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**CAN THE EU'S SOFT POWER COUNTER CHINA'S HARD LINE?
Comparison of the two power's international response to the COVID-19 crisis**

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EXECUTIVE SUMMARY

The COVID-19 pandemic, although global in its nature, has prompted a geopolitical quarrel on its origins and strategies to deal with it. Governments around the world have resorted to authoritarian-like measures that have put into question the intrinsic superiority of democracy and, with it, the main source of EU soft power. In this context, China has risen as a global aid provider, both in terms of health expertise and medical equipment, albeit it has given it the chance to become more assertive in key issues like its reunification with Hong Kong, or the universalisation of AI-enabled surveillance technologies. We analyse how the pandemic has affected the soft power of both the EU and China, which new opportunities it has created and which challenges it poses for their role as global leaders, and the global order in general.

Short bio

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Table of acronyms

Abbreviation	Full description
AI	Artificial Intelligence
AIDS	Acquired Immune Deficiency Syndrome
CAI	Comprehensive Agreement on Investment
CCP	Chinese Communist Party
CFO	Chief Financial Officer
COFDI	Chinese Foreign Direct Investment
COVID-19	Corona Virus Disease 2019
CSDP	Common Security and Defence Policy
EEAS	European External Action Service
EEC	European Economic Community
EU	European Union
G20	Group of 20
IMF	International Monetary Fund
LegCo	Legislative Council of Hong Kong



NSL	National Security Law
PRC	People's Republic of China
US	United States
WTO	World Trade Organisation



Introduction

The aim of the present research paper is to analyse the geopolitics of the bilateral relations between the European Union and China in and around the policies to tackle and counteract the COVID-19 pandemic based on Nye's theorization of soft vs hard power, from a comparative and relational perspective, and ultimately considering the intersectional and global effects that they are having for the global sphere.

I will focus on the soft power tools of the European Union from two perspectives: first, from a descriptive point of view of its state of art and, second, from a critical point, offering policy recommendations to improve its leverage in world politics as a global actor in the post-pandemic world. After, I will compare those to the response in China, taking into consideration the way China exercises its soft power, mostly in this case, to counteract the narrative firstly proposed by the US President Donald Trump, that China was to blame for the virus, naming it the "Chinese virus", and that its response was opaque and mischievous, but also analysing the exercise of its hard power so as to see the whole picture.

As mentioned, the theoretical father of soft power is Joseph Nye, who coined the term soft power as the ability to get others to do what you would like through attraction, shared values, and a sense of legitimacy, rather than through hard power inducements, threats, and coercion (Nye, 2004). While hard power is tangible, soft power is persuasive. The former includes not only military might, but also economic sanctions, aid, preferential trade agreements, or conditionality; the policies of carrots and sticks. Soft power stems from cultural appeal, political norms and values that are seen as desirable, and policies that are seen legitimate and desirable (Nye, 2004: p.11), so it is context-dependent. Those are made effective in foreign policy by means of public diplomacy, framing of international issues, and agenda-setting. Both forms of power actually reinforce each other in a symbiotic way, that is, soft power is not a replacement for hard power policies, as the credibility of those is essential for soft power policies to work (Gray, 2011: p.38).

The relevance of this research lays on the fact that it will use a methodology of comparative approach to analysing foreign policy, consisting on a comparative geopolitical analysis of the EU's and China's response to the virus taking into specific consideration soft power tools but, in the case of China, also hard power responses that are not directly related to the COVID-19 crisis but that have been favoured by this context, as the potential for social upheaval is lower and the context of uncertainty diverts the attention span of citizens around the globe. With this framework, it is then possible to see the possible configuration of a future post-COVID multilateral framework for international relations and whether it will lay on cooperation and solidarity or competition and mistrust.

EU-China relationship from a historical perspective

The EU and China have one of the largest economic relationships to the world, composed of a network of sectoral strategic dialogues. Over the years, it has evolved from a purely transactional one, to a more political relationship or, as described by President Xi, a "civilizational partnership".



The EU, nonetheless, has labelled China as “strategic competitor”, what also carries political and geopolitical value. The origin of their bilateral relationship predates the birth of the EU, as it was established between the EEC and the People’s Republic of China in 1975, and formalised by the “EEC Trade and Economic Cooperation Agreement”, exclusively focused on the promotion and liberalisation of trade between the two blocks.

Between 2002 and 2004, there was a period of “mutual learning and was dominated by an almost unconscious deepening politicisation of the relationship despite neither side being willing to fully admit this.” (Brown & Beatson, 2016) This is illustrated by several documents, among them two Chinese State Council White Papers (2003, 2014) that already identify Taiwan and Tibet as core points of conflict between the two parties, the second as a response to a paper approved by the European Parliament in 2006 titled “EU-China, Closer Partners, Growing Responsibilities”. Two other historical points have been the EU’s refusal to lift the arms embargo that was imposed after the Tiananmen crackdown in 1989, and its refusal to grant China market economy (ME) status, despite China having entered the WTO in 2001. From China’s eyes, the 2008 financial and economic crises also posed doubts on the viability and relevance of the European Union as a global power, posing doubts about the economic solidity of the block and, thus, its political stability.

Despite these disagreements, the relationship between China and the EU is one of the most significant in international relations nowadays, as there is a particular complementarity between their economic strengths and weaknesses and a political interest in deepening the partnership in mutually beneficial ways, considering also its relevance for a peaceful geopolitical situation in the world as China rises and the US diminishes its role as global protector of freedom and democracy, and closes in itself. The main areas that the EU identifies as of mutual interest and potential cooperation between the two powers, in its 2016 “Communication on China”, are: supporting China’s transition towards a more open and plural society, sustainable development, trade and economic relations, strengthening bilateral cooperation, and international and regional cooperation.

Between the 2006 and the 2015 EU communiqués we can appreciate the development of a more complex, nuanced relationship between the two powers, in which to locate specially the issue of human rights. The 2016 document, for instance, states that the relationship needs to be “principled, practical and pragmatic, staying true to its interests and values. It will continue to be based on a positive agenda of partnership coupled with the constructive management of differences.” As Brown (2018) interprets, “differences in this context are simply to be accepted and managed, rather than resolved in EU’s favour.” The relationship has evolved to one of tactical engagement, defending the global rule-based trade and governance order to bring China onside, more concerned about economic sustainability and the creation of better quality growth in the EU, leveraging the opportunities that the Chinese market and investment offers, to a more pragmatic way to deal with core differences such as the one the Hong Kong, Taiwan, Tibet or the protection of human rights pose.



Sources of EU soft power

The soft power of the European Union in the foreign policy sphere is very much conditioned by the fragility of its foreign policy regime, that is, historically, member states with diverging foreign policy positions have placed national priorities before shared European objectives, see Iran or Kosovo, to name some examples.

The European Security Strategy adopted in December 2003, as well as the creation of the European External Action Service (EEAS) and the Common Security and Defence Policy (CSDP), show the willingness to promote the role of the EU as an international actor, to increase its role as provider of international security, and to work towards a more comprehensive approach in foreign policy. In this line, we can also find discussions in and around a Defence Union, which still very much divide the member states. To this aim, as long as majority voting is not implemented for foreign policy matters, this stalemate will be hard to solve.

Precisely, the EEAS was conceived with the ultimate aim to give more cohesion to EU's foreign policy, helping enhance its horizontal cohesion through stronger coordination and, with this, its capacity for collective and unified action. However, "the continued salience of foreign policy to EU member states has set clear limits to both vertical and external cohesion, and the insistence on consensus has often meant a collective reluctance to using the resources actually available in a purposeful way, and hence meeting the expectations held of the EU" (Toje, 2008). In other words, the EU still has a diffuse foreign policy, but the main reason for that is its lack of constitutional powers in this area, which still lay on member states, encouraging its separate action and effectively limiting the autonomy of the EU.

To understand this phenomenon, Christopher Hill (1993) coined the term "capability-expectations gap", defined as "a discrepancy between the expectations the EU engenders, and its limited ability to pursue the actual policies needed for fulfilling its envisaged roles in world politics". Let's break this down. The EU has basically no effective hard power and, according to Hill, no amount of soft power can make up for this lacking capability. Actually, he believed that "rather than bridging the capability-expectations gap, the EU's soft power will, if anything, tend to further it". As long as the EU does not find a solution to bridge this gap between the expectations placed on it, and its actual capability to meet these expectations, by finding ways to reach agreements among its member states, increasing the resources available to meet those aims, and extending the range of instruments at its disposal, it will ultimately keep on creating disillusion and resentment, instead of hope and soft power concurrence.

This makes us think that the EU will, above all, remain a civilian "soft" power, what makes it ever interesting to study its soft power tools. In some way, the EU could be regarded as a "post-modern" polity entity, as Michalski (2005) points out, since because of its constitutional and historical construction, it "has developed into a political regime based on a strong normative component" (Michalski, 2005: p.125). Therefore, the EU is highly reliant on it being perceived as credible and legitimate in its foreign policy postulates, rooted on a "meta-narrative" that provides a sense of belonging to the same community of values, norms and principles. However, this is constrained,



as we mentioned, by its institutional structure, as those determine the way those principled policies will be implemented.

In the end, this hampers the effectiveness of the external policies of the EU, usually resulting in a “comparative inability to persuade both domestic (national) audiences and the international community of the nature of its existence and its vision of world order” (Michalski, 2005: p.125). That means, there is little doubt that the EU has the know-how in many sectors related to foreign policy – humanitarian aid, peacekeeping, international trade, reconstruction and development assistance – but when it comes to actual foreign policy implementation, it is usually seen as weak, and highly constrained from the centripetal forces coming from diverging national interests, on the one side, and a rapidly changing international ecosystem with a growing proliferation of relevant stakeholders and increasing dynamism in the balance of power not only between states, but also between state and non-state actors, on the other.

China’s soft power

China finds itself on the opposite side of the power spectrum compared to the EU. By Nye’s definition, China principally exercises hard power, that is, it “mostly builds influence abroad by buying it through economic carrots and sticks—business opportunities, trade, Chinese investment, infrastructure development, economic assistance, check-book diplomacy, threatening or implementing boycotts—and the expectations, benefits, and political leverage they create within foreign countries. This flags one of the most commonly misunderstood aspects of hard power: it is not a synonym for military power.” (Gill, 2020: p.107) If China wanted to generate lasting soft power, this would require loosening Party control and this is considered too risky. In fact, this is evidenced by their narrative battle that COVID has generated and its subsequent diplomatic response.

The blame game between China and the United States for the pandemic has resulted in a “soft power struggle”, where China has initiated a messaging offensive to “tell its story well” (CCM, 2013), putting to work its propaganda machine with the dual purpose of bolstering the CCP at home, its ever-lasting paramount objective, and persuading international audiences, so as to garner greater international respect and acceptance. The organizations involved in this work are called “Voice of China” or Central Propaganda Department, which includes the China Central Television and its international division (CGTN), the China National Radio with its respective international division as well, and the Xinhua News Agency, together with other CCP and state-run organisations, like the Central United Front Work Department, the Central International Liaison Department, the China Association for Friendship with Foreign Countries, or the PRC diplomatic corps (Diamond and Schell eds, 2019; Xin, 2018, Kynge et al, 2017; Brady, 2017).

COVID has presented China with an opportunity to gain friends but, actually, its image has arguably declined in terms of favourability, confidence and trust. (ASEAN, 2020; Silver et al., 2019; Kassam, 2019). The international community has gone against China for its lack of transparency, and its reluctance to allow for an international investigation on the causes behind the



pandemic has alienated international audiences and hampered its image. As a result, China has stepped up its controls on people of information, making greater use of technologies such as Artificial Intelligence (AI) – a topic we will come back to later –, and extensive information campaigns to praise the regime for its “capacity to mobilize and suppress the virus at home, while shipping life-saving supplies to those in need around the world” (Gill, 2020: p.105). The corrosive effects of China’s sharp power are increasingly apparent outside its borders in a number of crucial domains, “including in the spheres of publishing, culture, academia, and media—sectors that are essential for determining how citizens of democracies understand the world around them. As the International Forum report observes, China’s influence activities aim to discourage challenges to its preferred self-presentation, as well as to its positions or standing. Crucially, limiting or muting public discussion of issues deemed unwelcome by the Chinese party-state is a critical characteristic of sharp power.” (NED, 2019)

It is true that COVID-19 has presented China with the opportunity to cultivate new friendships and improve its international image, even when its model for combatting the outbreak is not feasible for most countries, especially in the Western world. However, China is a source of expertise and relevant information, as it was the first to deal with the outbreak. Therefore, China has actively been sharing its medical experience and notions on quarantine management with experts and political officials around the world through video conferencing (Shuang, 2020), promoting the narrative of China as a responsible supporter (*Zhongguo zhiyuan*). It has portrayed itself as a humanitarian power by offering access to medical supplies in a time of global scarcity.

As a case in point, in Europe, the COVID-19 pandemic has offered China a chance to gain ground in terms of soft power. While the societal and economic costs of the virus have been much greater, there was a high perception of lack of solidarity among EU member states, being the first reaction to closing the borders, not sharing medical equipment, etc. In this context, China stepped up and provided technology and medical supplies, exporting its notion of “shared future of mankind”. The same could be said about the lack of friendship emanating from the US, as Xi Jinping himself pointed out in a conference call with G20 leaders, remarking that “at the most difficult moments for China, many members of the international community provided China with sincere help and support. We would remember and value this friendship forever” (Lau & Churchill, 2020).”

This has fallen short of its objective and that is because of structural problems of the very approach of Beijing to soft power. First, since its ultimate objective is to legitimize the CCP and defend it against criticism abroad, this results in a subjective debate, unappealing to democracy-prone audiences, and resistant to any kind of critical scrutiny. Second, its message is mostly aimed at China’s domestic audience and, most specifically, the Party itself, and those it does not attract the attention of foreign audiences. On the specific case of COVID propaganda, the efforts have been undermined by the problems identified with the quality of supplies purchased from China (BBC News, 2020), the fact that the first known outbreak was there (Cole, 2020), and the fact that its donations have been perceived as attempts to bully afflicted countries, with its “no strings attached loans” that resonate the “debt trap diplomacy” narrative so common in Africa. In fact, the EU has tried to combat China’s narrative by launching a disinformation campaign, but the wins need not



be uniform. China has made significant gains in Italy or Spain, countries significantly scarred by the virus and who had previously been sceptical when dealing with China.

One example of this European effort to counter China's soft power, is the EEAS special report on COVID-19 disinformation. It coins the term "vaccine diplomacy" to describe the intent of state actors like China or Russia to "enhance their reputation and economic position abroad" by "leveraging diplomatic channels, state controlled media and networks of supportive and alternative media outlets and social media" (EEAS, 2020) to spread disinformation narrative on confinement measures, vaccine development, the origins of the virus, the threat it represents, and effectively undermine the strategies of democratic governments to curb the wave of infections and enforce civil compliance of the measures to fight the virus.

Interestingly, measures like the public health lockdown were heavily criticized at first as typical of China's authoritarianism, but they have become the international norm. Even democratic countries have resorted to political repression to enforce health measures, relying on the military to enforce them, or on digital surveillance. In this context, China has positioned itself as a global health benefactor and promoted the concept of a "health silk road" showering aid to cope with the pandemic. This shows adaptation to the international context, even if, as we pointed out, the results have been mixed and cannot still be fully accounted for, as its effects will be mostly long-term.

As Angie Hesham Abdo puts it, "authoritarian regimes like the Chinese Communist Party are not only consolidating their domestic hold on power but also promote their political systems as a model for others to emulate." "China and some of its acolytes look to Beijing's performance in combating the coronavirus pandemic as a clear justification for authoritarian rule. After a slow start, the logic goes, China had the resources to put in place a massive control campaign that effectively brought the epidemic to heel within its boundaries." (Hesham Abdo, 2020: p.3) China has seen this crisis as an opportunity to show to the world the resilience of its regime vis-à-vis unstable and indecisive democratic governments, taking its soft power diplomacy to a new level.

In effect, China faces an arduous task: that of overcoming the "othering" narrative in the West. It has been long portrayed in the individual subconscious as aggressive, untrustworthy and unreliable, by the Western media, as Huang and Leung (2005) state, a "bad other". This has created popular negative responses to Chinese investments in EU soil, for instance, and overcoming those constructed identities will take more than what the COVID diplomacy can account for (p.302). Eventually, however, the PRC propaganda machine will learn how to become "more sophisticated in their choice of media, type of messaging, and when, where, and how they choose to shape the views of foreign audiences" (Repnikova, 2020). Nonetheless, Gates predicts, this "seems unlikely as long as the Party is in charge. The old age that holds the key to soft power – "the best propaganda is no propaganda at all" – is not one the CCP is going to adopt" (Gill 2020, 110).



Surveillance vs Freedom: The role of Artificial Intelligence

One specific area that is worth of attention in this regard and that has been particularly developed and spread by China until even landing in the EU, is that the use of Artificial Intelligence-enabled surveillance technologies implementation was justified by the need to track and trace the virus, but those could easily be used beyond the pandemic and with considerable harmful effects both in democratic states but especially in non-democratic and rogue states. Artificial Intelligence is understood as “the theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages”, according to Oxford Reference (see Ref.). This technological solution has been particularly relevant in the management of the Covid pandemic, especially in authoritarian countries, but also among democratic ones, as it has a lot of potential when it comes to crowd management, personal identification and when dealing with large amounts of data, all of which significantly appealing to counter the spread of the virus.

In fact, as Naudé explains, AI has not yet been impactful against COVID-19. Its use is hampered by a lack of data, and by too much (noisy and outlier) data. Therefore, its potential has not yet been carried over into practice, even if it has been reported that a number of Chinese hospitals have deployed “AI-assisted” radiology technologies. Western democracies have not made use of AI specifically in this sector, as medical professionals are concerned that “there is not enough data to train the AI models, and most available COVID-19 images come from Chinese hospitals and may suffer from selection bias” (Naudé, 2020: p.736). What is most relevant for this research, is when AI has been implemented for social control goals. For instance, thermal imaging has been used to scan public spaces for people potentially infected, and to enforce social distancing and lockdown measures (Rivas, 2020). Also, “at airports and train stations across China, infrared cameras are used to scan crowds for high temperatures. They are sometimes used with a facial recognition system, which can pinpoint the individual with a high temperature and whether he or she is wearing a surgical mask” (Chun, 2020) It is reported that these cameras can scan 200 persons per minute and will recognize those whose body temperature exceeds 37.3° (Dickson, 2020), even if concerns have been raised that those technologies are inadequate to identify whether the person’s temperature is raised because of COVID-19 or some other reason (Carroll, 2020).

Another example are AI-based methods for forecasting the trajectory of COVID-19 across provinces or cities implemented in China, which actually helped in health planning and policy-making as a real-time forecasting tool for tracking, to estimate the trajectory of the epidemic, assess the severity, and predict its length (Hu et al., 2020: p.11). It can also be used to identify high-risk patients and predict mortality risks by analyzing the previous data of patients (Vaishya et al., 2020: p.337), thus optimizing the management of Intensive Care Units (ICUs) and medical equipment such as ventilators. This, however, raises the question of who controls the protection of this empirical data, and whether appropriate regulatory and quality frameworks are in place, as some of this data has even been extracted from social media and other online data sources with no individual consent. As a case in point, forcible DNA collection has been reported in China outside



of criminal investigations, what is at “odds with international human rights norms and China’s own criminal laws” (Freedom House ,2020).

Not only in China but also in the West, AI has been used to ensure citizens obey self-quarantine orders (Chun, 2020) with facial recognition systems and other tools for social control such as AI-powered apps or wearables that track location or health data of their owners. This results in an erosion of data privacy, shielded behind the need to overcome the pandemic, but which may have long-lasting freedom-erosion effects if, for instance, biometric surveillance systems stayed in place after the pandemic – arguing, for instance, the possibility of a second wave or being hit by a different virus like malaria, AIDS, etc. This could potentially result in citizens losing the trust in their governments and them being less likely to follow public-health advice (Ienca & Vayena, 2002: p.1), what could turn into a public policy crisis. To avoid this, clear data privacy and data management regulations are needed, a sector where the EU can be at the vanguard, setting a global framework for AI governance.

A final application that AI can be useful for is to “help investigate the scale and spread of an “infodemic”, to address the propagation of misinformation and disinformation including the emergence of hate speech” (Bullock et al., 2020: p.2). In the end, all those uses are reduced to a single concern: AI requires notoriously large amounts of data to train the algorithms and the neural networks, for which biometric, molecular data and data coming from social media is being used. While it is understandable that governments around the world harness the potential that those innovations have to overcome an emergency such as that of COVID, data needs to be appropriately anonymised, comply with ethical principles, and respect human rights, and here is where China’s approach differs from the EU.

China’s hard line

Apart from those soft power tools, China has also taken this opportunity to ramp up its hard power actions in various contested arenas that it considers key to its “complete national reunification” and its foreign policy in a broader sense. For instance, the National Security Law enacted in Hong Kong, its increase of military actions in the South China Sea or, from financial and economic terms, the purchase of Western companies highly affected by the virus from key sectors, and the adjudication of contracts to Chinese companies from Western EU countries to perform infrastructure and technology projects to deal with the second wave of the virus and its aftermath.

The COVID-19 crisis has offered authoritarian regimes with the opportunity to provide an alternative narrative of success due to the ease with which they can exert control towards the population, and thus, get hold of the virus. As a counterforce, this has also fuelled fresh demands for freedom, as in Belarus after Lukashenko’s rigged election, pro-democracy movements in Hong Kong, Iran and Sudan, and anti-government demonstrations in Iraq, Tunisia or Lebanon. It is true, however, that “lockdowns prevent large mass demonstrations, disasters provide incentives for autocrats to take control, disparities in health conditions in democratic and autocratic countries



will change global perceptions and mechanisms of public health monitoring the progress of the epidemic without civil liberties.” (Hesham Abdo, 2020: p.3)

In a context of increasing global instability and volatility, many world leaders have taken this opportunity to grab an authoritarian-like hold on power, or to put in place, as we have seen, surveillance mechanisms to track the virus that may have consequences much beyond the stated health objectives. This, coupled with America’s disengagement from the multilateral institutional network and the growing influence of China, provides an unprecedented opportunity for the legitimization of undemocratic regimes.

Let us focus on the case that takes place closer to Beijing: Hong Kong. On July 11-12th, 2020, over half a million people placed their votes for the pro-democracy primaries, to select the numbers of pro-democracy candidates to the Legislative Council elections and thus maximize their chance to achieve the “35+” majority in the LegCo. It was the most participated primary in the history of Hong Kong since the 1997 handover, practicing social distancing due to the risk of COVID-19 infection, sparked by the context of uncertainty and fear after the implementation of the National Security Law (NSL), which represents the most latent intent of China to move from the “One Country, Two Systems” towards “national unification” and “One China”.

The effects of this law have already been materialized in arrests of foreign citizens in the mainland, such as Sun Qian, Gui Minhai, Yang Hengjun, or non-Chinese born like Michael Kovrig and Michael Spavor, who were victims of Beijing’s “hostage diplomacy”, in retaliation for Canada’s arrest of Huawei CFO Meng Wanzhou for potential extradition to the US. But its effects expand much beyond that: it will enforce self-censorship among the Chinese diaspora, journalists, politicians, academics, international businesses, and even Hollywood film studios; the arrest of activists; censorship to communication platforms that the CCP seeks to control, for instance, WeChat censored the UK embassy, Weibo suspended the “trending” list, or Apple removed podcast apps that refused to filter content; bans to books at schools and libraries; or the repression of online activity. The law has also incited the dissolution of the pro-democracy youth group Demosisto, and the exile of Nathan Law, a well-known activist and former legislator, to the United Kingdom. Activists are now resorting to coded language to be able to protest safely, or using phrases that are effectively impossible for the Chinese and Hong Kong authorities to ban because of their literal meaning or origins, but which are infused with dissident symbolism, including even Mao quotes.

In this context, the EU should watch closely how the process of implementation of the NSL unfolds, how it is enforced, what implementing regulations follow, and how the offences, now vaguely stated, are interpreted into law and in particular trials. Also, the effects that it will have on the open internet and on the freedom of elections so treasured in Hong Kong and enshrined in its Basic Law. It should also create easier legal paths for Hongkongers to immigrate, as well as for companies that may face sanctions for their role in rejecting the NSL to re-locate to EU soil. On top of that, and in the light of other human rights violations such as the re-education camps in Xinjiang that China is perpetrating, sanctions should be contemplated.



FDI as a soft power tool

A soft power tool that takes special relevance in the context of the economic recession and alteration of global supply chains that the COVID-19 pandemic has created, is foreign direct investment, one of the most popular tools used by China, especially in South-East Asia and Africa, but increasingly in the developed world. In the specific context of the EU, it was considered strategic in the eyes of China because it possesses goods and advanced technology that could help China's own development. Some of the other advantages that it offers are "its open single market, the benefit of a single currency and unrestrictive monetary policy, integration of supply chains, investor-friendly policies, and credit access to businesses" (Cvetanovska 2020, 90).

However, as a study by the Mercator Institute for China Studies (MERICS) and Rhodium Group shows, since 2016 Chinese FDI (COFDI) has been declining, dropping by 33 percent in 2019 (Figure 1 & 2). COFDI is here understood as an investment involving a long-term relationship and reflecting a lasting interest and control by a Chinese resident entity (foreign direct investor or parent enterprise) in an enterprise resident in another economy, outside China (affiliate enterprise or foreign affiliate) (UNCTAD, 2017).

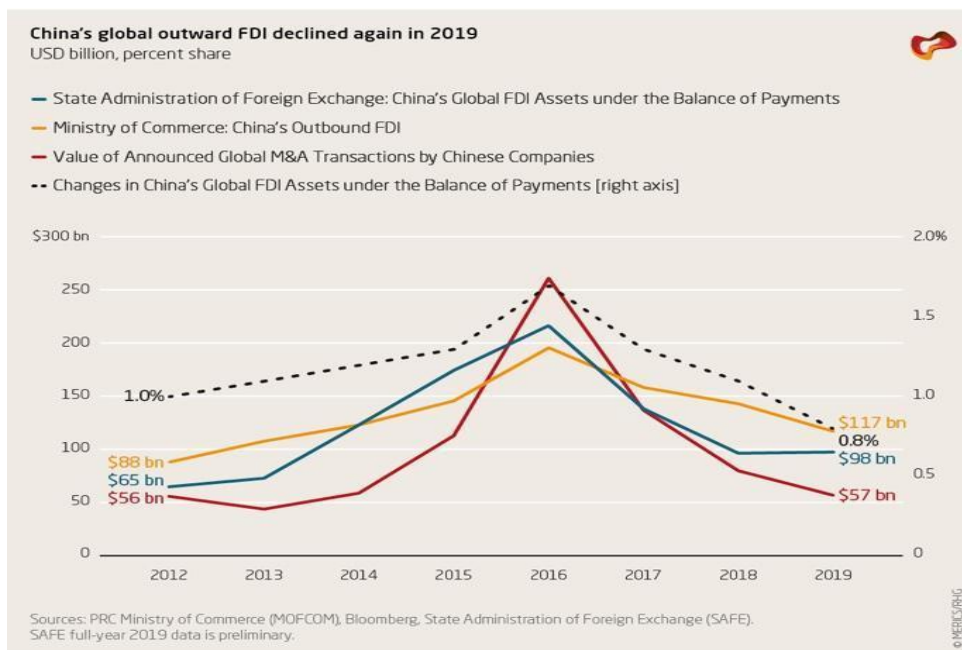


Figure 1: China's global outbound FDI dropped back to 2014 levels in 2019 (Kratz, Huotari & Arcesari, 2020: p.8).

For the first time, however, Northern Europe overcame the UK, Germany and France as the top recipient of COFDI (Figure 3 & 4), which was mostly on consumer products and services (Figure 5). The proportion of COFDI coming from State-Owned Enterprises (SOEs)¹ shrank to 11

¹ SOEs are defined by DG Trade as "an enterprise, including any subsidiary, in which a Party, directly or indirectly, (a) owns more than 50% of the enterprise's subscribed capital or the votes attached to the shares issued by the enterprise; or (b) can appoint more than half of the members of the enterprise's board of directors or an equivalent body; or (c) exercises or has the possibility to exercise control over the enterprise." See "EU proposal on State-owned enterprises, granted special rights or privileges, and designated monopolies".



percent of the aggregate investment, the lowest level since 2000 (Figure 6). We corroborate that Chinese companies prefer R&D partnerships than acquisitions and equity investment, which have become increasingly harder. See Annex for figures.

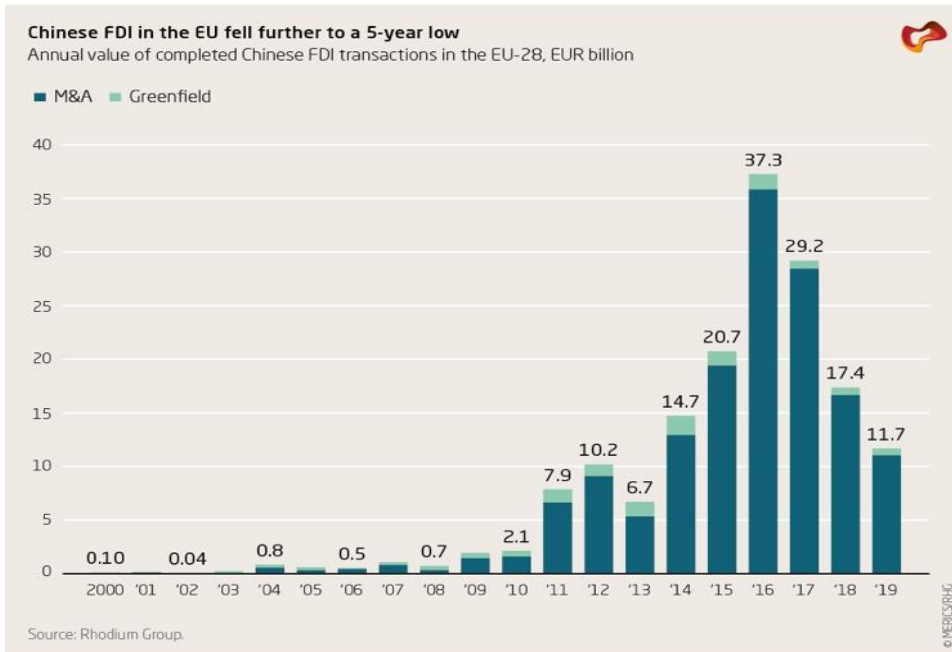


Figure 2: The combined value of Chinese FDI in the EU dropped to 12 billion EUR ((Kratz, Huotari & Arcesari, 2020: p.9).

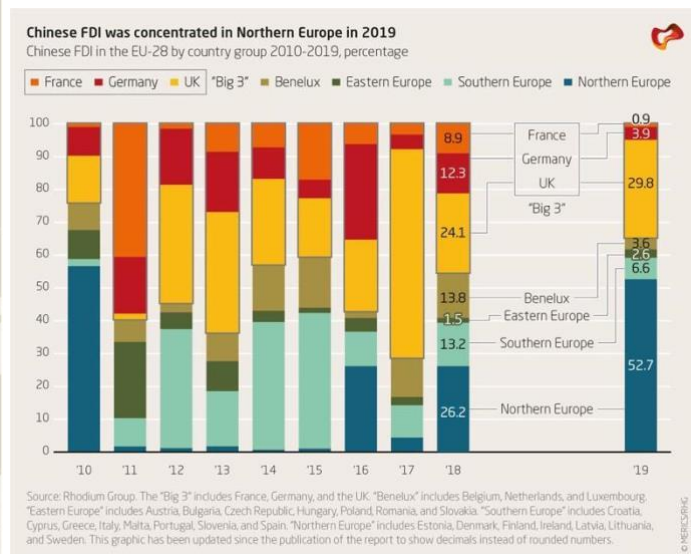
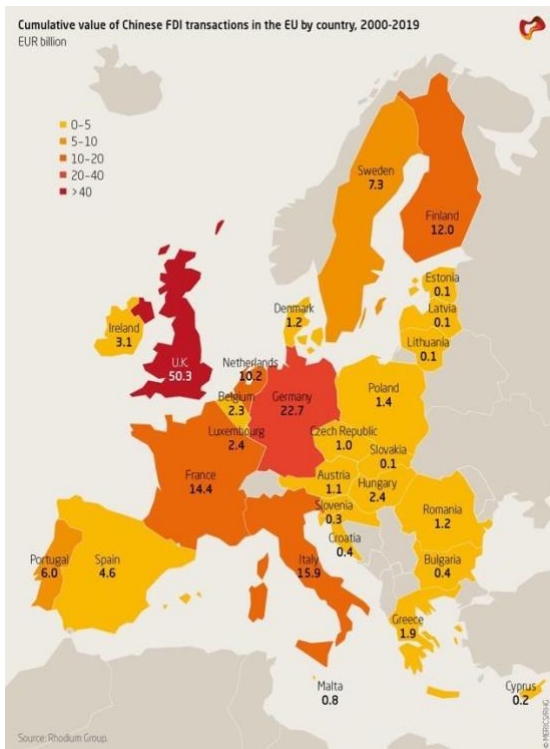


Figure 3 & 4: The geographic distribution of COFDI leaned towards the north in the EU, from a cumulative and a relative point of view (Kratz, Huotari & Arcesari, 2020: pp.10-11).

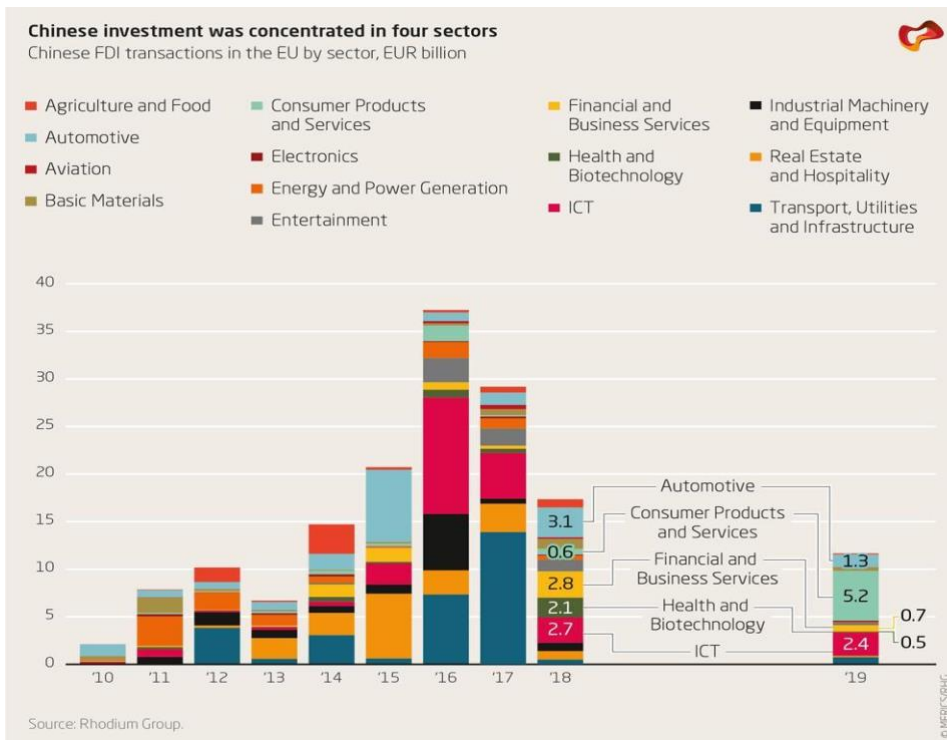


Figure 5: Consumer products and services sector was the top recipient, attracting more than 40 percent of the total COFDI (Kratz, Huotari & Arcesari, 2020: p.13).

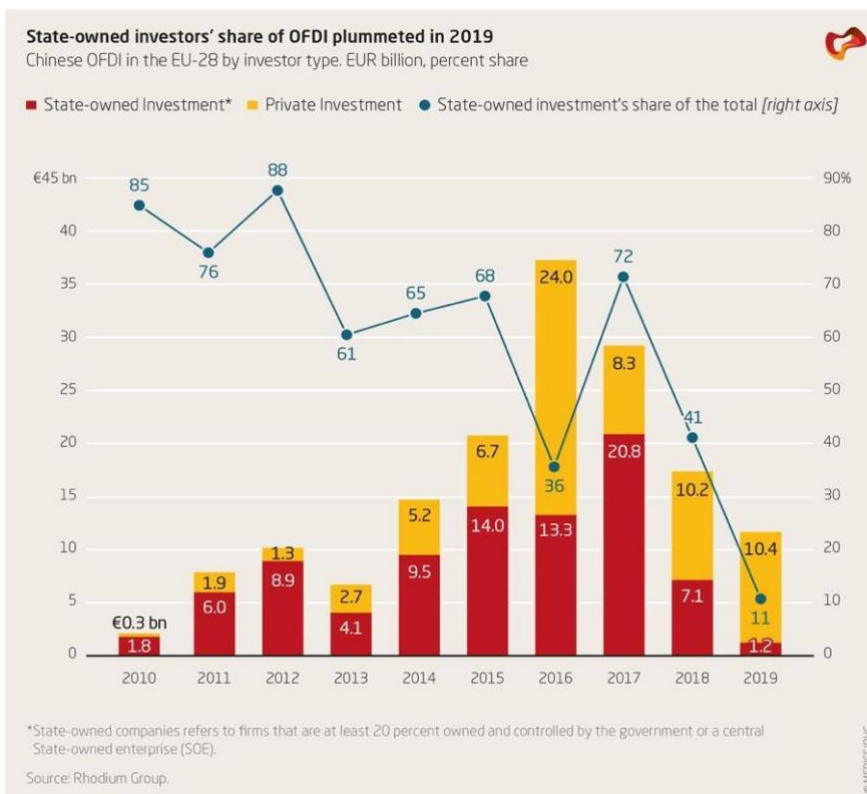


Figure 6: The share of SOEs investment sunk compared to acquisitions by private players (Kratz, Huotari & Arcesari, 2020: p. 12).



What makes it most interesting is that, in fact, EU countries are divided on whether COFDI is a friend or a foe, what gives even China greater influence, as it can “play off” one member state against another, effectively turning the EU into its own marketplace for COFDI, and selling its investments to the highest bidder. This is why a common strategy towards China is highly necessary at the EU level. China’s acquisition of German high-tech companies already triggered the alarm and led to the initiation of the Comprehensive Agreement on Investment (CAI), the EU FDI screening mechanism was introduced, and the EU started addressing China as a “systemic rival” and not a “strategic partner” anymore (Berkofsky, 2019).

Alternatively, COFDI offered “the advantage of easy capital to sectors in need”, especially in the post-pandemic period (Cvetanovska, 2020: p.94) and mutual innovation-related benefits. Closing the door to COFDI would only result in a “lose-lose” final outcome, but a common narrative toward EU member states for projects coming from China that takes into account the economic interests of member states – especially those most vulnerable to China, as Greece, Hungary, Croatia and other Eastern European states –, security concerns, especially in sectors of national security interest such as intelligence or energy, and counterbalancing strategies, must be in place. On the other side, “China needs to show that COFDI is in line with its peaceful rise, open door reciprocity, and a contribution to the European economy” (Cvetanovska, 2020: p.96).

In the global context, the trade war between the US and China is leading to an increased protectionism, and the information warfare around the COVID-19 pandemic is spurring global Sinophobia, together with its own illiberal, authoritarian government style. COFDI as a soft power tool has the potential to improve perceptions towards China and to promote a higher economic integration, initiating a process of mutual learning and engagement with the EU of which both can benefit, premised on the willingness of the EU to accept that some of its assumptions about China may be wrong, and China increasing its level of transparency and reciprocity, while not playing the strategy “divide and rule” among member states, which only creates resentment and negative perceptions of interventionism.

EU-China cooperation post-COVID

With the former framework in mind, it is now possible to see the possible configuration of a future post-COVID multilateral framework for international relations and whether it will lay on cooperation and solidarity, or competition and mistrust, specifically, in relation to EU-China cooperation.

Foreign policy is never a black and white picture. On the one hand, it has provided the world with health expertise and medical equipment, together with development assistance and loans, offering significant autonomy and flexibility to the receiving states. It is true, however, that this has tied some governments into a debt trap that seemed attractive at first for its accommodating terms and the absence of any conditionality to democratic reforms or transparent accounting, as the EU imposes.



The view that China has been more effective than western democracies in its response to the pandemic, managing to contain the virus earlier and re-start its economy, is widely shared. In return, it has been accused of lack of transparency and of being engaged in a narrative battle on the origins of the virus that has undermined its legitimacy and spurred mistrust. Even though, the US is also facing important challenges of legitimacy at home and abroad, especially after the murder of George Floyd at the hands of Minneapolis police officers and the protests it sparked, coupled with the deployment of troops by the US Department of Homeland Security to Portland, Oregon.

In this light, as Henry Kissinger (2020) stated, COVID-19 threatens to “set the world on fire” and may even upend the global order, implying that China may replace, or at least represent an important challenge, to American supremacy, something that did not happen in 2008, when US hegemony remained unopposed. To actually achieve this, however, China will need to be “fully integrated into the multilateral debt system of the Paris Club and the IMF”, even if this will mean accommodating its different lending philosophy (Schinder et al., 2020: p.5). If this integration does not happen, two distinct economic blocks may emerge and we may find ourselves in a situation parallel to that of the Cold War.

Conclusion

To sum up, this more prominent global role will mean that China can no longer rely solely on its market-oriented, pragmatic approach to foreign policy, but that its ideology and all the notions that the concept of soft power includes will gain prominence in the eyes of the other foreign policy stakeholders, as those are the source of trust and legitimacy, both basic ingredients for a successful friendly engagement and cooperation. The EU, in its turn, will have to move on the opposite direction, that is, beyond its primarily cultural, value-based soft power foreign policy and bridge the capability-expectations gap from the hard power side. This means that it will have to further develop its military dimension and its economic might, while most of all reforming its infrastructure so as to overcome divergent positions among its member states when those arise and design more efficient paths for immediate and resolute foreign policy action, so as to be able to live up to the expectations that its soft power narrative creates.

EU's economic prosperity, the successful way it has promoted democratization and political reforms in its neighbourhood through its enlargement process, and the peace that it has brought to its continent after a century of devastating wars, are all part of a powerful historical narrative and a significant source of soft power in the eyes of other states. This, together with its commitment to human rights, women's rights, democracy, equality, rule of law and freedom, are part of its soft power rhetoric. But this needs to be materialized in actual and specific foreign policies, put together through unity of action and a consistent strategy. Right now, the EU's most evident strength in the international sphere is its commitment to liberal multilateral trade, liberal political values, peace, and human rights (Nielsen, 2013: p.713), but if it wants to be the provider of those values its soft power narrative so proudly owns, it will have to develop and couple it with proactive



policies of conflict management, foreign policy integration, and military-capability response. Otherwise, it risks being perceived as offering empty rhetoric and ends up damaging itself its own soft power. As Nye notes, soft power is “... hard to use, easy to lose, and costly to re-establish” (Nye, 2011: p.83).

All in all, the EU should further pool constitutional powers in the area of foreign policy, beyond the ones that the EEAS currently enjoys and which are clearly insufficient, as this would encourage a more coordinated action among Member States and would increase the autonomy of the EU in this area. At the same time, the EU should build up on its hard power tools to bridge the “capability-expectations gap”, between the expectations that are placed on it, and its actual capability to meet these expectations. It should develop the instruments to implement its principled foreign policy in the areas of humanitarian aid, peacekeeping, international trade, and reconstruction and development assistance, as this would decrease the centripetal forces arising from diverging national interests, and would make the EU more adaptable to a rapidly changing and dynamic international system.

At the same time, it should promote an EU Ethical Code on the applications and use of AI, so as to leverage the potential that this new innovation offers while protecting the citizens and other stakeholders from harmful applications that may be developed in the future, especially when it comes to privacy, the curtailment of basic freedoms, and the respect for human rights. An EU-wide protection is preferable to leaving this to the discretion of Member States themselves.

When it comes to China specifically, the EU should constructively engage with it, maintaining the level of economic engagement while promoting more political cooperation, to make China a constructive partner of the liberal international regime. This means not abandoning its flagship values and its principled foreign policy, but coupling it with a more pragmatist approach to embrace the complexity of China and their relationship. For instance, the EU should focus on specific but relevant items, such as the process of implementation of the National Security Law in Hong Kong, to protect their democracy and its Basic Law, and the freedom and rights of its citizens.

Finally, the EU should develop a common strategy and a united approach among Member States on how to deal with Chinese FDI (COFDI), to leverage the opportunities that Chinese investment offers, while lowering the exposure and vulnerabilities that Member States face when dealing individually with China in a clearly asymmetric relationship, while demanding reciprocity and transparency. In this way, the partnership between China and the EU will be among equals, in an integrated multilateral economic and political system, their level of mutual understanding will increase, and their relationship will be more wide-ranging and constructive for them and the wider world.



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