by isolationism and renationalisation?

After decades of ever closer economic, technological and financial interdependence between states and the emergence of a global economy based on the division of labour, we have been experiencing a trend reversal for some time. Of course, there have long been doubts about the blessings of the global economy. Books with titles like *The Globalisation Trap* already became bestsellers 25 years ago.¹¹⁷ The great financial and economic crisis of 2007 reinforced these doubts. Even China, despite becoming the centre of international supply chains, has only opened up its domestic market step by step and selectively. However, US President Trump forced the first serious policy change in 2017. Multilateral free trade agreements were terminated by the United States, the World Trade Organization was bypassed in order to conclude bilateral, supposedly 'better' agreements. New tariffs were imposed, affecting not only Chinese but also European imports; foreign investors and investments were more closely scrutinised and more frequently banned because of national security interests; and exports of sensitive technologies were further restricted.

In order to reduce the US trade deficit and avoid an escalation of trade disputes, the US and China reached an initial agreement in January 2020. This agreement reflected the Trump administration's mercantilist trade policy. China gave in to US pressure and committed to importing an additional \$200 billion worth of goods from the United States in 2021 and 2022. In return, the US reduced punitive tariffs on Chinese products by half and waived further tariffs that had already been announced. China also pledged not to make any competition-distorting currency devaluations and to further open up its financial market.

117 Marin, H. P. (1998) *Die Globalisierungsfalle. Der Angriff auf Demokratie und Wohlstand* (Hamburg: Rowohlt Taschenbuch).

The EU criticised this agreement as one-sided and feared that trade flows would be diverted as a result.

This first agreement did not end the economic disputes between the US and China. “President Biden and his administration are clear that Beijing is not undertaking serious reforms to address American interests”.¹¹⁸ Under the Biden administration, the dispute is shifting from punitive tariffs to the fight for technology leadership and restrictions on Chinese companies to obtain financing through the American capital market. The list of companies subject to sanctions and with which business cannot be conducted has been expanded, and in early 2021, the three Chinese telecoms companies China Telecom, Unicom and China Mobil were no longer allowed to trade on the New York Stock Exchange. The US ‘clean network’ policy means that 5G technology in the US can no longer be supplied by Huawei.

In the meantime, the Chinese government has adopted the American approach and has also drawn up a sanctions list. China is trying to become more independent through its own innovations. It is to be feared that a decoupling of American and Chinese standards will develop in future technologies.

In addition to these trade disputes, the pandemic also massively affected global economic relations. Border closures and quarantine obligations prevented travel. International supply chains collapsed. Important products became scarce. The recovery of the global economy from the pandemic-related standstill was delayed for a long time by supply bottlenecks. However, there is still much evidence to show that the international economy is moving forward. American investors continue to be involved in the Chinese financial market and seem unimpressed by measures taken by the American government against Chinese companies. Deutsche Bank is also looking into setting up a company in China and is in talks with possible Chinese partners. The bank goal is to gain access to Chinese private investors. Asoka Wöhrmann, CEO of the investment company DWS, said: “China and Asia are undoubtedly among the most attractive markets for asset managers”.¹¹⁹ After Chinese

118 The Biden-Harris Administration’s New Approach to the U.S.-China Trade Relationship, press release, U.S. Trade Representative, 4 October 2021.

119 See “Deutsche Bank examines joint venture in China”, *Handelsblatt*, 6 January 2022.

investors had reduced their holdings of US government bonds from mid-2018, purchases increased again at the end of 2021. China is still the second-largest creditor to the United States after Japan. Despite the policy goal of replacing the dollar as the dominant reserve currency, Chinese policymakers are behaving responsibly and contributing as a major investor to strengthen the US financial system. This shows the common interest in a stable international order. Major companies are expanding their operations in China: Tesla opened a large car factory in Shanghai, BASF is making the largest investment in the company's history in Zhanjiang, worth \$10 billion. Foreign investment in China increased again in the pandemic year of 2020, reaching almost \$150 billion. This shows the attractiveness of the growing Chinese market for foreign partners.¹²⁰

Chinese companies also continue to engage abroad, despite increasing scrutiny of whether Chinese investments threaten national security interests in the United States and Europe. One of the largest factories for electric batteries in Europe is being built by the Chinese company CATL in Thuringia. This Chinese company is the world's largest producer of battery cells and built its first factory outside China in Arnstadt. In 2021, the number of Chinese company acquisitions in Europe and Germany increased significantly again compared with the Covid-19 year of 2020. However, it is still far below the peaks of 2016 and 2017. In Germany, company takeovers rose from 28 to 35. Across Europe, transactions increased from 132 to 155. The value of these takeovers amounted to \$12.4 billion, with the takeover of the Philips household appliance division by Hong Kong investment company Hillhouse Capital alone accounting for \$4.5 billion.

At present, therefore, it is not yet clear which direction the global economy will take in the coming years: increasing isolation and the expansion of protected regional markets or a continuation, albeit slower, of international integration.

The decisive factor for future developments will be whether geopolitical conflicts continue to intensify. The American discussions on the measures necessary to respond to the Chinese challenge point to a

120 For a detailed overview of investment trends, see UNCTAD (2021) *World Investment Report 2021* (New York: United Nations Publications).

further intensification. In May 2022, President Biden presented his Indo-Pacific Economic Framework (IPEF) together with 12 regional partners in Tokyo. The aim is to build a counterweight against China's economic influence in Asia.

Handelsblatt sees this agreement as the US' final farewell to multilateral, global free trade. "The largest economic power is now relying on strategic trade, in which selected partners are offered cooperation in certain areas of industrial and geopolitical importance to the USA". It is pointed out that this policy has disadvantages not only for China, but also for export-oriented countries like the Federal Republic.¹²¹

The massive Western sanctions against the Russian Federation because of the invasion of Ukraine have already interrupted economic exchange with Russia in many areas. The voluntary withdrawal of many Western companies from the Russian market is also leading to a decline in economic interdependence. Larry Fink, the chief executive of BlackRock, the world's largest asset manager, said in a letter to shareholders: "The Russian invasion is ending the globalisation we have experienced over the last thirty years". Governments and companies will examine dependence on other countries, review supply chains and shift production back to safe regions and home bases. If there is a massive reorientation of supply chains, it will have inflationary effects.¹²²

121 See Kölling, M., "Risks for Europe", *Handelsblatt*, 24 May 2022.

122 See "Fink says war has finished off globalization", *Financial Times*, 25 March 2022.

15 | The Chinese-Russian friendship

Putin's invasion of Ukraine is a watershed in international relations. The consequences will occupy Europe for many years to come. The belief that peace could be secured through trade and mutual economic interdependence has been severely shaken. At present, it is still difficult to assess the longer-term consequences of this war of aggression. One thing is clear, however: future international developments will depend on how the Chinese leadership positions itself in relation to the aggressive policies of the Russian government under Putin.

The Chinese-Russian relationship has a long and chequered history. During the Chinese Civil War, the Soviet Union supported the Chinese communists, while the National Chinese received help from the US. In the early years of the People's Republic, the Soviet Union with its planned economy was the development model for the country's industrialisation. Thousands of reconstruction workers came from Russia to help the socialist brother nation. In the Cold War between a socialist and a capitalist world, the two countries stood side by side to fight for world revolution and socialism. However, the relationship cooled in the early 1960s. Mao Zedong was less and less willing to be treated as a junior partner in the socialist camp. The meeting between Mao and Nixon in 1972 marked the beginning of a turn towards the US, which led to the US's recognition of the People's Republic under international law in 1979. The Chinese party decided to cooperate with the West and to turn away from the socialist planned economy. China developed its model of a socialist market economy, which proceeded along two tracks: integration into the world economy and at the same time systematic development of its industry. Economic integration with the US and Europe became ever closer. However, the violent suppression of the student protests in Tiananmen Square in 1989 led to a Western arms embargo, and the Soviet Union and later Russia became the leading arms suppliers for the modernisation of the Chinese People's Army.

The increased international presence of the People's Republic created tensions with the US and some neighbouring states, for example over

territorial claims in the South China Sea and relations with Taiwan. Under President Obama, a Pivot to Asia strategy was developed from 2012 that included increased investment in Asia, bilateral security partnerships and a stronger military presence. In response to China's growing influence, agreements with Asian countries were envisaged. This in turn increased Chinese policy interest in intensifying cooperation with Russia.

After the collapse of the Soviet Union in 1991, there was a new beginning in Sino-Russian relations with the Russian Federation. First, a constructive partnership was agreed in 1992, which was expanded to a strategic partnership in 1996. In 2001, a treaty of friendship and cooperation was signed, which was extended for five years in 2021. Economic, political and military collaboration became closer. This also resulted from the fact that both countries belonged to the Shanghai Cooperation and the BRICS Cooperation. President Xi Jinping developed a close personal relationship with President Putin, calling him his 'best friend' during a state visit. Since 2013, the two presidents have met more than 40 times. On 4 February 2022, shortly before the invasion of Ukraine, the Russian and Chinese governments adopted a joint declaration on 'international relations in a new era' on the occasion of Vladimir Putin's state visit. Some commentators assumed that during this visit Putin let Xi Jinping in on the plans to invade Ukraine.

The declaration sets out several objectives that are sure to meet with general approval, such as:

- All states should respect the United Nations Charter and the Universal Declaration of Human Rights.
- Peace, development and cooperation are the foundation of the modern international system and enable the prosperity of nations.
- No state should assert its security at the expense of the security of another state.

At the same time, however, NATO is criticised:

- The military alliance is fuelling geopolitical rivalry and confrontation.
- It is accused of having a Cold War ideological mentality.

- The alliance is accused of undermining international security and stability.
- Both governments are against an expansion of NATO.

It was agreed to strengthen bilateral strategic cooperation, expressed in the following terms:

- “The friendship between the two states (China and Russia) has no limits, there are no ‘forbidden’ areas for cooperation”.¹²³

This strange formulation raises many questions. What is a borderless friendship between states? Does it include military assistance? To which previously ‘forbidden areas’ does cooperation extend?

Anyone who assesses international relations realistically realises that there is no friendship between states. Friendships develop between people; state relations are oriented towards interests. Where do the people in China and Russia orient themselves? Do they follow the state-imposed friendship? If one takes the students studying abroad as a yardstick, then the Chinese continue to orient themselves towards the US and the countries of the West. Of the 700,000 Chinese who studied abroad in 2019, almost half went to the United States. Other destinations included the United Kingdom, Australia, Japan, Korea and EU countries. Hardly any Chinese students are going to Russia. The first destination for Russian students to study abroad in 2019 was Germany, followed by the Czech Republic, the United Kingdom and other EU countries. China as a study destination hardly plays a role for Russian students.¹²⁴ This was also in line with my experience at Beijing University. I regularly had students from former Soviet republics, Europe and America, but only one student from the Russian Federation.

The invasion of Ukraine was a clear violation of the United Nations Charter. This was stated by 141 states at the UN General Assembly on

123 Joint Statement of the Russian Federation and the People’s Republic of China on International Relations Entering a New Era and Global Sustainable Development, 4 February 2022.

124 The UNESCO Institute for Statistics provides a good overview of the number of foreign students in various countries: <http://uis.unesco.org/en/uis-student-flow>

2 March. They condemned the war against Ukraine. Only five countries voted against it; 35 countries, including China and India, abstained. The People's Republic, as Russia's strategic partner and the EU's largest trading partner, must take a stand. Does the 'borderless friendship' include the Chinese government helping Russia to undermine Western sanctions over the Ukraine invasion? At stake is the credibility of the People's Republic, which has always upheld the principle of non-interference.

Many Western commentators assume that there is a natural alliance of Russia and China against Western democracies. The joint Sino-Russian statement criticising NATO, the frequent adoption of Russian propaganda on the Ukraine war by Chinese state media, and the fact that Chinese policy has not condemned the Ukraine invasion seem to confirm this. On closer examination, however, Chinese policy has not been unequivocal. In public pronouncements, the Chinese government has supported national sovereignty and territorial integrity for all countries and emphasised Russia's security interests. On social media, it became apparent that there are divergent views in China as well. Of 500,000 opinions expressed on Weibo, a popular Chinese internet platform, half of the comments saw the West, the US or Ukraine as responsible for the war, but as many as 10% held Putin responsible. There is clear criticism of the Russian attack from some Chinese academics. Hu Wei, a professor at the Party School in Shanghai, demanded in an article that the Chinese government condemn the attack on Ukraine.¹²⁵

The People's Republic has so far pursued an independent interest-based national policy and protects itself from Russia just as it does from the US. The Chinese leadership has not forgotten that there was a border war with Russia in 1969, which could only be settled with difficulty through an armistice. However, a comparatively weak Russia is much less tangential to the interests of Chinese policy than the US, still the leading world power.

125 See also Buckley, C., "Some defy Chinese censors to protest war stance", *The New York Times*, 22 March 2022.

16 | Europe in a changing world

The world is changing fundamentally. Until the 19th century, Europe was the defining player. Spanish and Portuguese conquistadors took possession of large parts of Central and South America, the Philippines and many Asian islands in the 16th and 17th centuries. The major colonial powers such as Great Britain and France, but also smaller countries such as Belgium and the Netherlands – as well as Wilhelmine Germany as a latecomer – colonised Africa and other parts of Asia and the Americas. In the 19th century, colonial powers divided almost the entire world among themselves. European powers drew national borders, and their colonial administrations, trading posts and economic activities left lasting traces on all continents. The policies of the European powers and imperial Japan, which were geared towards conquest and economic expansion, led to military conflicts. The first wave of globalisation from 1870 to 1914 ended with military confrontation. In two world wars, humanity experienced immeasurable suffering and destruction. The United States and the Soviet Union emerged victorious from this firestorm. The European nations overcame their enmities and began a policy of reconciliation and unification. The colonial order came to an end. The dominated peoples won their independence. The Second World War was followed by several decades of ideological confrontation between the nuclear powers, the US and the Soviet Union. After the end of this Cold War and the disintegration of the Soviet Union, the US was the only remaining superpower for several decades. The liberal market economy became the model, the US dollar the international reserve currency. The American-influenced post-war economic liberal order, the political opening up of China and technological developments made it possible for more and more people all over the world to participate in international economic life. In recent decades, the centre of gravity of the global economy has shifted from Europe and the US to Asia. Joe Kaeser, former CEO of Siemens, said: “The admission that the 21st century will be the Asian century is not a forecast, but reflects reality”.¹²⁶

126 This is what Kaeser, as chairman of the Asia-Pacific Committee of German

The international coordination of the world economy, organised for many years mainly by Western industrialised countries at G7 meetings, expanded to include emerging economies in G20 meetings. A post-war order with the US at the centre is now evolving into a multipolar world. This brings new opportunities for political and economic participation for many people, especially in Asia, but also in Africa. At the same time, it also increases uncertainties. The US can no longer assume the role of world policeman. A multipolar world leads to new conflicts. Countries are trying to expand their influence and participate in shaping the future international order. The Bretton Woods institutions (International Monetary Fund, World Bank) and the World Trade Organization are also under pressure to reform. Voting rights should be adjusted according to the changed economic strength of the member countries and their tasks must be redefined. The 'fourth industrial revolution' and climate policy are also fundamentally changing our economies. New threats are linked to the digital economy. The business model of the big network-based companies exploiting personal data has become a threat to societal cohesion.¹²⁷ If the owners of these big companies, such as Elon Musk with X (Twitter) favour extremist positions and even facilitate the spread of right-wing propaganda, democracy will come under threat.

For example, the role that X played in the disinformation spread during the nationwide riots in the United Kingdom in August 2024 shows that this is not only a danger for the United States but also for European countries.¹²⁸

European states are under great pressure to adapt as a result of these developments. As changes affect people differently, as there are winners and losers, securing social cohesion is *the major political challenge*. The comparatively small European nation states responded to these changes by joining together to form the European Union. They created a common internal market with freedom of movement for people, companies and capital. The euro became the common currency used by the majority of EU member states. Concerning climate policy they agreed to make Europe the first CO₂-neutral continent by 2050. Moreover, at the latest since the Russian invasion of Ukraine, the European states have realised

Business, told the Reuters news agency on 15 December 2020.

127 Shoshana Zuboff's book *The Age of Surveillance Capitalism* shows very well the destabilizing effects for society and the economy of these companies' business models.

128 See "Royaume-Uni, Starmer défie par l'extrême droite", *Le Monde*, 7 August 2024.

that the European Union must also be able to guarantee the security of its citizens.

The international changes are also having an impact on the United States. Internal tensions between globalisation winners and losers are growing. Income and wealth inequality has increased further. US global military dominance is being challenged by China in particular, but also by a rearmed Russia. Its economic model, built on favourable financing conditions based on the dollar as international reserve currency, is threatened by the emergence of a multipolar world with multiple international currencies.

In many Western democracies, domestic disputes are growing between those nostalgic for a glorious past and forward-looking forces that accept new realities and want to shape at the national and international level the economic and social changes arising from the new multipolar world.

17 | A values-oriented EU foreign policy

The values of the EU are laid down in the EU treaty. These values are also supposed to guide EU policy towards its biggest trading partners, the United States and China. The major values include human dignity, peace, democracy, people's well-being, and economic, social and territorial cohesion.¹²⁹ The EU is convinced that these values are best promoted at the international level by an effective multilateral system. The EU Global Strategy underlines the importance of multilateralism and regards the United Nations as the centre of the system.¹³⁰ How effective global governance is delivered and the partners needed for success may vary from case to case. Partners may include national governments, specialised agencies, international organisations such as ASEAN and the G20, but also civil society and the private sector. The EU has made the defence and reform of multilateral institutions as one of its key priorities.¹³¹ With the heightened US-China rivalry and a return to realist Great Power politics multilateralism is more important than ever. The Council of the EU confirmed this in its resolution on the UN Summit of the Future: "The EU is committed to global governance reform and will lead in implementing and upholding the rule of law, international norms, and agreements that provide global public goods and protect future generations".¹³²

Current American policymakers tend to see international relations in terms of national power politics and to respond to competition with China with a confrontational approach. The rivalry with the People's Republic of China for economic, technological, military and political influence might be tackled on an ideological basis. The development of a multipolar

129 See Articles 2 and 3 of the Treaty on the Functioning of the European Union (TFEU).

130 Shared Vision, Common Action – A Stronger Europe: A Global Strategy for the European Union's Foreign and Security Policy, Brussels 2016.

131 See Elena Lazarou's overview, "The future of multilateralism and strategic partnership", European Parliament Research Service PE652.071, September 2020.

132 Council Conclusions on EU priorities at the United Nations during the 79th session of the United Nations General Assembly, § 7, 11422/24, 24 June 2024.

world is seen as a confrontation between good and evil, between democratic governments and authoritarian regimes. But in China, too, many members of the CPC and many Chinese experts see the US-China competition as an ideological struggle. “The fundamental competition between China and the United States is ideological. Each nation crafts its own narratives. Why? To give our lives meaning: Why are we alive? How should we live as a group?”¹³³ But there is a danger that a policy based on national narratives based on ideological concepts can lead to a new Cold War, with groups of states irreconcilably opposed to each other.

The European Union is committed to an ambitious economic, social and ecological transformation and to the 17 Sustainable Development Goals of the United Nations.¹³⁴ A value-oriented foreign policy should promote these goals and not participate in a policy of systemic conflicts. The former French Prime Minister Dominique de Villepin rightly points out that the current conflicts, whether with Russia or with China, cannot be answered with camp thinking. It is not about a conflict between East and West, nor between authoritarian regimes and democracies. It is about different conceptions of the international order.¹³⁵ A crusade for democracy is not a successful foreign policy. Democracy must be built, developed and defended on the ground. Unfortunately, it is not an export commodity that can simply be shipped from one country to another. The failures of American and Western policy in Afghanistan and Iraq have painfully confirmed this.

The European Union also shows how difficult it is to build democracy for a large community. Since 1979 there has been a European Parliament, which is directly elected. In 1992, European citizenship was adopted which grants citizens of the Union special rights, such as freedom of movement, European and municipal voting rights and non-discrimination. Nevertheless, decisions at the European level are only gradually being

133 Yao Yang, Professor and Director of the China Center for Economic Research at Beijing University expressed this view in a conference-speech on 23 June 2024.

134 These goals set out a roadmap for a dignified life and the preservation of the natural foundations of life in an overall concept. These goals have been agreed to by the US, Europe and China. Goal 16 also includes a commitment to the rule of law and transparent, accountable institutions. Achieving this goal will also help lay the foundations for democratic development.

135 Meskens, J., “Dominique de Villepin au ‘Soir’: ‘Ne commettons pas l’erreur de faire du départ de Vladimir Poutine un préalable’”, *Le Soir*, 22 March 2022..

taken democratically with the participation of the European Parliament through majority voting. In some sensitive areas, such as foreign and security policy, justice, police and the multiannual financial framework, the unanimity principle still applies.

What a challenge it is then for a giant country such as China, comprising 1.4 billion people from different ethnic groups, where some live rather backward lives in the countryside, while others dwell in future-oriented modern metropolises, to build the sense of community a functioning democracy needs. Living situations in China are so different that there is not even freedom of movement within the People's Republic. The task of governments is to manage social, technological and international changes in a way that preserves social cohesion and peaceful development. Answering climate change is the *big* global challenge. A confrontation between a socialist vision of society and a democratic vision of society will not be helpful for this goal. Climate policy requires international cooperation, not ideological confrontation. The policy of sanctions and the associated restrictions on trade and the free movement of capital, are impairing the capacities needed to jointly implement climate policy goals.

18 | The EU at the crossroads: transatlantic allegiance or European sovereignty?

Against this background, the EU must decide how it wants to develop and to cooperate with the US and China, its two largest economic partners. The growing political tensions and military conflicts with Russia, which still sees itself as a world power in the wake of the demise of the Soviet Union, further complicate this positioning.

The Biden administration has called on Europe to close political ranks with the US in relation to China. Under the slogan 'Alliance of Democracies', a common policy was demanded against an authoritarian political system.

The US Senate resolution of 10 June 2021 states: "China threatens world peace, prosperity and freedom in the international community in the decades ahead".

This simplified view of the Senate resolution should not be the orientation for European policy. Anyone who analyses Chinese policy will see that China is not pursuing an ideological but an interest-oriented policy. The focus of Chinese strategy remains the economic development and political stability of its own country for decades to come. The development of an ecological civilisation is another important goal that has been included in the Chinese constitution. The conflict with China is not because the Chinese government is ruled by a Communist Party. The conflict arises because Chinese policy is oriented towards national priorities, because of the size of the country and therefore the international implications of its policy. We should recognise that it is not socialist ideology that is the problem, but the economic consequences of China's industrial policy. But US industrial policy is also determined by national priorities and creates problems for European companies and the European economy.

How is American politics evolving?

It is particularly frightening when the question of policy failure arises for the leading country of the free West, namely the United States.

It is not easy for me to ask this question. I was born in 1950 and thus belong to the immediate post-war generation. For many of my generation, the US was the great role model. American country music, American literature and politicians such as John F. Kennedy impressed me. During my studies in West Berlin, I saw that the Berliners had not forgotten the Airlift. It was the 'sultana bombers' of the US Air Force that supplied West Berlin during the Soviet blockade from June 1948 to May 1949. I also saw with former German chancellor Helmut Schmidt how deeply the memory of American support was anchored in the memory of German politicians. In 1981, I participated in a discussion between SPD MEPs and the German Chancellor. In response to a very committed speech by a member of the European Parliament about the need for an independent European policy, he asked: "And who will defend Berlin?"

With the invasion of Ukraine, Putin's threat of nuclear escalation and the danger of this conflict spreading, this question takes on a frightening topicality. It is still primarily the American nuclear umbrella that protects the EU via NATO. However, it should not be forgotten that France also possesses nuclear weapons. President Macron had already pointed out in February 2020 in a speech on defence policy at the Paris *École de Guerre* – the military school of the French armed forces – that peace in Europe is no longer secure. He called on European partners to define their security interests together. In later speeches he mentioned the European dimension of French nuclear weapons: "They strengthen the security of Europe by their very existence".

Former American President Jimmy Carter published an article in the *New York Times* under the headline: "I Fear for American Democracy".¹³⁶ Carter's comments came a year after an angry mob had attacked the Capitol. The rioters wanted to prevent the nomination of President Biden. They believed former President Trump's message that his election victory had been 'stolen'. Carter stated:

136 See *New York Times*, 7 January 2022, pp. 1 and 5.

- that the parties are not defending democracy together, but are fighting each other more and more;
- that former President Trump, supported by his party, continues to sow doubt about the election results; and
- that, according to a poll, 40% of Republican Party members consider violent actions against the government to be sometimes justified.

More fundamental, less party-political but nevertheless stirring is an article by Jeffrey Sachs, economics professor at Columbia University in New York. He presents a thought-provoking analysis of American politics. He notes that US political institutions are no longer succeeding in their constitutional mandate to work for the common good. Over the past four decades, he said, politics has favoured the super-rich and organised interest groups at the expense of the majority of citizens. He quoted the much-discussed words of Warren Buffet, the legendary investor, quoted in the *New York Times*: “This is a class war, but it’s my class, that is, the rich, who are fighting and winning this class war”. Jeffrey Sachs points out that the US Constitutional Court has in several decisions removed any limit on private funding of political activities and election campaigns. The upshot of this, he says, is that American politics is the province of a rich oligarchy. He cites the following as evidence:

- The richest 10% of the population account for 18.8% of national income, compared with only about 11% in Western Europe.
- The tax and contribution ratio in the EU is around 45%, while in the US it is only 31%. Therefore, there is not enough money for necessary public goods.
- He points out that life expectancy in the United States has been falling for several years and was only 78.8 years in 2019, compared with 81.1 in the EU.¹³⁷ He notes that in European countries, unlike in the US, health care, education and training, and families are supported with state-funded measures. In the US, on the other

137 For comparison, in the People’s Republic, life expectancy has been continuously increasing and has reached 77 years. However, there are still considerable differences. The highest life expectancy is in Hong Kong, at 85 years, and Macau, at 84 years.

hand, he diagnoses increasing social division, with corresponding negative social consequences such as drug addiction, substance abuse and depression, especially among young people.

- He sees no popular majority for action against environmental degradation, despite the good intentions of the Biden administration. In the United States, CO2 emissions per capita are 16.1 tonnes per year compared with only 8.3 tonnes in the EU.
- He concludes that there is currently only one political common ground in the US, the fight against China.¹³⁸

This analysis brings the following thoughts to mind. Some of the problems mentioned, such as a growing social divide and climate policy, are challenges that also face Europe and China. Regarding China's clear image as an external enemy I remembered a conversation in Washington with Norman Birnbaum, who died in 2019. A sociologist and political scientist, he held a professorship at Georgetown University. He not only knew the US very well, but also Europe. Birnbaum had taught in London, Strasbourg and Bologna and his daughter lived in Berlin. At his favourite club in Washington, he took the time to explain American politics to me in detail. He said there was one American peculiarity: the prestige and influence of the military. The American army is the largest employer in the US and has facilities in every constituency. Together with the defence industry, the military is therefore well placed to make its presence felt and to succeed in political lobbying and public discussion. In a country that is divided into different groups on many cultural and political issues, the army is the national link. As a consequence, much of American politics is seen through a military lens.

138 See "Jeffrey Sachs de la guerre des classes en Amerique", *Le Monde*, 1 January 2022, p. 27.

19 | EU-China political and economic relations

EU-China political relations

Europe and China have developed political exchanges at national and EU level. Individual EU member states have had diplomatic relations with the PRC for decades, such as Sweden since 1950 and France since 1964. Direct diplomatic relations between the People's Republic and the EU have existed since 1975. Regular political exchanges of views have been established, not only with individual EU member states, but with the EU as a whole. Once a year, the EU-China Summit, attended by the Chinese head of government, is held alternately in Beijing and Brussels. In addition, regular ministerial meetings and technical discussions with the EU are held on a good 60 topics.

EU-China economic exchanges

The economic exchanges between China and Europe have been the pillar of the global economy. The EU is China's most important trading partner after the ASEAN countries and before the United States. China is the EU's second biggest trading partner after the United States.

China with its opening up and the European Union with successive enlargements and the creation of the European single market were the driving forces in the creation of a globalised economy. This globalisation process brought major benefits for developed and developing economies. Wider choice of affordable goods for consumers, new investment opportunities, exchanges of people and the lifting of 800 million out of poverty. The World Bank calculated that three quarters of this successful reduction of extreme poverty happened in China. The globalisation process of the past four decades changed the world. We have become far more dependent on each other. The world became a global village in which we live closely together, and we are more and more dependent on and affected by each other. We must therefore improve our mutual

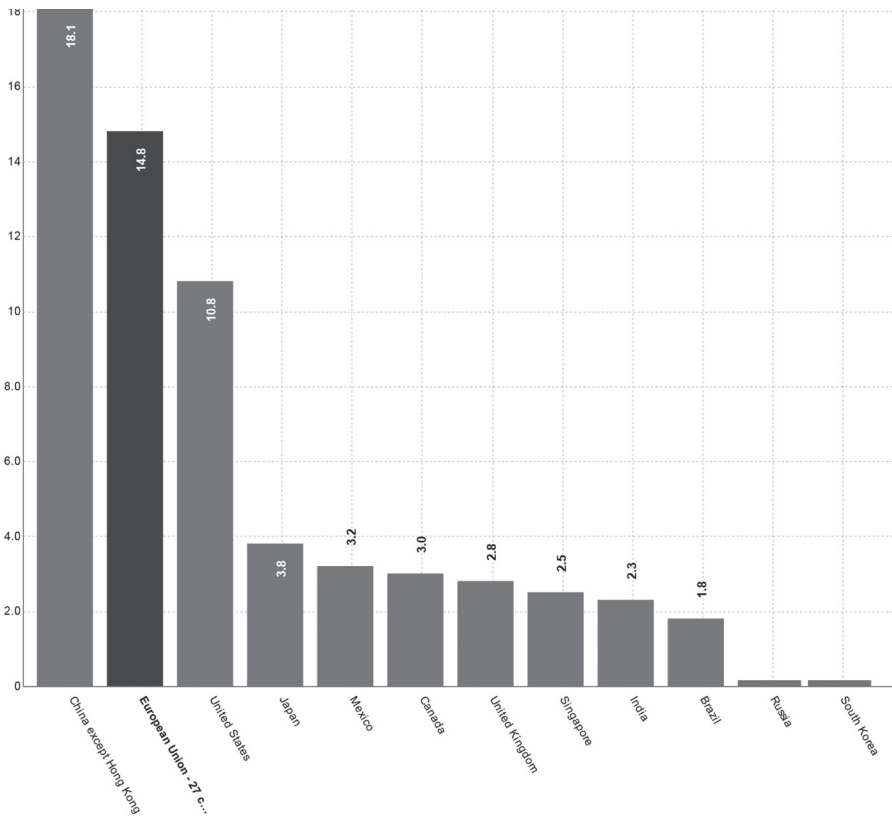


Figure 1 Share in World Trade of goods (2020) in %

Source: Eurostat, online data code: ext_lt_introeu27_2020

knowledge and understanding, and we must agree on rules in order to live together.

These rules must take into account that the honeymoon period of globalisation is over. There are winners and losers of globalisation. Old industrial regions suffer under high unemployment and low-skilled workers feel neglected. How to share benefits and costs inside and between countries is at the top of the political agenda. Furthermore climate change demands that we exit our fossil fuel based economic model, which entails another big economic transformation. How to keep societies and economies together and achieve sustainable economic development is the major task.

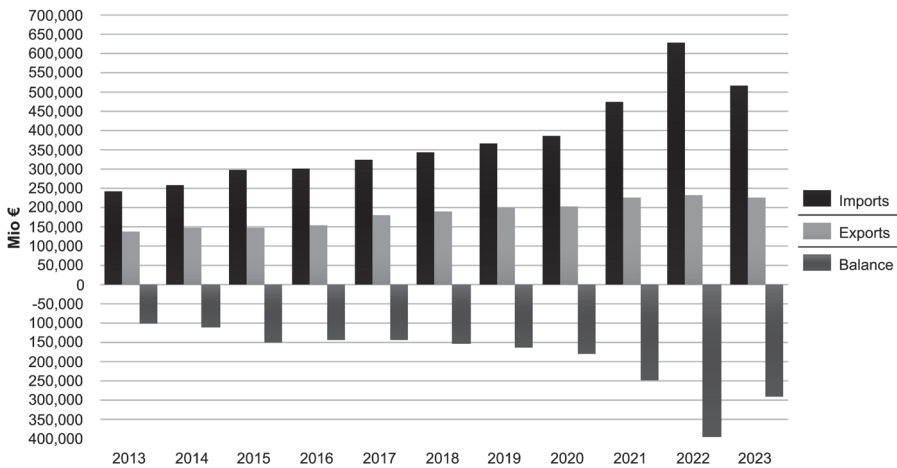


Figure 2 European Union, Trade with China (2013-2023)

Source: Eurostat Comext - Statistical regime 4, 15-05-2024

The liberal economic model based on the so-called Washington Consensus is no longer an adequate model for this new world. It might be an irony of history that US President Trump declared an end to an international economic order that was very much created by the United States after the Second World War. The Trump administration blocked appointments to the World Trade Organization’s Appellate Body and thus shut down the trade dispute settlement system.

In Europe a further shock to the international system occurred when Russia decided to use military force to revise internationally agreed national borders, attacking Ukraine. The EU is a peace project created to avoid war among its founding members and to improve the economic development of its citizens. Security in Europe has very much been left to NATO, with the US providing the bulk of its military might. The EU concentrated on economic development and trade and did not have a geopolitical agenda. In this new world also the EU and European member states must include political considerations in their economic and trade policy. Commission President Ursula von der Leyen spoke for the first time about a geopolitical Commission. Something which is normal for China, namely that economic activities are part of politically guided

development, and also far more familiar in the United States, with its geopolitical strategy, was quite new for the EU.

A comprehensive investment agreement

The European Commission has been negotiating hard with the Chinese government for seven years on a comprehensive investment agreement aimed at making economic relations more balanced. The Commission also has included the demands of European business in these negotiations.

On 30 December 2020, an online video conference attended by the Chinese President, the German Chancellor, the French President and the President of the Commission finally succeeded in agreeing on the principles of the investment agreement. This breakthrough was achieved on the penultimate day of the German Council Presidency.

In the agreement, China commits to further opening up its market to EU investors and to treating European companies more fairly in competition. This applies in particular to key sectors such as vehicle manufacturing, the chemical industry, transport and the health sector. Improved market access is also promised for financial services, and environmental, construction and IT services. Approval procedures are to be simplified, forced technology transfer prohibited and increased transparency in state subsidies promised.

China commits to complying with basic labour law standards and to implement the Paris Agreement on climate change. Negotiations on investment protection and a dispute settlement mechanism are to be completed in the next two years.

The agreement was intended to replace the existing, very different national investment agreements of the EU member states with China. It can enter into force only after ratification by the Council, which represents the EU member states, and by the EU Parliament. American commentators have criticised the agreement because it was not coordinated with the US government. However, the Trump administration had not discussed its bilateral agreements with China with the EU either.

Mistrust of China has grown in public opinion, in some national governments and in the EP. It was therefore doubtful that the necessary

support could be obtained for ratification of the agreement. A vote on the agreement was postponed in the hope that political concerns, especially in the European Parliament, could be overcome by providing further information and more time for discussions.

20 | Conclusions and recommendations

In summarising the different facts and arguments presented in this volume the following conclusions can be drawn.

International framework: the need for effective multilateralism

- International political and economic relations are at a crossroads between nationalism, protectionism and power politics, or a reshaped international multilateral system with a new consensus about common rules.
- The further evolution of the US-China rivalry will be the determining factor. If there is no correction of current trends a globalised and interconnected world with all its benefits will be replaced by different spheres of influence, increased military risks and a reduced capacity to solve global challenges such as climate change, hunger and underdevelopment. This is a dangerous development because history has shown how easily societies can sleepwalk into disastrous conflicts.
- The EU can play a decisive role in furthering international advancement. The European Union has built a political system that replaced decades of nationalist rivalry. The European model is based on common rules, supranational institutions and shared sovereignty. Solidarity instruments were established to support those regions and citizens not yet sufficiently prepared for economic competition. The European model, even if far from perfect, provides important lessons for a reformed multilateral system.
- Let's be clear, there is an intensive debate about the right way for the future also in European societies. Nostalgic ideas about the glorious past of European nations, and failed policies to share the benefits of an international economy and to protect vulnerable groups from the

negative aspects of globalisation fuel populist sentiments and lead to a disapproval of free trade and an open society. Nevertheless, there is still a clear majority in the EU and its member states that rejects nationalism, populism and protectionism.

- The EU is not a military superpower. It represents only 6% of the world population but is economically still a decisive partner for China and the United States, offering a big, attractive internal market. Furthermore, European companies are important globally and in international supply chains. European investors are active worldwide. Therefore, the EU benefits more than others from open markets and can exert influence. But this needs a clear and coherent European strategy towards China and the United States, which has not yet been achieved.
- The increased use of economic sanctions to achieve political objectives is a serious problem for international business. It is becoming obvious that in a globally interconnected economy sanctions are being circumvented. Making sanction policies more effective demands more restrictions and will finally lead to the end of a global economy. The use of economic sanctions against countries should be restricted and, for example, made dependent on a UN mandate.

EU-US relations: accepting a multipolar world

- The EU and its member states and the United States are democracies and market economies. There is a long common history. There are close cultural, scientific and economic links. Nevertheless, there are big differences in politics, society and the economy. The shift from an international system created after the Second World War, predominantly under American influence, to a reformed multilateral system reflecting a multipolar world is a major challenge for US politics. Can American society accept changes that might in the longer term reduce some of its existing privileges, such as the role of the US dollar as the dominant international reserve currency, with all its benefits for American economic development and American financial markets?

- The political establishment in Washington has identified China as the only country that might be able to challenge the dominant US position and decided to confront China's increasing influence. The United States has regularly combined political activities with economic interests. It has not hesitated to use political means and sometimes even military pressure to advance its economic interests. In its judgement of Chinese politics, it assumes similar behaviour and is therefore especially concerned about the Chinese military build-up. As a major power the US has – in contrast to European countries – always been reluctant to limit its national sovereignty by accepting the rulings of supranational institutions. By insisting on its national sovereignty China has very often taken a similar attitude. Should Europe follow the mainstream of the Washington political establishment and regard international relations as big power politics and join the geopolitical confrontation with China?

- European policymakers should realise concerning the future of the multilateral international system that American and European interests are different. European countries can adapt more easily to a multipolar world if there are common rules and respected international institutions. European societies have already learned during the painful decolonisation process that their historical dominance has disappeared. American society might have more problems accepting that a position as dominant superpower might also have to change in an open world with more and more people entering the modern international economy. The big economic and cultural divisions inside American society and the confrontation between the main American parties show that there is currently no common vision of the American future.

- The EU should try to persuade American policymakers that the build-up of effective multilateral institutions would be the best way to answer existing international conflicts and solve global problems. The EU should not join in an ideological confrontation with China. An independent policy will be possible only if European countries become able to protect themselves against outside military threats. As long as the United States provides European security an independent European policy towards China will be a difficult balancing act.

EU-China relations: a new European strategy

The description of China as a partner, competitor and systemic rival is an indication that European policymakers are not clear about the appropriate assessment of Chinese society and Chinese governance. The EU needs a new China strategy. Looking at the information and judgements presented in this book the following arguments might be a starting point for a new European strategy.

- For decades to come China’s priority will be the further development of that vast country to achieve a moderately prosperous society everywhere within its borders. There are major internal challenges linked to the rural–urban divide, income inequalities, the structural changes of the Chinese economy away from an export-oriented model, the build-up of nationwide social assistance measures, and the consequences of an aging society.
- The Chinese government has no interest in military conflicts. China’s rise is linked to a peaceful and stable international environment. Therefore, China’s government supports the multilateral system, but it wants reforms so that it is better represented. At the same time, it is developing new parallel international institutions more closely linked to Chinese interests and addressed to the Global South.
- European democracy is less challenged by the rise of China. More important are the destabilising effects of some social networks, with business models that favour the distribution of hate, and false and xenophobic messages. These business models undermine the cohesion of societies and respect for the opinions of others and thus the foundations of democracy. Whether these companies are controlled by Chinese businesses or elitist and populist tech billionaires does not matter. All companies must respect European legislation.¹³⁹

139 The investigative custody of billionaire Pavel Durov, founder of Telegram, by French authorities in August 2024 is an example of the conflicts between national legislation and the business model of an international messaging service. See “From anti-authority tech lord to wanted man”, *New York Times*, 26 August 2024.

- China, in its metropolitan areas, is a rapidly changing society with plenty of international cooperation. People can travel and study abroad and business is engaging more and more in outside markets. European societies are attractive for such people. This modern urban middle class will increase, contributing further to societal changes and openness.
- European policymakers should therefore realise that it is not the political system of China with its geopolitical ambitions that is creating problems. It is rather the economic competition with China. Russia and China should not be put in the same basket as authoritarian systems. China succeeds in a peaceful environment. Russia is unable to win in economic competition and to extend its influence by peaceful means. Therefore, it uses military measures to advance its interests.
- The competition with China's socialist market economy is a tremendous challenge. The huge Chinese market has opened up for foreign business carefully and only step by step. Chinese companies benefit from a unique Chinese system with support from provincial governments and national programmes, coordinated industrial policy and long-term planning.
- The EU and its member states should develop instruments that allow European companies to compete with foreign companies on an equal footing. Outdated ideas about 'free' markets still present among European policymakers have to be replaced. In today's international economic competition industrial policy and governmental support play an important role. The EU has to achieve its economic sovereignty based on industrial and innovation policy, the protection of European societies from foreign monopolies, and one-sided economic dependency. Progress in the EU Capital Markets Union and a solution for the future financing of the EU are prerequisites for mobilising the private and public financial resources necessary for Europe's economic sovereignty.
- The EU should present Europe as a partner to assist China in further development. The Chinese slogan of win-win cooperation can be used by European decision-makers to insist on reciprocity and fair competition. The EU can learn from the Chinese approach and link

access for Chinese companies to the European internal market to industrial policy objectives.

- European companies must be present in the dynamic Chinese market not only to benefit from economic opportunities but also to stay competitive and to enter other Asian markets with close links to China.
- China as an important pillar of the international economy must take into account the external consequences of its internal policy choices. Big international powers have a special responsibility. To build the necessary trust, the Chinese government should show that it respects international rules and dispute settlement by international bodies.
- In the event that China falls back into big power politics and uses – against its commitments – military means to exert pressure the EU must also be prepared for such a policy shift. Currently, Chinese military outreach is still limited compared with the global military presence of the United States with more than 500 international military bases.

Areas of necessary EU-China activities

Following up on these conclusions demands concrete actions. The EU must engage with the Chinese government and Chinese experts in discussions and initiatives to reform and strengthen the multilateral international system and to solve global problems. This can contribute to regaining the trust lost because of the Covid-19 lockdowns, mutual sanctions and increased geopolitical conflicts. There is a long list of areas in which cooperation between the EU and China is necessary:

- reform of the World Trade Organization and the multilateral trading system;
- reform of the international financial architecture;¹⁴⁰

140 Antonio Guterres, UN Secretary General, has demanded a radical transformation of the global financial architecture, a new Bretton Woods moment. There is consensus that reform of the IMF and the World Bank is needed but ideas about such reform are

- measures against climate change and negotiating solutions for the smooth implementation of EU's Carbon Border Adjustment Mechanism (CBAM);¹⁴¹
- reform of the UN System;¹⁴²
- strengthening G20 cooperation;
- development cooperation and the improvement of international debt mechanisms;¹⁴³
- international tax cooperation;
- cooperation between OBOR and the EU's Global Gateway Initiative;¹⁴⁴
- continued cooperation on research and innovation, developing a level playing field for European researchers and solving intellectual property issues;¹⁴⁵

still very divergent. Discussions between European representatives and Chinese officials have already taken place, especially within the G20 framework, to find common ground.

141 CBAM is a fundamental pillar of the EU's Green Deal.

142 In the follow-up of the UN Summit of the Future the EU should engage with China in the reform initiatives. There are numerous proposals in relation to which the EU and its member states could seek cooperation and support from the Chinese government, such as reform of the Security Council, extension of the competences of the International Court of Justice, a better institutional design of global governance for the SDGs and a unified UN environment agency. FEPS has prepared a well documented study with detailed proposals in numerous policy areas: see Rodrigues, M. J. (ed.) (2024) *A New Global Deal* (Brussels: Foundation for European Progressive Studies).

143 The EU as the biggest donor of development assistance and China as the biggest international creditor need to cooperate to improve synergies. Currently, some development countries are in urgent need of a debt review, payment suspensions and even debt restructuring. The initiatives presented by the Chinese government (Global Development Initiative (GDI), Global Security Initiative (GSI), and Global Civilization Initiative (GCI) should be studied by the EU to decide where cooperation is promising.

144 Both initiatives are comprehensive strategic development plans financing in particular infrastructure projects. Even though Global Gateway was created as a European answer to OBOR such cooperation could create synergies and increase the overall economic impact of investment projects.

145 There has long been cooperation between China and the EU on research and innovation. The EU recently developed a more nuanced and transactional approach and restricted Chinese participation in some innovation projects, demanding reciprocity and a level playing field for European researchers.

- engage in negotiations about global governance of the digital economy¹⁴⁶
- supporting the further development of the AIIB and cooperation with the EIB;
- deepening cooperation between the ECB and the People’s Bank of China.¹⁴⁷

Implementation of a new European China strategy

The EU has a sophisticated and decentralised political system. The EU Commission should take the initiative to present a proposal for a new EU-China strategy in cooperation with the EU External Action Service to achieve an interinstitutional consensus, including the European Council and the European Parliament. The implementation of such an EU-China strategy demands a multilevel governance approach. There are numerous contacts between European actors such as universities, cities, regions, national governments and EU institutions with their Chinese partners. The EU Commission should develop the ambition to become a knowledge centre and contact point for these numerous European-Chinese activities. A regular exchange of information can help to create synergies and avoid contradictions in European-Chinese cooperation projects.

146 The growing importance of the digital economy creates new challenges in terms of regulations and governance. See e.g. Lamy, P. and Liebhaberg, B. “Global Governance for the digital ecosystem”, Cerre, November 2022.

147 There are regular contacts between the ECB and the People’s Bank of China, which contributes to monetary and financial stability. Since 2013 there have been bilateral swap arrangements. Cooperation could be extended to new areas like the development of digital currencies.

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Abbreviations

AIIB	Asian Infrastructure Investment Bank
BRICS	Intergovernmental organisation comprising Brazil, Russia, India, China, South Africa and others
BGI	Chinese company, one of the world largest genome research organisations
BYD	Multinational Chinese manufacturing conglomerate, produces cars, batteries etc.
CC	Central Committee of the Chinese Communist Party
CPC	Communist Party of China
CPPC	People's Congress Consultative Assembly
CBAM	Carbon Border Adjustment Mechanism
CoR	European Committee of the Regions
DPP	Democratic Progressive Party, political party in Taiwan
ECB	European Central Bank
EDUI	Ecological Development Union International, Chinese NGO
EBRD	European Bank of Reconstruction and Development
EIB	European Investment Bank
EP	European Parliament

EU	European Union
IMF	International Monetary Fund
IPEF	Indo-Pacific Economic Framework
Hukou	Household Registration System in China
KMT	Kuomintang, political party in Taiwan
MEP	Member of the European Parliament
OBOR	One Road one Belt, new name for new silk road
OECD	Organization for Economic Cooperation and Development
PHBS	Peking University HSBC Business School
PRC	People's Republic of China
PwC	PricewaterhouseCoopers, accounting and consulting firm
SCO	Shanghai Cooperation Organisation
SDGs	Sustainable Development Goals
SPD	Social Democratic Party, political party in Germany
TPP	Trans-Pacific-Partnership
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	UN agency for education, culture, world heritage
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

About the author

GERHARD STAHL

Gerhard Stahl is a visiting professor at the Peking University HSBC Business School in Shenzhen, China. He started his professional career at the German Ministry of Finance. He was Secretary General of the European Committee of the Regions for over ten years. Furthermore, he worked in leading positions at the European Parliament and the European Commission. For a decade, he was a member of the administrative board of the ifo Institute, one of the leading economic research institutes in Europe. He also taught in the Economics Department at the College of Europe. He is the author of many publications on economic and international policy issues.

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