

China's EU Overtures: RSTV – The Big Picture

Anchor: Frank Rausan Pereira

Guests: Jayant Dasgupta, Former Ambassador of India at WTO; Maj. Gen. Dhruv C. Katoch (Retd.), Director, India Foundation; Shashank, Former Foreign Secretary

Why in the news?

- Italy's participation in China's Silk Road Infrastructure project sparked an outcry in Germany recently, including a call from the European Union to block such deals with a veto.
- The EU's budget commissioner, Germany's Gunther Oettinger said he viewed "with concern that in Italy and other European countries, infrastructure of strategic importance like power networks, rapid rail lines or harbours are no longer in European but in Chinese hands."
- Europe has been struggling to find a coherent strategy to deal with China. While the continent desperately needs to keep China on its side as a trade ally, it is also wary of the Chinese state's ambitions and growing global clout. Italy recently became the first G7 country to sign up for Beijing's new "Silk Road" project of road, rail and sea transport and trade links stretching from Asia to Europe. The project has raised eyebrows in Washington and in some EU capitals where critics say it will give China too much sway.
- Following his visit to Italy, Xi stopped in Monaco on the French Riviera before meeting France's Emmanuel Macron.
- Macron will hold trade and climate talks on Tuesday with Xi and German Chancellor Angela Merkel. On this edition of the Big Picture, we will analyse China's EU overtures and Europe's options.

Analysis by the Experts:

Italy's deal participating in China's Silk Road Initiative has raised quite a few eyebrows in the U.S. as well as in the European capitals as well. Why is this so?

Jayant Dasgupta, Former Ambassador of India at WTO weighed in with his arguments here.

- Well, the first point to make is that Italy is the first G7 country to have broken rank in signing up with the BRI (Belt and Road Initiative).
- The second aspect is that Italy was in financial trouble. As a matter of fact, Italy has a very high debt burden. Also, last year (2018), Italy faced recession. Furthermore, Italy wanted to spend a lot of money in order to come out of the recession. However, the EU persuaded the Italians not to do it because it would have had far deeper implications. Thus, the Italians were looking for investments. The Italians found their options restricted to a great extent. Also, one of the things that attracted them was the Chinese investments in Italy and the offer of Chinese market access for Italian products, especially luxury goods and fashion goods, for which Italy is very well known.
- Thus, it was quite attractive for Italy to have broken ranks. However, having said that, there is a division among the ruling coalition. Matteo Salvini's league party (also Matteo Salvini is a great admirer of President Trump), has not participated in any of the functions, and he has also mentioned that this could mean colonization of Europe.
- This move by the Italians has implications for Europe. It has implications for the U.S., and one of the things which have been mentioned is that this deal would also include telecom at some stage. Further, the U.S. has already expressed grave reservations about one of the Chinese companies, namely Huawei, coming in with their 5 G network and then creating problems of a strategic nature.

Thus, this seems to be a wedge that has been driven into the unity of the European Union.

All is not well in the European Union? Is this the message that is coming out of all of this? As a matter of fact, Germany has called for such kind of deals to be negated or blocked through the use of a veto in the EU. What do you make of that as well?

Shashank, Former Foreign Secretary, weighed in with his arguments here.

- Well, the European Union, in any case, is a divided house. Brexit was the first signal. Secondly, several of the southern European countries are in a very weak economic position, and these countries are trying to attract Chinese investments. As a matter of fact, Germany itself is trying to attract investments from Russia.
- Thus, Germany is under pressure from President Trump to not go for the gas pipeline. Further, unfortunately, the Italian Government seems to be a non-functioning government. The Chinese are hard bargainers. They study a countries situation and they move in there very quickly.
- China settled all their boundary problems with all their Central Asian states because they were able to give them a lot of good money and setup infrastructure linkages, gas pipelines, etc. and in return, the Chinese were able to settle all their problems to their benefit.
- Currently, what is happening is that the Chinese are trying to become the number one power in the world by 2050. The Europeans have now lost their clout in world affairs. America is not willing to pay more for NATO's security any longer, thus the European countries are now being made to pay more for their own security. Thus, in this kind of a situation, if some of the countries are individually giving all kinds of concessions to China, to put investments in their country, there is only one extra step left. The Americans and the Germans are very worried now, e. the Huawei 5G network. Technology up-gradation is very important. England wants to go for the 5G network, and so does India.
- One would like the Chinese to be more responsible. The Chinese are a permanent member of the UNSC. One would like to particularly like them to control the behaviour of the Pakistani state and make them work against the terrorist elements that are operating from Pakistani soil.

Is China trying to break the EU unity and what are the implications for Europe?

Maj. Gen. Dhruv C. Katoch (Retd.), Director, India Foundation, weighed in with his arguments here.

- I wouldn't say that they are trying to break the EU unity per se. By 2050, China aims to be the number one superpower in the world. For this, the Chinese would need political and geostrategic influence. As far as influence is concerned, through the BRI, the Chinese have made inroads in Asia, especially in ASEAN. They have made inroads in Pakistan as well to a very great deal through the CPEC. They have also made significant inroads into Africa, and what they are trying to do now is to get into Europe. Once they get into these three continents, into a big way, they have gained geopolitical and strategic influence. After this, they are in a position to challenge the United States. This is the larger game plan that they are looking for, and these are the steps that they are taking to reach that particular point.
- In a manner of speaking, we are again looking at superpower rivalry developing around the lines that we had before. Earlier, we had the U.S. led western bloc, the Soviet bloc, and a handful of countries who were non-aligned. We are seeing a re-emergence of such a trend. What the Chinese are trying to do now is to get Europe on to its side.
- Europe is not unaware of what is happening. But, the larger concern is really of the United States. Here the idea of 5G assumes importance. 5G is something that everyone is concerned about because 5G gives one access to artificial intelligence which is unimaginable as compared to what we are seeing today. Now, what would happen if the Chinese get there first and they capture this market? The EU is working on it, including Italy. India is also working on it, but we are nowhere near where

the Chinese are currently.

- The Americans, the Japanese and Israel are also all on to it. The American's have concerns over Huawei's 5G technology. The fact that Huawei is also a major player in many countries, including India and it is through their equipment that the Chinese get a backdoor. So, there is a feeling that the Chinese would be able to spy on the rest of the world.
- Currently, the Chinese are also buying Italian bonds. The Chinese have bought 2.8 Billion USD worth of Italian bonds.
- When China buys up huge currencies like this, and if the Italians are not in a position to repay back, then we really don't know what the Chinese would be going to do. The Chinese can then apply pressure. When they start applying pressure, they can break one country; after which they break the second and the third, and then they break the EU. Further, the Chinese are not really concerned about time.

Of what economic importance is China to the EU?

Jayant Dasgupta, Former Ambassador of India at WTO weighed in with his arguments here.

China is the second largest trading partner of the EU after the U.S. for the EU. China is also perhaps the largest investor in the EU. The third aspect is that it is not Italy which has fallen the first; however, Italy is the first among the G7 group of nations. The Greek port of Piraeus has already been taken over by a Chinese company called Cosco which has sent approximately 4 million containers from the port this year. Next year, the target has been raised to about 7.5 million containers. The Chinese have taken over a steel plant in Serbia and the Serbs have been very welcoming of the investment because it has provided employment, it has provided a strategic advantage to Serbia in terms of its exports and other related issues. The European Union faces a big dilemma because it has termed China as a systemic rival and it has raised similar concerns as to what the U.S. has raised in moving against China last year.

The concerns are:

1. Intellectual property theft
2. Not playing fairly by the rules of the game (China keeps on subsidizing and most of its subsidies are not very well publicized- they are hidden subsidies, which makes it very difficult for one to put his/her finger on)
3. The state-owned enterprises which often back financial deals where the front is a Chinese company and in terms of the Make in China initiative of 2025, of which the U.S. is particularly concerned, because it would catapult the Chinese to technological dominance over the global trading arena- this is funded mainly by the State. And one of the concerns espoused by the U.S. is that technological excellence should come from private enterprises and private endeavour and that this should not be state funded. These are some of the positions which are shared by the U.S. and the EU. This is a major threat because if the rules of the game are not being followed then India, who is a much smaller player on the trading arena is also bound to get affected. Further, if there is a default in paying back the loans which China provides for building infrastructure, then there would most certainly be consequences. With other projects across the globe, there are problems with the repayment of Chinese loans irrespective of however long the tenures of these loans are. This is in fact a major source of worry as well- because if loans are going to suck a country into indebtedness, and then, the only way out is to sign-off on some strategic asset like a port or a telecom network, or a pipeline, then that could have very grave implications for the rest of the world.

Why is it that the European Union hasn't been able to come out with a coherent strategy to keep China at bay?

Shashank, Former Foreign Secretary, weighed in with his arguments here.

There are a couple of reasons. The first being that Europe would still like to become the Europe of the past, i.e. a very important player in the world on trade matters. Under NATO, they are totally in partnership with the Americans. Further, on intelligence sharing and the networks on which they have common knowledge of, the European viewpoints are in alignment with that of the Americans. After the collapse of the Soviet Union, Russia became a very weak power and the Americans and the EU were able to deal with China well in the backdrop of the Soviet collapse. The Americans and the EU were hoping that China wouldn't grow that fast. However, China did grow rapidly. On the other hand, we have found that the Islamic states have more or less collapsed and give rise to non-state actors. Also, it is important to note that some countries like Pakistan have nuclear weapons and nuclear programmes. The Europeans have a peculiar problem that they would need to address. On one hand, they would like China to help them. The Americans are also dependent on the Chinese. The Americans are dependant greatly with China to help in their negotiations and deliberations with the North Koreans. This is an important aspect which should be kept in mind.

It is important to note that the Chinese became the number 3 economy of the world. The Chinese were able to very carefully play their partnership with the United States and with Europe. The current situation is that the kind of relationship which Europe and America built with China is now being attempted to be built with India. However, it is important to note that the curve which China followed and the curve which India is currently taking is different. India must ensure that her interests are taken care of first and then in addition India would like China to show more responsible behaviour.

That having been said, what are Chinese ambitions and goals in Europe?

Maj. Gen. Dhruv C. Katoch (Retd.), Director, India Foundation, weighed in with his arguments here.

- I believe that the Chinese would attempt at playing a very steady game. The Chinese would not want to move things in jerks. In my view, they have got a plan set out as to how they would wish to go about things in the next 10 years. They have got a plan laid out for a long period of time. The focus now is really on money-power and trade. The Chinese look into the weaknesses in leadership of nation states, and then they attempt at buying people out.
- From an Indian point of view, our areas of concerns stem from having to deal with hostile non-state actors, like for example, Pakistan's state-sponsored terrorism.
- I really don't think that China is going to take too much of effort in terms of putting a stop towards any of these activities, although the Americans and the European Union would try to put a curb on these activities. The Chinese would control the Pakistani's to the extent that the spread of terrorism doesn't spread to the Xinjiang province. China is willing to take the risk of being called a supporter of a terrorist state rather than actually come out openly against Pakistan because their own stakes are also pretty high in this particular game. Regardless of all other considerations, India needs to do two things- these two things are also very simple:
 - We need to look after our economy and ensure that our growth rate gets into double digits and remains there for about two decades. Indian diplomacy has a very important role to play to ensure that we reach higher on the world stage.
 - We also have to be militarily strong. This is because a weak military cannot guarantee a strong foreign policy. The final point is that on all strategic issues, all political parties must be on one common platform. These three things should be in order.

Concluding Remarks:

- One of the things which Macron and Merkel have been mentioning was on the possible merger between Siemens and Allstrom. This would have produced a European champion in the railways, which could have taken on the Chinese giant railway companies. This has unfortunately been turned down by the European Commission.
- India would also need to put a lot of money and effort into research. This research spans across the board.

- India needs to work in a very decisive manner to ensure that her growth rate remains above 10 percent. Secondly, the political parties need to be more mindful of a very focussed foreign policy as well as a defence policy with regards to the neighbours and with regard to the world. Thus, we need to continue in that direction.
- India should also nominate a few industries as strategic industries- for example, 5G, Artificial Intelligence, and the Aerospace sector. These have to be given priority over and above what we do normally. That means, that they need to be run in a manner that ISRO is being run- not essentially as a normal government concern; but as an organization with a different structure, access to finances, and ensure that we become world leaders, the way that we have become world leaders in space.

