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Engaging China – Reflections from the EU's and ASEAN's Responses

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(Image Source: Rising Powers in Global Governance, Marmara University)

The rise of China has simultaneously excited as well as raised concerns in the Asia-Pacific, and increasingly in the Western world.

For countries in the Asia-Pacific, China's geographical proximity and historical links – and hence its developments – have always been a matter of interest and anxiety. Particularly for smaller Southeast Asian countries, China is a reality that they have to engage with and managing relations with China has always been one of their key foreign policy priorities.

As for Europe, the geographical distance and the reality of the Cold war have "stunted" relations between Europe and China. It was only with the end of Cold war, coupled with the economic reforms of China beginning in full swing in the 1980s that dialogue and cooperation began in earnest.

The re-emergence of China raises serious implications for the erstwhile western-dominated global order. How would regional organisations such as the Association of Southeast Asian Nations (ASEAN), where China's proximity is a geographical fact, and the European Union (EU), a central player in the western-dominated order, react to an increasing assertive China? Within these two regional entities, do they each have a coherent policy towards China? Or are there differences between members of the regional organisations with regards to their perspectives and responses to a rising China?

For some ASEAN countries, China would become an increasingly attractive alternative to the Western-led liberal order. The intensifying great power rivalry creates more freedom of manoeuvrability for member states (Rothstein, 1968), giving rise to more opportunities for these secondary states to best realise their national interests. However, insofar as manoeuvrability increases, policy choice may still be constrained by external structural factors (Jervis, 1978; Snyder, 1991), but countries usually enjoy an increase in room to navigate the international system on balance.

On the other hand, EU countries may not enjoy the same level of flexibility as their ASEAN counterparts in their positions towards China because of its level of integration constrained by the institutional set-up, legal framework and norms. Nevertheless, EU member states still retain relative policy autonomy in foreign and security policy because of its different decision-making structure in this area.

This brief will explore how ASEAN and EU member states are responding to the rise of China and its increasing assertiveness as it sought to project its power and protect its interests globally. It is an attempt to capture the different perspectives and approaches to China by ASEAN, the EU and their member states.

The Association of Southeast Asian Nations (ASEAN)

ASEAN is an inter-governmental organization consisting of 10 Southeast Asian countries – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Founded in 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand, it began as a club that is implicitly anti-communist in nature but sought to maintain a certain level of neutrality at the height of the Cold War, not wanting to be caught in the super-power rivalry and become a mere pawn in their game. Brunei joined the club when it gained full independence in 1984, and the rest joined some years after the end of the Cold War at the peak of the trends towards regionalization and globalization.

As an inter-governmental organisation that prioritises consultative, non-conflictual and consensus-based mode of decision-making, ASEAN is hardly a unitary actor (Pimoljinda, 2013). ASEAN does not have single or common policies similar to those in the EU governed by rules and directives, and hence its policies towards external powers and its dialogue partners takes on a hue that varies depending on the issues and interests at stake.

It is widely agreed that most ASEAN countries are presently not pursuing a clearly defined balancing or bandwagoning strategy in response to heightened great power competition between the US and China in the region (Chan, 2012; Murphy, 2017). Southeast Asia is well-accustomed to great power contestation in the neighbourhood as the region has much experience in dealing with superpowers since the Cold War. However, owing to de-stabilising events such as the Sino-Soviet split and US-China rapprochement, doubts regarding great power relations have always lingered. Episodic engagement by the USA (Shambaugh, 2018) and the recent retreat by US President Donald Trump further called the durability of US rebalancing against China into question. Member states, however, would not adopt a pure-balancing against China or bandwagon with the US as the sheer size of China and its rapidly growing hard and soft powers present both threats and opportunities to the member states. Adopting a balancing or bandwagoning strategy would thus be "militarily unnecessary … politically provocative … and economically unwise" (Kuik, 2008). As such, the enduring structural uncertainty encourages member states to hedge against China.

While academics have recently attempted to pin down this nuanced hedging strategy that lies delicately in the middle of the balancing-bandwagoning dichotomy (Chen & Yang, 2013; Kuik, 2016; Lim & Cooper, 2015), the exact definition of "hedging" is still being debated (Han, 2018). However, the brief will tap on Kuik's (2008) characterisation of "hedging" as the author views Kuik's classification as the most satisfactory definition. Kuik's (2008) definition consist of three elements, of which all must be satisfied for a country's stance to be considered as hedging. Firstly, a country must be insistent on not taking sides among competing powers. Secondly, the country must adopt opposite and counteracting measures. Thirdly, this use of opposite actions are instruments to preserve gains while cultivating a "fall-back position". Thus, hedging is not merely a middle position but also an opposite position – a carefully curated position of both power acceptance and rejection, as seen in Fig. 1 below.

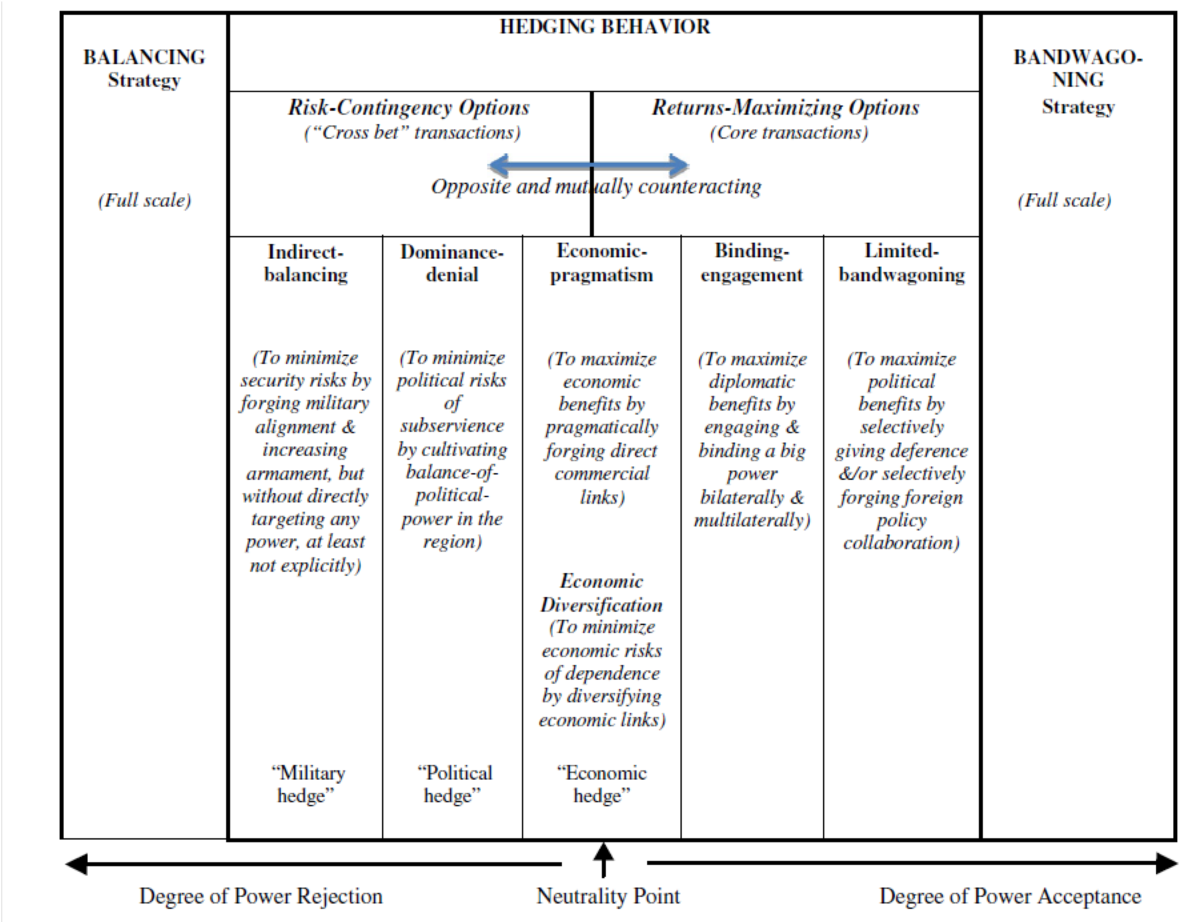

Fig. 1: The spectrum of power rejection and acceptance from Kuik (2008)

A hedging country hence simultaneously yields to and resists great powers to maximise returns and insure themselves respectively.

Cambodia is the only ASEAN member state that clearly bandwagons with China. All the other ASEAN states are hedging China, albeit to different extents. Countries like Indonesia, Singapore and Vietnam are closer to the balancing end of the spectrum, while Myanmar and Laos are closer to the bandwagoning end, as seen in Fig. 2 below.

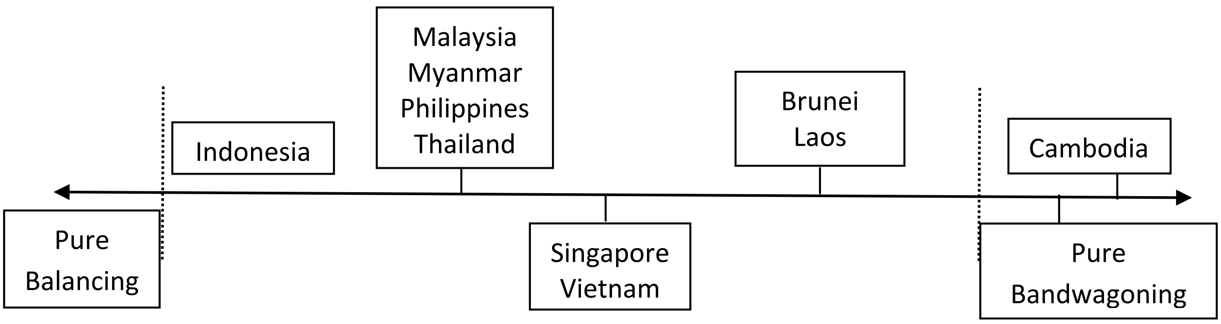

Fig. 2: The balancing-hedging-bandwagoning spectrum for ASEAN countries

China is Cambodia's most important economic partner. Bilateral trade stood at US$4.4 billion in 2015 and both countries pledged to increase the trade volume to US$6 billion by 2020 (Reuters, 2018a). China's investment in Cambodia has risen by at least 26% annually over the last decade. China is also Cambodia's largest donor; extensive foreign aid provision of around $4.2 billion in 2017 is not perceived as a threat but an opportunity to grow and develop. It is estimated that China-contributed funds have led to the construction of over 2000km of roads and over 10 bridges in Cambodia. A US$170 million investment to build a new stadium in Phnom Penh is also underway for Cambodia's hosting of the 2023 Southeast Asian games (Xinhua, 2018).

Cambodia accepts its small size and adopts a submissive posture towards China in exchange for military aid and security guarantees from China (Dayley & Neher, 2010). It views its Thai and Vietnamese neighbours as "historic predators of Khmer territories" as memories of the wars with its neighbours remain firmly etched in the Cambodian psyche (Pang, 2017). Most notably, China recently pledged over US$100 million of military aid to Cambodia and confirmed that both armies would conduct the 'Dragon Gold' bilateral exercise again next year (Reuters, 2018b). All these developments occur amidst Cambodia's distancing from the USA as it has indefinitely suspended joint military exercises with the USA since 2016. Pressures from other western partners such as the European Union on Prime Minister Hun Sen's treatment of the opposition parties had further pushed Cambodia to the arms of China.

The country that is most adept at "embracing China but also keeping it at a certain arm's length" is Vietnam.

Vietnam's long-lasting checkered past with China dates to the first of four Chinese domination of Vietnam in 111 BC. As the smaller and less powerful country of the two, Sino-Vietnamese ties have always been one of power asymmetry. Vietnam has learnt how to conduct its foreign policy to maintain an equilibrium position despite the asymmetric relationship it shares with China. The power asymmetry gives rise to different preference sets for both countries, thus what "A expects from B is different from what B does in return" (Thanh, 2016). In the Sino-Vietnamese context, China expects a measure of deference from Vietnam while Vietnam requests China to respect its autonomy. As Womack (2006) clarifies, "deference and autonomy" are not contradictory; they can co-exist as a weaker state would only compromise on some of its interests if it has the confidence that the stronger state will protect its core interests. Thus, both China and Vietnam presently strive to remain in peaceful equilibrium as any confrontation would mean that both parties lose the opportunities of a win-win relationship.

Vietnam cannot ignore the growing economic powerhouse by its backyard as it becomes increasingly dependent on China economically. Leaders of both countries meet frequently, with the latest high-profile meeting between President Xi Jinping and Prime Minister Nguyen Xuan Phuc taking place in November 2017 (FMPRC, 2017). However, even with the close political contact and the fact that both are still professed communist states, Vietnam still views China as a security threat owing to its geographical proximity and existing maritime dispute in the South China Sea. Contrary to the "four-point consensus" and China's wishes, Vietnam believes that the

South China Sea dispute should be resolved multilaterally. During its ASEAN chairmanship in 2010, Vietnam was the most active ASEAN member state in trying to broker a multilateral dispute resolution amongst all claimant state. Indeed, Vietnam capitalised on all major occasions related to ASEAN by "vigorously [publicising] and [internationalising]" the South China Sea dispute to keep China in check (Chen & Yang, 2013). Vietnam was also the only ASEAN country aside from the Philippines to explicitly call upon China to respect the ruling of the Permanent Court of Arbitration on the South China Sea dispute (Quintos, 2018).

Singapore is another ASEAN country that has welcomed China's economic rise and participated actively in the opportunities that present itself from China's opening and rise to become the second largest economy in the world. At the same time, Singapore maintains strong political and security ties with the US. In practice, Singapore has always preferred for America to maintain a sustained presence and active engagement in the Asia-Pacific region as a counterweight to China. However, with Donald Trump's 'America First' policy marking an end to Obama's 'pivot' to Asia as well as with an increasingly assertive China, Singapore initially struggled to cope with this new external environment and angered China on a suite of political, military and economic issues.

Singapore's active participation in various Chinese economic initiatives such as the Singapore-Chongqing cooperation on connectivity, which is also a substantive part of China's Belt and Road initiative, has proved to be useful to China as it faces certain push back against the BRI. Singapore continues to take a pragmatic and rational approach towards working with China and the US. It is aware of the difficulties in balancing its ties with the US and China as the two big powers engage in strategic competition. Singapore will continue to navigate carefully the various minefields as it sought to increase its economic cooperation and investments in China.

Sino-Indonesian relations have been characterised by the phrase "persistent ambivalence" (Laksmana, 2011) as there exists a mixed perception of China amongst the Indonesian elites. Some see China as a benign and benevolent rising power who could contribute to the stability and prosperity in the region. However, some Indonesian Sinosceptics see China as a potential threat and advise caution due to its alleged revisionist ambitions. Nevertheless, Indonesia remains committed to its *bebas aktif* (free and active) foreign policy which aims to maintain autonomy and retain policy manoeuvring space whilst benefitting from and taking precautions against the rise of China. While former President Yudhoyono's foreign policy of "having a million friends and zero enemies" encapsulates the spirit of the *bebas aktif* policy, President Joko Widodo has recently signalled that his administration will adopt a stronger balancing posture towards China.

The above examples serve to illustrate the different approaches ASEAN member states take to respond to a rising China. ASEAN tries to defend its "centrality" in the Asia-Pacific region through the different regional forums that it has helped to set up such as the ASEAN Regional Forum, the East Asia Summit (EAS) and the ASEAN Defence Ministers Meeting Plus (ADMM+). ASEAN's centrality has been achieved through default in that strategic distrust among the big powers in the region allowed ASEAN, a collection of widely diverse states that espouses the principles of inclusiveness, sovereign equality and non-legally binding norms, to occupy that position. In dealing with China as a grouping, its unity has been tested in recent years precisely because of the different interests and priorities of the member states vis-à-vis China. However, except for the open breach of consensus in 2012 when Cambodia chaired ASEAN, the latter has maintained a modicum of perceived unity in its dialogue with major powers, including China.

ASEAN and its member states will continue to experience pressure from China as the strategic competition between China and the US intensifies. Most ASEAN member states do not want to be forced to choose sides, and the only way that the countries can withstand the external pressures is to stay united and commit itself to becoming a rule-based organisation. In this endeavour, ASEAN need to step up efforts to strengthen cooperation with its other dialogue partners such as the European Union (EU), India and Japan.

The European Union (EU)

The EU is a much more integrated entity comprising 28 member states – 27 when the United Kingdom leaves the EU. It is a powerful economic bloc and EU member states are also obliged to participate in cooperation on a common foreign and security policy. The EU's overall posture towards China is informed at the union level. Guided by two documents – the 'Elements for a new EU Strategy on China' and the 'Council's Conclusions: EU Strategy on China' – the EU pledges to engage China "[principally, practically] and [pragmatically]" while upholding its interests and values (European Commission, 2016). The EU expects a "win-win cooperation" with China, where both parties enjoy reciprocal political and economic benefits. In enshrining its fundamental values of respect for human dignity and human rights, freedom, democracy, equality and the rule of law, the EU hopes to constructively manage their differences while engaging China in its reform process (European Commission, 2017).

However, the inter-governmental nature of the cooperation in foreign and security policy in reality has given EU member states some room to manoeuvre in framing their bilateral ties with China. China has taken advantage of this and has engaged actively in relations both with the bloc as a whole and with key EU member states such as Germany, France and the UK bilaterally. Additionally, as Chang & Pieke (2017) found, in line with recent changes in Chinese perceptions of the EU, China's EU strategy has increasingly been of a "differentiated, sub regional focus" where China targets "clusters" of member states along Europe's "traditional geographical division lines". Hence, despite the presence of an overarching EU China strategy, an individual EU member state's response to China is heavily influenced by the degree of engagement it shares with China, which is in turn determined by the sub region it is located in.

The most prominent of this sub regional ties in Europe with China is the 16 + 1 framework.
Central and Eastern European countries (CEECs) have ties with China dating back to 1949 by virtue of their then shared communist ideology. Following the collapse of the USSR and the end of the cold war, the CEECs turned their backs on Russia and embraced a transition generally

described as a 'return to Europe'. Numerous CEECs – save for the Western Balkans and several former USSR states – joined the EU during the eastern enlargement of 2004 and 2007. The EU accession and formal membership status marked the official end of the European integration process. This allowed these new EU member states to "re-evaluate [their] foreign policies and establish new goals", such as re-establishing ties with China (Butler, 2018).

To intensify partnership with the CEECs, then Chinese Premier Wen Jiabao launched the 16+1 initiative to foster trade and political relations with 16 countries, of which 11 are EU member states, as shown in Fig. 3.

Fig. 3: 16+1 Initiative Participating Countries from Stanzel et al., *(2016)*

China variously characterised this collaboration as an "golden opportunity" and an "infrastructure-led all-round cooperation" (Xinhua, 2015) which was much needed from the CEECs' perspectives. In 2012, the average CEEC GDP per capita (PPP adjusted) was only 57% that of the Euro area average. Furthermore, a recent Joint Atlantic Council-PwC report (2017) revealed that Central and Eastern Europe requires €615 billion of investments in transport infrastructure to close the infrastructure gap with the average Western European member state. Hence, China's promise of a win-win partnership won over the 16 CEECs as they sought to pursue catch-up economic growth by capitalising on China's Belt and Road Initiative. In fact, China's own path and brand of economic development rendered it sympathetic to the CEECs who hoped to close the East-West gap (Turcsányi, 2014)

While the 16+1 members meet at a multilateral setting, this initiative is in practice a grouping of bilateral relations between China and the CEEC through which China coordinates its activities with the region. A bilateral platform favours China as this eliminates any bargaining power CEECs may have should they negotiate as a bloc; this presents China the upper-hand and a 'race to the bottom' to attract Beijing's attention and capital ensures. This worries Brussels since the introduction of the 16+1 initiative coincided with the EU's struggle during the Eurozone debt crisis. Furthermore, several Western European member states saw the 16+1 as a deliberate attempt to "divide and rule" the EU at their moment of weakness. Western European countries fear that the 16+1 initiative is a Chinese strategy aimed at financially pressuring the poorer CEECs into doing China's bidding, potentially eroding "EU norms, values and unity", as a *quid pro quo* for Chinese investments.

Western Europe is an important region to China as it represents the political and economic nexus of the EU. Unlike the CEE region, China does not have an official sub-regional engagement with Western Europe, but it primarily engages the region through bilateral cooperation with the three key member states (EU3) – Germany, France and the UK (Chang & Pieke, 2017). However, as explored above, Western Europe still views China with much suspicion as Beijing's attempt to forge closer relations with CEECs is perceived as a salami-slicing tactic aimed at dividing the EU. This deeply entrenched mistrust was most clearly expressed by former German Vice-Chancellor and Foreign Minister Sigmar Gabriel last year, who called on China to respect the 'one Europe' policy. Gabriel further warned that if the EU fails to develop a single strategy towards China, "then China will succeed in dividing Europe" (The Diplomat, 2017).

However, since countries are compelled to embrace China to capitalise on its rapid economic growth, this leaves Western Europe with no viable alternative to constructive engagement with China. In the absence of hard power options, the ostensible containment-versus-engagement strategic dilemma is inexistent. Western Europe must thus respond to China's strategies in Europe, especially its 'chequebook diplomacy' in the CEE region, and strive for open-ended, inclusive collaboration with China, in order to "co-shape, modify or monitor" China's rise and its attendant implications on Europe (Chang & Pieke, 2017).

The Big 3 (Germany, France and UK) in the EU have engaged in somewhat competitive engagement with China vis-à-vis the other. They are China's top trading and investment partners within the EU bloc. In fact, in the lead up to Brexit, Brexiteers have cited the UK's increasing trade with Asia (in particular China), in contrast to the decreasing volume of trade with its EU partners as one of the reasons how UK would be better off outside the EU than within it.

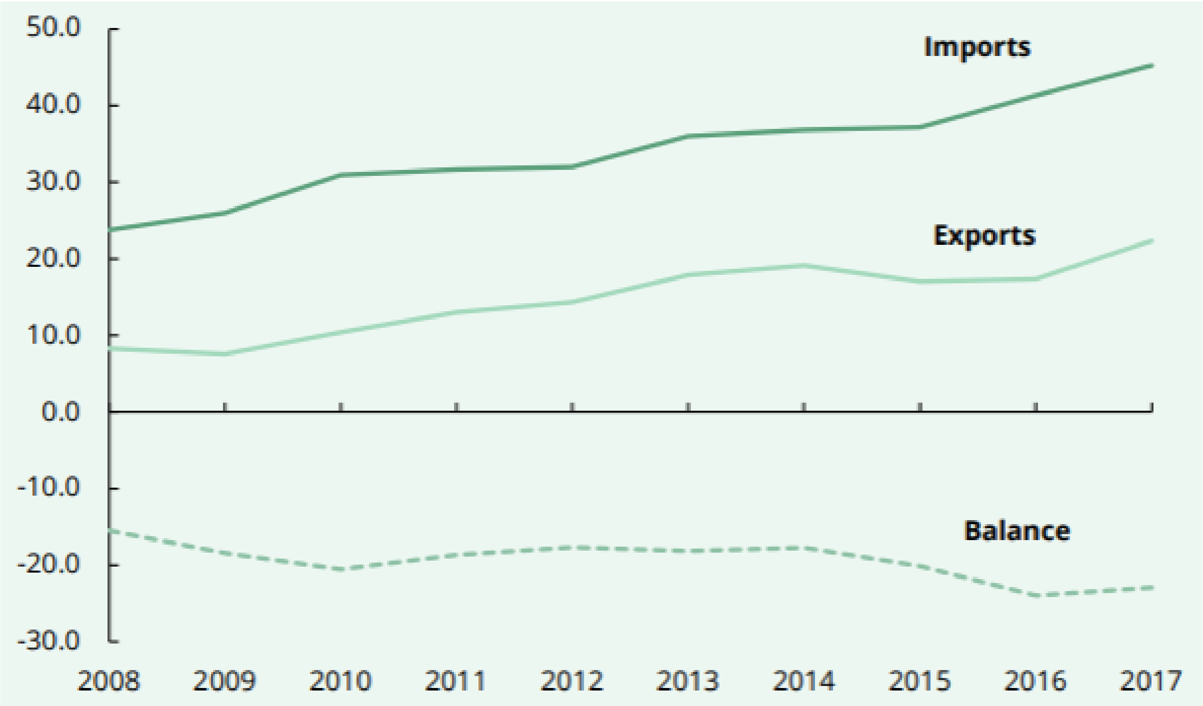

Fig. 4: UK trade and goods and services with China, 2008-2017 (ONS, 2018)

China's importance to the UK comes with rising share of overall UK trade. China is now among the UK's fastest growing export partners according to researchers (CNBC, 2018). Nevertheless, despite the total annual value of UK-China trade standing at only $84 billion, paling in comparison to the $211 billion shared between Germany and China, China recently reaffirmed its commitment to "fully strengthen" its trade and business ties with UK as the UK prepares to leave the EU (Reuters, 2018c).

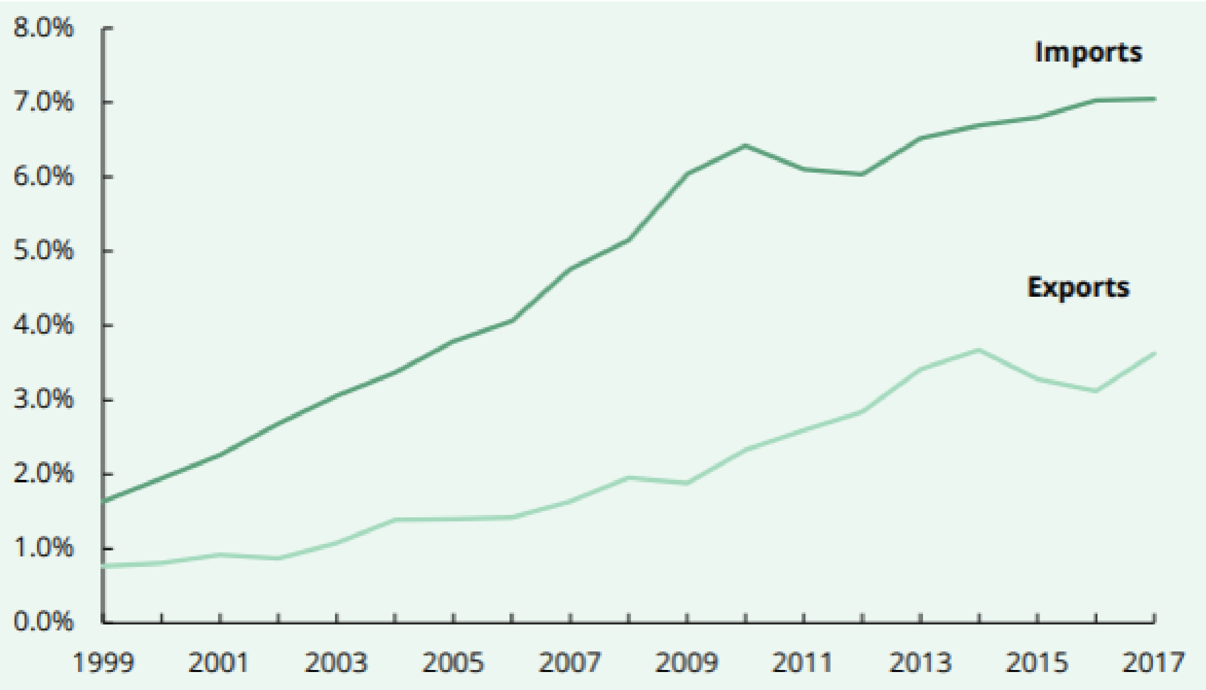

Fig. 5: China's share of UK trade, 1997 – 2017 (ONS, 2018)

In the wake of the Brexit referendum, Germany reaffirmed its commitment in leading the EU alongside France and both countries have since pledged to drive European reform forward (Reuters, 2017). China has long sought to maintain a cordial relationship with Germany as Beijing values Berlin's political influence within the EU. Unlike the UK, whose tilt towards China is a recent phenomenon, Germany has been actively engaging China since the resumption of Sino-German diplomatic relations in 1982. Germany was ahead of its time as it realised – well before other EU member states did – just how substantial economic gains with emerging economies were. Thus, China featured as Germany's principal partner as Berlin embarked on a "business first" Chinese strategy. (Schibotto, 2014).

In terms of trade, Fig. 6 highlights how Germany's first-mover advantage bore fruits, as German exports to China rose eleven-fold from 1999 to 2017. This swiftly rising bilateral trade saw China overtake both the USA and France to become Germany's largest trading partner in 2016 for the first time, and remain at pole position in 2017 (Reuters, 2018d). The increase in Chinese Foreign Direct Investment flows to Germany is also impressive. As shown in Fig. 7, China invested only €100 million in Germany in 2010, but within a span of 6 years, this figure jumped to nearly €11 billion. In fact, China's global outward FDI fell for the first time in a decade in 2017 owing to stricter domestic controls over outward investment flow (Fig. 8), yet Chinese investments in Germany went counter to this general trend, continually growing from approximately €11 billion to €12.1 billion from 2016 to 2017.

However, the increased Chinese footprints in Europe is starting to face a push back as Germany and the EU called for stricter scrutiny of Chinese investments.

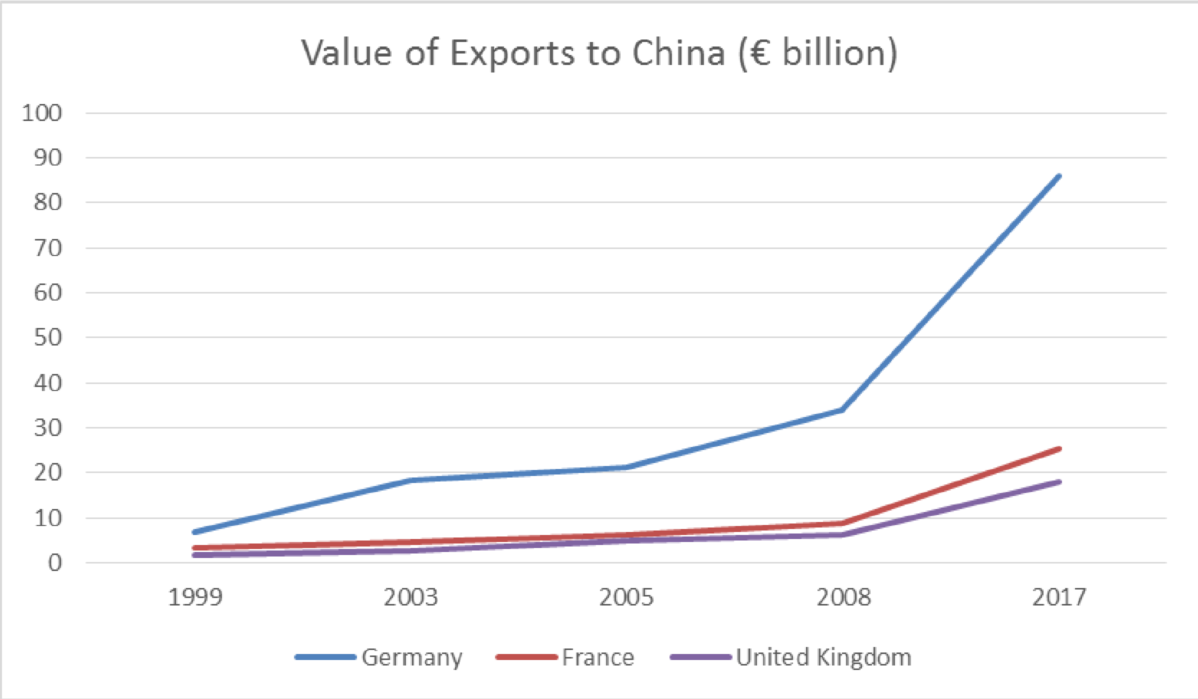

Fig. 6: Value of exports to China from selected Western European member states (€ billion); adapted from Schibotto (2014), Bonhaume & Minot (2018) and Ward (2018)

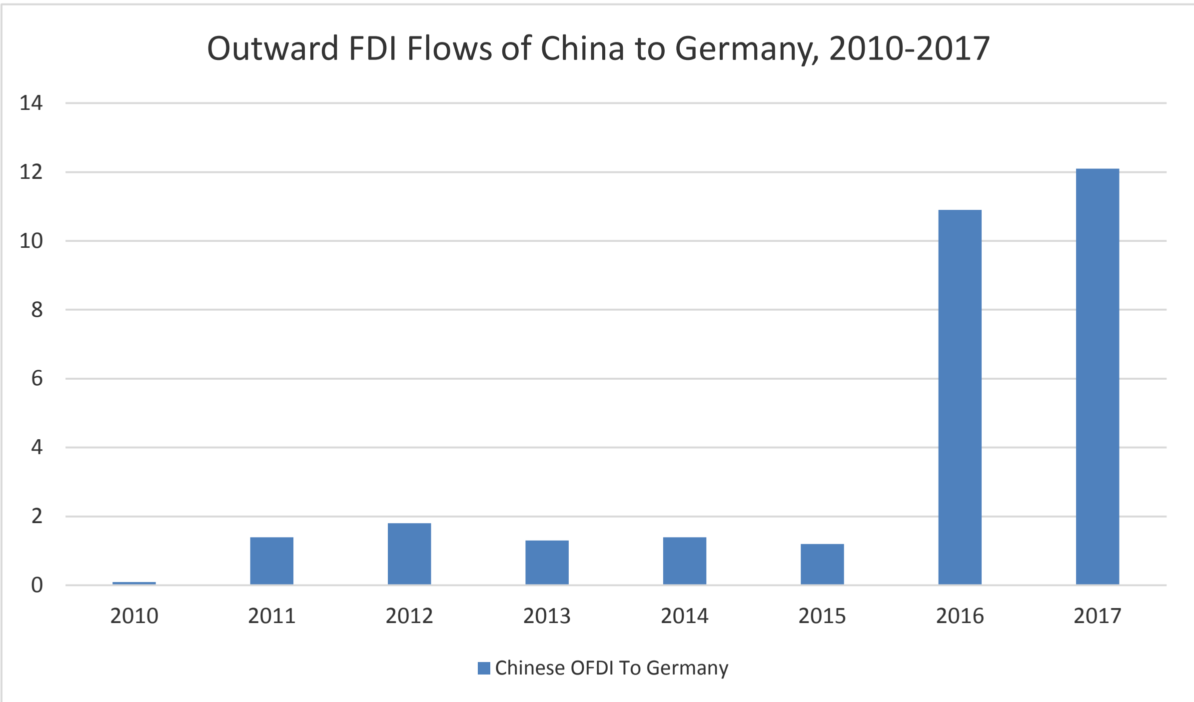

Fig. 7: Outward FDI Flows of China to Germany, 2010 – 2017, adapted from Hanemann & Huotari (2015) and DW (2018)

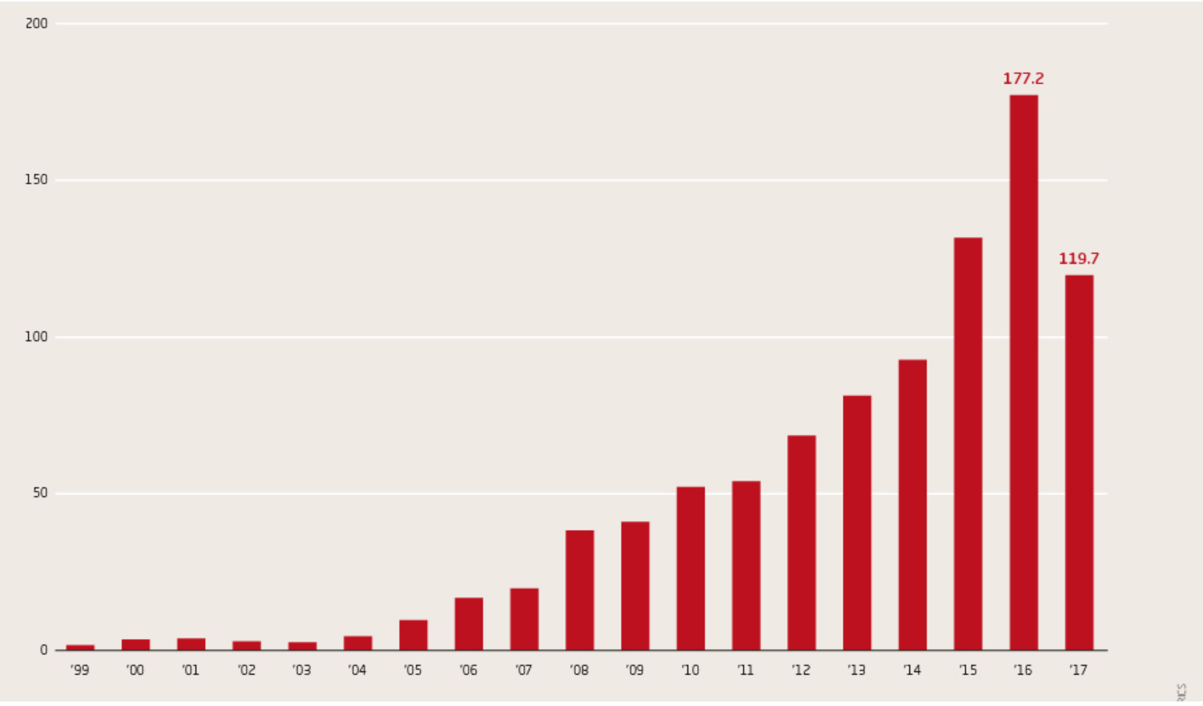

Fig. 8: China's global outward FDI falls for the first time in 14 years in 2017, from Hanemann & Huotari (2018)

Trumps' tirades against the Chinese unfair trade and business practices have found resonance in parts of Europe. Even before the election of Trump, the EU has noticed an increasing difficult investment environment in China and has since 2016 called for a level playing field. Investments into Europe while generally welcomed is also starting to face calls for greater scrutiny and the EU has mulled over the set-up of an EU-wide committee for the screening of investments like the Committee on Foreign Investments in the US (CFIUS).

Prior to Brexit, China perceived the UK as the main conduit to Europe. Thus, it was in Beijing's interest to deepen bilateral relations with London in hopes of enjoying a mutually beneficial "golden era". However, as British influence in the EU waned following the Brexit referendum, China increasingly saw France as its main interlocutor in Europe, and hence shifted its focus from the UK to France. Beijing's decision to host French President Emmanuel Macron before British Prime Minister Theresa May is highly significant, as it signals China's prioritisation of France over the UK as the former's influence grows and surpasses that of the latter (SCMP, 2018).

France enjoys strong economic relations with China. In terms of investment, France attracts the second largest amount of Chinese investments in Europe. It received $2.4 billion and $1 billion of Chinese investments in 2016 and 2017 respectively. French President Emmanuel Macron's visit to China in January 2018 further strengthened Sino-French ties as both countries pledged to strengthen future economic partnership. By presenting President Xi Jinping with a former French presidential cavalry, Macron's 'horse diplomacy' was an "unprecedented diplomatic gesture" and served as a charm offensive for France.

The EU, like ASEAN, are challenged by an unpredictable and unilateral America First under Trump, and an increasingly assertive China. Like ASEAN, the EU is also facing issues concerning divisions within its own rank. For the EU to be able to play a more important strategic role and take on greater responsibility in sustaining a multilateral rule-based order, it needs to be united. It would also likely face pressures from the US to "toe the line" should the strategic competition between US and China turn into a new Cold War. What choices the EU make and whether the EU strike out as an "independent" pole or work with other like-minded partners to double down on multilateralism would have implications for the future world order.

Concluding Remarks

Both the EU and ASEAN face an increasingly challenging geopolitical environment as China rises and its interests become global, pitting it against an insecure America that fears losing its status as the number one economy and power. Both regional organisations and their member states have taken slightly different approaches in engaging a global China. Economically, the ties are strong as China becomes the most important trading partner of both the EU and ASEAN. However, political and security relations are much more nuanced and the approaches taken by the regional organisations as a whole, and by the individual member states reflect different perceptions and priorities. What is increasingly clear is that both the EU and ASEAN need to become much more cohesive and united if they are to withstand the turbulence and tensions arising from a global China and its strategic competition with the United States.

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