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CHINA'S INFLUENCE IN EUROPE

strategies towards a resilient and united EU

POLICY PAPER

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Introduction – Xi has a Dream: China's Rise as a Geopolitical Power

Anna Marti

It was in late 2012, when the then newly instated Secretary General of the Chinese Communist Party, Xi Jinping, coined the phrase of the "Chinese Dream" as the slogan for his upcoming time as leader of the PRC: "The Chinese Dream is the great rejuvenation of the Chinese nation".

With this sentence, Xi links up to several narratives: there is the magic of the American Dream, the promise (and often the illusion) that everyone can get rich if only they work hard. Wealth and better living conditions – this is also what the CCP is promising their citizens. A promise upon which they are building their legitimacy, and on which they have delivered: since Deng Xiaoping has started his Reform and Opening Policy, about 800 million people in China are no longer considered to be "extremely poor"[1], an unprecedented feat.

But the more relevant, and more illuminating link is this one: the phrase "Chinese Dream" links to a classic poem from the time of the Southern Song Dynasty (1127-1279), in which the Poet Zheng Sixiao mourns the weakness and ultimate demise of this particular imperial dynasty, as it was overrun by foreign (Mongolian) forces. He writes of his heart that is full of the "China Dream" of recapturing lost national greatness, prosperity, and stability.

China had once been a great power and a leader in science and technology as well as culture and discovery. The Chinese empire had developed the magnetic compass, gunpowder or paper hundreds and hundreds of years before Europe did. And even though this period of imperial splendour had passed long ago, it is still vivid in the collective Chinese memory. And it is being kept alive by Xi and the CPP, who are both often using "historical arguments", particularly when it comes to issues of territory: Tibet and Taiwan for example are claimed on the basis of having been part of the Chinese empire before the "Century of Humiliation", where foreign forces had occupied and colonised parts of China, such as Hong Kong and Qingdao by western powers, and Manchuria by the Japanese Empire.

And so Xi dreams of making China great again. When the People's Republic was founded in 1949, what the CCP refers to as the „Century of Humiliation" came to an end. Since then, the PRC has – according to CCP's narrative – been rising: it took over the Chinese seat in the United Nations and its Security Council in 1971[2], it has become an economic powerhouse, and has been updating its military capabilities since then. According to Xi's plans, history should come "full circle" in 2049 when China is once again a formidable world power, a "rejuvenated nation", with restored territorial integrity (Hongkong, Macao, Taiwan all parts of the PRC).

The CCP has been framing the PRC's trajectory to Superpower status as benign and quintessentially peaceful, pointing out it's doctrine of non-interference and pressing the point that the PRC never colonised any country.

But China's non-interference is only true in the military sphere – if we don't take into account its militia of fishing vessels, that are privately owned but are organized as a PLA auxiliary force and that have been known to occupy disputed reefs, e.g. in the Philippines.[3,4] China's rise has created a growing unease in many parts of the world – not just it's direct neighbours. Chinese Military spending has almost doubled between 2011 and 2019, according to estimations of the Stockholm International Peace Research Institute SIPRI[5]. In the same time, tensions in the South China Sea and across the Taiwan Strait have been increasing. Despite promises to the contrary[6], China has been militarizing the artificial islands they have created in the South China Sea. Beijing has built a military base in Djibouti in 2017[7] after denying such plans beforehand[8]. The latest security agreement with the Solomon Islands[9] give rise to speculation, that China might have similar plans here. But there have also been other developments, that gave rise to concern: large-scale infrastructure projects such as the Belt and Road Initiative[10] and the Maritime Silkroad[11] that have left countries in strategic locations, such as Pakistan (access to the Gulf of Oman) or Sri Lanka (position in the Indian Ocean) in considerable debt to China. The headquarter of the African Union in Addis Ababa – a gift of the PRC to the AU – was found to have been bugged by China and to be sending large volumes of data to Shanghai every night.[12] Several countries in the EU have received significant Chinese investment, e.g. Hungary or Greece – and

1 https://www.worldbank.org/en/news/press-release/2022/04/01/lifting-800-million-people-out-of-poverty-new-report-looks-at-lessons-from-china-s-experience
2 https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/2758(XXVI)
3 https://foreignpolicy.com/2021/04/19/manilas-images-are-revealing-the-secrets-of-chinas-maritime-militia/
4 https://www.theguardian.com/world/2021/mar/22/south-china-sea-philippines-200-chinese-vessels-whitsun-reef
5 https://www.csis.org/analysis/understanding-chinas-2021-defense-budget
6 https://www.lowyinstitute.org/the-interpreter/what-are-china-s-leaders-saying-about-south-china-sea
7 https://www.reuters.com/article/us-china-djibouti-idUSKBN1AH3E3
8 https://www.aspistrategist.org.au/djibouti-shows-what-sogavares-deal-with-china-really-means/
9 https://www.theguardian.com/world/2022/apr/23/us-warns-solomon-islands-against-china-military-base-as-australian-mps-trade-blame
10 https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative
11 https://www.csis.org/analysis/chinas-maritime-silk-road
12 https://www.lemonde.fr/afrique/article/2018/01/26/a-addis-abeba-le-siege-de-l-union-africaine-espionne-par-les-chinois_5247521_3212.html

have since blocked measures on the EU level that would negatively impact China.[13,14]

While China has not been using traditional military force to expand its power, we can see clear instances where China uses political and economic coercion to reach its goals. This has led many counties to label China as a “systemic rival”.[15] And that begs the question: what does China’s rise mean for the world? To that end, we have assembled a selection of case studies that examine instances of economic and political coercion, namely in Hungary, Greece, Germany, Czech Republic, Lithuania, Taiwan, Australia, USA and the EU.

And while all case studies come to their own specific conclusion, these two over-arching points that should be kept in mind when discussing the issue of China’s rise:

(1) Interest-driven politics is nothing per se reprehensible, but rather a normal political reality. All countries have interests that they pursue, and to claim otherwise would simply be naive. The critique is not about Chinese power extension itself, but rather about the way that China is using that power and the methods it employs to expand it. Because from an international perspective it IS relevant, whether a rising state is autocratic or if it is democratic, with a functioning system of checks and balances, rule of law and reasonable protection of human rights.

(2) While Chinese involvement is often opaque, the guiding strategy of this involvement is often very transparent and can be seen from the official documents, albeit in Chinese. The projects that are being carried out and what is happening, is often very intransparent and it is not clear what is happening and who is doing what. But what is usually very clear, is the goal behind it. There are enough documents in Chinese outlining the goal and strategy of a project, but they are written in Chinese because they are aimed at the Chinese bureaucracy and nomenclatura. It is vital that decisionmakers are aware of this, pay attention, take China by its word – and act accordingly.

Xi Jinping dreams the “China Dream” of prosperity, power and greatness. To achieve this, the PRC is looking to convert economic strength into political influence and military power, and in turn to become once again the centre of global and geopolitical power.

Hungary

Dániel Mikecz

China‘s interest in economic reforms in Hungary and Hungarian ‚Eastern Opening‘

Hungary was one of the first countries that officially recognised the People‘s Republic of China. Bilateral relations peaked at the end of the 1950s while, at the same time, China’s relation with the Soviet Union as a whole became more and more strained[16]. After the death of Mao Zedong, the reformist Chinese leadership under Deng Xiaoping became increasingly interested in the economic reforms that Hungary introduced in 1968. In the 1980s, Chinese economists and decision makers studied the effects of Hungarian economic reforms attentively, in particular the combination of central planning with market economy elements[17]. Since the end of the 1980s and with the beginning of a democratic transition in Hungary, thousands of Chinese immigrants arrived in the country. According to some estimates, Hungary is home to the largest Chinese community in East Central Europe[18].

In the course of the democratic transformation in Hungary, European integration and good relations with NATO and the Western alliances became the top priority for Hungary. Nevertheless, Hungarian-Chinese relations grew steadily closer. This trend was further accelerated under the leadership of the national-conservative Fidesz party. When Viktor Orbán, party leader of Fidesz, came to power in 2010, he announced the policy of a so-called ‚Eastern Opening‘, meaning a close partnership with Eastern countries, including China.

Hungarian government being criticised over 2 cases involving China

Following this policy of ‘Eastern Opening’, relations between Hungary and China grew closer and as did the public scrutiny of this partnership. Viktor Orbán’s government was heavily criticised for disproportionally serving the interests of China in two instances, namely the Budapest-Belgrade railway and the Fudan University Campus in Budapest. Both cases will be studied in greater detail in the following:

Budapest-Belgrade railway

The third Orbán government decided to renovate the Budapest-Belgrade railway in 2014. The consortium, which won

13 https://www.reuters.com/world/asia-pacific/hungary-blocks-eu-statement-criticising-china-over-hong-kong-diplomats-say-2021-04-16/
14 https://www.reuters.com/article/uk-eu-un-rights-idUKKBN1990G0
15 https://foreignpolicy.com/2021/04/19/manilas-images-are-revealing-the-secrets-of-chinas-maritime-militia/
16 Salát, Gergely: Budapesttől Pekingig, a magyar-kínai kapcsolatok múltja. www.konfuciuszintezet.hu. Budapest: ELTE Konfuciusz Intézet (2009)
17 Kong, Tien-Ping (2019) A magyar és a kínai gazdasági reform tapasztalatai (1979-1989): a tudástörténet egy nézőpontja [Experiences of Hungarian and Chinese Economic Reform (1979-1989): A Perspective on the History of Knowledge] In. Magyarország és Kína: 70 éves kapcsolat a változó világban. Budapest: Külügyi és Külgazdasági Intézet
18 Matura, Tamás (2012) A magyar–kínai kapcsolatok elmúlt két éve [The Recent Development of Sino-Hungarian Relations] Külügyi Szemle, 2012 Summer

the bid, was announced in 2019. For the investment, the Orbán government intended to take a credit from the Chinese Eximbank, one of three institutional banks in China chartered to implement the state policies in industry, foreign trade, economy, and foreign aid. According to 2021 data, the project's budget was 750 billion HUF, which is 2.08 billion EUR according to the exchange rates of that time. The Chinese bank should have financed 85 percent of that amount[19]. According to estimates of investigative journalists, the payback period of the project is 979 years. The biggest tender with a value of 600 billion HUF (~1,6 billion EUR) was won by a consortium led by two Chinese companies and a Hungarian company, which is owned by Lőrinc Mészáros, one of the richest Hungarians and personal friend of Viktor Orbán[20].

Fudan University

The Hungarian government signed an agreement with China to support the Fudan University's activities in the Hungarian higher education system. Fudan is a major organisation of research and higher education in China. According to the QS Asia University Rankings 2021, Fudan is the third best university in China and the sixth in Asia. In August 2020, Viktor Orbán issued a decree about the establishment of a Hungarian campus of the Fudan University. In February 2021, the Hungarian Ministry for Innovation and Technology came up with a plan to establish a campus of the Fudan University in Hungary. The government calculated a budget of 540 billion HUF (~1,46 billion EUR). The Hungarian parliament accepted the so-called 'lex Fudan' in June 2021, which established the overseeing foundation of the planned university, for which the same law also granted state owned properties. According to the plans of the government the realisation of the project would be funded with the help of Chinese loans and through Chinese companies[21]. The campus was planned on the site of the Student City project, which was designed to offer 8000 dormitory places for students who study in Budapest's various universities.

Hungarian opposition's protests against Chinese university

In both cases, there was no direct pressure from China, as these investments and agreements were also initiated by the Hungarian government. Nevertheless, the Budapest-Belgrade railway project and the establishment of a Hungarian campus of the Fudan University triggered criticism and negative reactions from opposition parties and the public. The Budapest-Belgrade railway has been cited as a possible corruption case due to the overpricing of the project. The Fudan University investment generated harsher public reactions, as the project was unpopular, which the opposition could effectively exploit. According to an opinion poll of Republikon Institute, 63 percent of the respondents heard that the government aims to build a Chinese university in Budapest. Furthermore, according to the same data, 66 percent rejected the project[22]. After the pandemic-related lockdown measures, the first massive protest in Hungary was held against the Fudan project, led and organised by opposition parties and politicians. The oppositional mayor of Budapest's 9th district, Krisztina Baranyi, proposed renaming the streets at site where the Fudan campus is set to be built after persecuted people and persons in China. The proposal was later accepted by the general assembly of Budapest. Together with the lord mayor of Budapest, she also launched a four-question consultation about the Fudan project. Due to the public reactions and these direct actions, the government decided to put the project on hold. Nevertheless, Gergely Karácsony, the aforementioned lord mayor of Budapest, initiated a country-wide referendum on various issues, which also involved a question about the transfer of property to the fund overseeing the Fudan project.

Public funds for a foreign private university and own private university urged to leave

The comparison of the two cases demonstrates the conditions of success for the opposition, which criticised the investments involving Chinese capital. In both cases, not the mere involvement of China was the problem, but the lack of transparency and the overpricing of the project. In the case of Fudan, there were also other factors at place which triggered such a negative public response. It undermined the Student's City project, which aimed to ensure housing for students enrolled in public universities in Budapest, while the Fudan was planned to be a private university with high tuition fees. The opposition also pinpointed the fact that the government provides public funds for a foreign private university, while its own prestigious private university, the Central European University, was pressured to leave the country after years of struggling with the Orbán government. For the majority of the public, building a campus for a Chinese university with Chinese loans, which are ultimately paid for with Hungarian taxpayer's money, made the project very unpopular.

[19] Szabad Európa (2021) Szél Bernadett kiperelte a Budapest–Belgrád-vasút kínai hitelszerződését https://www.rferl.org/a/rfe-rl-relaunches-operations-in-hungary-amid-drop-in-media-freedom/30826537.html

[20] Kálmán, Attila and Ćurić, Ana (2021) Budapest-Belgrád: a 979 év alatt megtérülő vasútvonal [Budapest-Belgrade: the railway line that pays off in 979 years] telex.hu https://telex.hu/komplex/2021/11/26/budapest-belgrad-a-979-ev-alatt-megterulo-vasutvonal

[21] Panyi, Szabolcs (2021) Kínai hitelből készül a magyar felsőoktatás óriásberuházása. [The huge investment in Hungarian higher education is being made from a Chinese loan] 444.hu https://444.hu/2021/04/06/kinai-hitelbol-keszul-a-magyar-felsooktatas-oriasberuhazasa-a-kormany-mar-oda-is-igerte-egy-kinai-cegnek

[22] Republikon Institute (2021) A Fudan Egyetem budapesti kampuszának támogatottsága [Support for the Budapest campus of Fudan University] http://republikon.hu/media/97193/republikon-fudan-elemzes-21-06-01.pdf

Greece

Plamen Tonchev

Greece's ambivalent stance towards China

Sino-Greek relations have traditionally been non-confrontational and particularly warm since the mid-2000s. Consecutive Greek governments have sought to attract Chinese investment, but also to increase the volume of Greek exports to the vast Chinese market. In 2008, the Chinese shipping giant COSCO signed a concession contract for two-thirds of the Piraeus sea port. In 2016, the same company obtained a 51% stake in the Piraeus Port Authority, and an extra 16% in September 2021. Another Chinese foreign direct investment (FDI) was the purchase of a 24% stake in the Independent Power Transmission Operator (IPTO) by State Grid, a Chinese state-owned electric utility company. Back then, there was an expectation that China could be of help at a time when Greece was at loggerheads with international creditors and there was no appetite from abroad to invest in a country plagued by indebtedness and political instability.

Until the general elections held in July 2019, the populist government led by the Coalition of the Radical Left (SYRIZA) instrumentalised its overtures to Beijing to express its anti-western sentiments. This is why it made a number of high-profile goodwill gestures to Beijing in its quest for a powerful political ally as an alternative to the much-vilified West. Furthermore, in April 2019 Greece acceded to the controversial 16+1 format of cooperation between central and eastern European states and China, seen by many as undermining the EU's unity. The current centre-right New Democracy government prioritises economic recovery and views China as a valuable economic partner, though it is also more pro-Western and aware of China's authoritarian political model. The current Greek prime minister Kyriakos Mitsotakis attended an international trade fair in Shanghai in November 2019, and a few days later the Chinese president Xi Jinping travelled to Greece on a state visit. Greek officials take pains to convince Western partners that Athens is enjoying a healthy and legitimate commercial relationship' with Beijing, but it remains committed to the EU and NATO. Greece's ambivalent stance towards China is often referred to as follows: 'It is complicated, we are partners and competitors at the same time'.

Economic or political moves by China in Greece

Beijing's influence strategy in Greece is structured around four main pillars: China's economic statecraft, cultural diplomacy, media presence and sub-national cooperation.

Apart from the two FDI projects, Greek shipowners have traditionally been close to China, as it is one of their main customers. The Greek commercial fleet is reportedly behind the import of 50% of energy resources and 20% of other goods into China.[23] Furthermore, a large number of Greek-owned ships have been built in Chinese shipyards. Greek exports to the vast Chinese market have been growing in the wake of the decade-long crisis in the country, though from a low base.

Cultural diplomacy is one of Beijing's standard soft power tools. Chinese culture is promoted in Greece through Confucius Institutes; currently there are three of them in Greece – hosted by the Athens University of Economics and Business, the Aristotle University of Thessaloniki, and the University of Thessaly. Additionally, two higher educational institutions, the Panteion University and the University of the Aegean, have launched Chinese language classes.

Building on its cultural diplomacy, China pursues considerable presence in the media sector. Unlike developments in other parts of Europe, no Greek media outlet is directly controlled by Chinese interests. However, Beijing seeks to use Greek media as amplifiers of its messaging, through cooperation agreements with central institutions, such as the national news agency of Greece, or influential media outlets. Thus, Greece's official Athens Macedonian News Agency (AMNA) has had a cooperation agreement with China's state news agency Xinhua since May 2016. Furthermore, in December 2017, AMNA signed a memorandum of understanding (MoU) with the China Economic Information Service (CEIS), an affiliate of Xinhua, for the establishment of a Belt and Road Economic and Financial Information Partnership. In November 2019, during president Xi's visit to Greece, yet another MoU was signed by China's National Radio and Television Administration (a ministry-level executive agency directly under the State Council of China) and the Greek state television ERT. One of the leading daily newspapers in Greece, Kathimerini, signed a cooperation agreement with Xinhua in April 2017. A study carried out by the Athens-based Institute of International Economic Relations (IIER)[24] finds that in 2020 alone the English edition of Kathimerini republished 66 Xinhua reports, that is approximately every fifth day or more than once a week. The topics of these reports range from a rebuttal of China's responsibility for the coronavirus outbreak to praise for the Belt and Road Initiative (BRI) to Beijing's position on various international issues or a rosy picture of Sino-Greek relations.

In projecting its narratives in Greece, China appears to deploy a subtle and 'tailor-made', Greece-specific, strategy. Chinese

[23] Andreas Bloom, 'China's Belt and Road megaproject in the Mediterranean: Was it the Greek shipping tycoons who sealed the deal?', *Global Voices*, 8 July 2021, https://globalvoices.org/2021/07/08/chinas-belt-and-road-megaproject-in-the-mediterranean-was-it-the-greek-shipping-tycoons-who-sealed-the-deal/.

[24] Plamen Tonchev, 'Sino-Greek Relations in Greek and Chinese Media, 2020', *Institute of International Economic Relations*, March 2021, https://idos.gr/wp-content/uploads/2021/03/Sino-Greek-Relations_in_Media_18-3-2021.pdf.

authorities and media alike have chosen a friendly and accommodating stance to Greece rather than the "wolf warrior diplomacy" reported in other European countries. China's media strategy does not seem to be geared towards winning the hearts and minds of the general public in Greece – rather, Chinese media tend to serve a targeted approach focusing on Greek political and economic elites. In doing so, Chinese media consistently uses an invariably positive tone, a half-truth template and occasionally disinformation. With regard to international media, China systematically seeks to portray Greece as a true friend, if not a staunch ally, at a time when relations between Beijing and the West are becoming increasingly strained.

Last but not least, China is 'investing' in its sub-national cooperation with Greek authorities. As of April 2021, there were some 20 twinning and cooperation agreements between Greece and China at the level of districts, cities, prefectures, provinces and regions, though there are many question marks over the validity and precise nature of these arrangements.

Caution of Athens regarding criticism towards China in sensitive political issues

Despite the highly visible COSCO investment in the port of Piraeus, China's economic presence in Greece is actually very limited, State Grid's stake in IPTO being the only other Chinese FDI in the country. Conversely, there is a long list of aborted or failed projects, with Chinese contractors disqualified from public tenders, mostly in the areas of energy and transport. On the highly political issue of 5G, Huawei has been excluded from networks that are currently being constructed in Greece. Moreover, Athens has joined the US-led Clean Network, an initiative by the Trump administration to safeguard a nation's assets including citizens' privacy and companies' most sensitive information from aggressive intrusions by malign actors, such as the Chinese Communist Party.

In the framework of this complicated relationship, in early 2021 Greece's refused to host the 2022 summit of the 16+1 format, but at the same time Athens has been conspicuously silent on all sensitive political issues, such as human rights violations and the rule of law in China.

There is a strong element of self-restraint on the part of Greek authorities who are all too eager not to embarrass China. Notably, between 2019 and 2021 Athens consistently abstained from all the statements at the UN criticising China of human rights violations in Hong Kong and Xinjiang.

While there are some signs of a shift in discussions about the benefits of connectivity and friendly relations with China to potential dependence on China, the related debate is still rather subdued and mostly behind closed doors. Government officials are fully aware of controversial issues, such as developments in Hong Kong, human rights violations in Xinjiang, tension over Taiwan, accusations levelled against Huawei in relation to 5G or the global stand-off between the US and China, but they would rather stay out of related discussions. As for the COSCO investment in Piraeus, it has become highly controversial, with a host of complaints about the Chinese company's monopolistic behaviour and low environmental standards. Yet, the official narrative is that this is a successful project with a positive impact on the Greek economy, even though credible figures substantiating such an assertion are hard to come by. The most vocal opponents against China are local trade unions, vested interests in Piraeus and media outlets leaning towards opposition parties.

Beijing's large-scale charm offensive instead of coercion exerted on Greece

It would be inaccurate to speak of Chinese coercion exerted on Greece. Instead, Beijing is carrying out a systematic large-scale charm offensive. China's strategic objectives in Greece are to: (i) make the most of the country's position in the framework of Beijing's flagship Belt and Road Initiative (BRI); (ii) to win over the Greek political, business and academic elite, and ensure Athens' favourable stance towards China; (iii) to exert influence over the EU through 'friendly' member states, one of which is perceived to be Greece.

Greek authorities tend to be cautious in their attitude towards China. At the same time, Beijing's influence in Greece has weakened visibly over the past three years. On the one hand, China is no longer seen as the sole source of capital in view of much-needed foreign direct investment (FDI) – in reality, China has been reduced to one of the many potential sources Greece is now targeting and this has further downgraded Beijing's capability to wield influence. Notably, the current Greek prime minister is on record stating that 'Greece is not particularly dependent on Chinese investment'. This is confirmed by the fact that a number of prospective Chinese investment projects have recently been aborted or Chinese state-owned enterprises have failed in their attempts to clinch public procurement contracts.

In addition, closer political and military ties with Western partners, such as the US and France, have left limited space for China's political clout in the country. Given the security concerns of Greece in the Aegean and the broader eastern Mediterranean basin, China has no role to play in this geopolitical conundrum: not only is it not a security provider or guarantor, but it is a security consumer, only interested in the pursuit of its economic goals in the region and leaving other actors to take the lead on security matters. It only counts thanks to its political weight as a UNSC permanent member, which is definitely taken into consideration by Greek authorities.

Given these developments, Beijing is currently readjusting its strategy based on the following premises: (i) another large-scale investment in Greek infrastructure of the Piraeus scale is unlikely to be repeated in the foreseeable future; (ii) Beijing continues to view Athens as a 'friend' and 'partner', and will spare no efforts in courting Greece as an EU member state that is likely to blunt anti-China voices in Europe; (iii) China will most probably invest in 'softer' forms of cooperation, such as culture and education, twinning links at sub-national level, cultivating ties with select Greek media, etc. Having said that, increasingly 'softer' forms of Sino-Greek cooperation are often deemed 'harmless' in the country and tend to be neglected, which is an insidious hazard to be kept in mind.

Germany

Jan Weidenfeld

China as Germany's biggest trading partner but also as a competitor and rival

Over the course of four decades, close economic relations have become the defining feature of Germany-China relations. Ever since China opened up during the 1980s, German businesses have invested heavily in production facilities in China and in building market presence there, regularly making Germany a bigger provider of foreign direct investment (FDI) to China than all EU member states and even the United States.[25] In light of deepening economic relations with China but persisting political differences, the notion of *Wandel durch Handel* became a lowest common denominator principle of German China policy during the administrations of Helmut Kohl (1982-1998), Gerhard Schröder (1998-2005), and (much of that of) Angela Merkel (2005-2021). A core tenet of this policy is that economic cooperation inevitably leads to political and economic liberalisation in China.

As Xi Jinping became leader of the Chinese Communist Party (CCP) in 2013 and political and economic reforms began to stall, most – but not all[26] – senior government officials abandoned the notion that trade results in change. Nevertheless, well until the end of the 2010s, the Merkel administration continued to frame relations with China in predominately economic and industrial interest terms. This stance has been driven not least by the fact that China has been Germany's biggest trading partner since 2015, with a total trade volume of EUR 245bn in 2021,[27] and that the Chinese market has been vital to some key German industries, like automotive or chemicals.

China's domestic political hardening and its more assertive geopolitical and geo-economic policies under Xi Jinping have prompted Germany to re-evaluate its political and economic relations with China. China's pursuit of ambitious outbound industrial policies from the mid-2010s onwards marked the starting point of Germany's reappraisal of the relationship with China. High-profile cases of Chinese FDI, like the takeover of German robotics company KUKA, prompted public concern about the loss of German innovative technologies, knowledge, and talent to Chinese competitors. As China began to roll out its infrastructure foreign economic policy, the Belt and Road Initiative, German businesses and policy makers also became increasingly wary about (unfair) Chinese competition in third markets and waning Western global political influence.

The mighty German industry federation *Bund der Industrie* (BDI) galvanised the rethink in German China policy in January 2019 when it suggested that Germany should no longer see China as a partner first and foremost but also as a competitor and even as a systemic rival.[28] As this tripartite approach also became the main building block of the EU's new China policy in March 2019,[29] it also became the principal framework for the conduct of German China policy. Framing China as a competitor and rival has aligned with the more critical stance towards China the wider German public has embraced in recent years. Specifically, Beijing's infringement on the autonomy of Hong Kong and its human rights abuses in Xinjiang contributed to a considerable worsening of China's public perception in Germany.[30] Shortages of personal protective equipment and critical medical supplies during the Covid-19 pandemic also gave rise to a public debate in Germany about supply chain and economic dependencies on China. Germany's more critical public sentiment towards China is likely to be further spurred by China's strategic partnership with Russia and its support for the Russian war in Ukraine.[31]

A picture of Chinese influencing in Germany

While Germany has remained largely untouched by 'official episodes' of Chinese economic coercion, the threat of Chinese economic punishment has shaped German businesses' conduct for some time. Beijing sent a chilling signal during the second half of the 2010s when German corporates

[25] https://www.ifw-kiel.de/publications/kiel-policy-brief/2022/reluctant-us-vs-ambitious-german-direct-investment-in-china-the-tale-of-two-strategies-17025/
[26] https://www.politico.eu/article/peter-altmaier-defends-berlins-muted-response-to-chinas-crackdown-in-hong-kong-germany/
[27] https://www.destatis.de/DE/Themen/Wirtschaft/Aussenhandel/handelspartner-jahr.html
[28] https://bdi.eu/publikation/news/china-partner-und-systemischer-wettbewerber/
[29] https://ec.europa.eu/info/publications/eu-china-strategic-outlook-commission-contribution-european-council-21-22-march-2019_de
[30] https://securityconference.org/publikationen/munich-security-index-2021/
[31] https://merics.org/en/merics-briefs/chinese-debates-ukraine-eu-indo-pacific-forum-strategic-dependency

with long-standing business track records in China, such as Audi (2017), Daimler (2018), or Leica (2019), became the targets of significant Chinese political and economic pressures over communication missteps in relation to issues sensitive to the CCP, like Taiwan, Tibet, or the Tiananmen protests.[32] Anxious about similar negative repercussions that could affect their China business, German companies have tended to tread more carefully in relation to the CCP and Chinese core interests. With them generating an average 16 percent of their annual revenue in China,[33] DAX companies have even cautioned the German government to voice public criticism regarding Hong Kong or Xinjiang.

On the back of more difficult political relations, China has gradually stepped up the threat of economic coercion against Germany. In late 2019, China's ambassador to Germany, Wu Ken, threatened retaliation against Germany's automotive industry, if Germany were to decide against allowing a bid by Huawei to build the country's 5G infrastructure.[34] In March 2021, Beijing orchestrated a targeted and impactful Chinese consumer boycott of European companies after the EU had sanctioned four Chinese local officials over human rights violations in Xinjiang. The boycott also affected German multinational Adidas. Adidas products disappeared from major Chinese e-commerce apps, and the company saw a considerable drop in its sales in China.[35]

In late 2021, China stepped up economic coercion of German companies in an unprecedented way by not only targeting their China operations but also their third market business links. To punish EU member Lithuania for allowing Taiwan to upgrade its representation in Vilnius, China did not only restrict trade with Lithuania. More than a dozen German companies, mainly from the automotive and agricultural sectors and including major players like Continental, were threatened that they would lose access to the Chinese market if they continued trading with Lithuanian firms.[36] Setting a worrisome precedent, the blackmailing over Lithuania seems to have confirmed a long-held fear of German companies that in the future Beijing might seek ways to force German corporates to stop dealing with entities in other countries whose relations with China deteriorate.

China's growing exertion of economic pressure against German businesses is part of a wider picture of Chinese political influencing in Germany that has emerged in recent years. Like other EU member states, Germany has been exposed to the full spectrum of established Chinese political influencing activities in Europe.[37] This has involved the capture of political and business elites, including former German ministers[38]; shaping media coverage of China and public opinion through paid-for content in mainstream media; attempts to put German journalists on the payroll of the Chinese embassy[39]; and the pressuring of civil society representatives and academics, including through imposing sanctions.[40] Lately, Chinese political coercion on the sub-national level has also attracted greater scrutiny[41] as has China's evolving role in spreading disinformation through social media.

The EU's anti-coercion instrument and difficulties in its introduction

Despite increased threats of falling victim to episodes of Chinese economic coercion, German multinationals have doubled down on what they consider unparalleled growth and innovation opportunities in the Chinese market. Rising political risks in Germany-China relations, global decoupling dynamics, and Chinese policies aimed at increasing economic self-reliance are likely to further complicate the business environment for German companies in China. They will also be exposed to more competition from Chinese companies both in China and in global markets. Over the last two years, these developments have prompted many German businesses to reassess their China strategies, and some have sought to diversify their markets and supply chains.[42] However, the majority of German multinationals are not reconsidering their presence in China but are doubling down on investments and R&D in China, localising entire production and value chains to bulletproof their continued presence.[43]

Concerns over economic overdependence on China have become commonplace in Germany's policy debates on China, but tangible action has been limited. Several German ministries have encouraged German businesses to diversify markets and supply chains. Even the powerful Asia-Pacific Committee of German Businesses (APA) has called on German companies to diversify supply chains.[44] The 2020 Asia-Pacific guidelines of the German Foreign Office call for the creation of framework conditions that give German companies better access to Indo-Pacific markets other than China.[45] However, in practice, the German government has done little to support German companies in this endeavour. It remains to be seen whether this will change under the new German government headed by Olaf Scholz, which has launched a national security strategy process that will be followed by the formulation of a new China strategy. Recent non-public Foreign Office input into the new China strategy,

32 https://merics.org/de/studie/chinas-public-diplomacy
33 https://www.handelsblatt.com/unternehmen/ukraine-krieg-das-grosse-china-risiko-einige-dax-konzerne-koennten-konflikte-wie-mit-russland-kaum-verkraften/28174438.html
34 https://www.bloomberg.com/news/articles/2019-12-14/china-threatens-germany-with-retaliation-if-huawei-5g-is-banned
35 https://www.wsj.com/articles/chinese-markets-promise-turns-to-threat-for-adidas-11636534875
36 https://www.reuters.com/world/china/exclusive-china-asks-germanys-continental-cut-out-lithuania-sources-2021-12-17/
37 https://merics.org/de/studie/authoritarian-advance-responding-chinas-growing-political-influence-europe
38 https://www.faz.net/aktuell/rhein-main/frankfurt/frankfurter-gesichter/rudolf-scharping-macht-heute-geschaefte-mit-china-17781045.html
39 https://www.sueddeutsche.de/politik/china-deutschland-china-bruecke-1.4757650
40 https://www.nzz.ch/international/china-verhaengt-sanktionen-gegen-europa-was-bezwecken-sie-ld.1608345
41 https://merics.org/de/studie/big-fish-small-ponds-chinas-subnational-diplomacy-europe
42 https://www.handelsblatt.com/politik/international/handelspolitik-das-china-risiko-deutsche-unternehmen-geraten-immer-staerker-zwischen-geopolitische-fronten/27134454.html
43 https://china.ahk.de/filehub/deliverFile/74912be3-ce50-45a8-8d33-282d4d60487b/1407744/AHK-GC_BCS_2122_web.pdf_1407744.pdf
44 https://www.reuters.com/article/china-deutschland-wirtschaft-idDEKBN2740UF
45 https://www.auswaertiges-amt.de/en/aussenpolitik/regionaleschwerpunkte/asien/german-government-policy-guidelines-indo-pacific/2380510

the drafting of which will also be led by the Foreign Office, suggests that Germany might critically reassess policies geared at promoting closer economic cooperation between Germany and China.[46]

In the meantime, Germany supports the expansion of the EU's toolbox against economic coercion and specifically the introduction of the EU's anti-coercion instrument (ACI). Presented by the European Commission in December 2021 and currently subject to legislative negotiations among EU member states, the ACI is meant to give the EU the legal tools necessary to respond to Chinese and other third-country economic coercion, including by imposing restrictions on financial services, trade, and investments. However, at least initially, the ACI is unlikely to deter Chinese coercive behaviour, especially in response to actions that are perceived by Beijing as threatening core interests, as the EU will first need to build up a track record of applying the tool and hence making it a credible deterrent.[47] Also, the ACI will do little to mitigate the impact that coercive economic measures could have on businesses in Europe, as it offers no concrete support mechanisms to date. Given German corporate's strong exposure to China this raises questions concerning the usefulness of the tool to protect their interests.

Germany's compartmentalising China policy

The absence of any major episodes of Chinese economic coercion against Germany to date is a result of past strategies to remove friction from political relations as well as Chinese dependence on Germany. As Germany has always had a marginal security profile in the Asia-pacific region, security considerations had little inhibitive effects on the evolution of German economic relations with China. At the same time the economic relationship was bolstered by densely institutionalised political relations between Berlin and Beijing, with China being one of a few countries in the world Germany has established regular cabinet-level government consultations with. Germany has also compartmentalised its China policy, shifting difficult issues from direct government interactions to the roughly 80 institutionalised dialogue formats, which Berlin and Beijing have established along the full spectrum of bilateral relations over time. On top of that, Berlin has long pursued a policy of raising difficult political and human rights in private.[48] Instances of German public rebukes of China, like Angela Merkel welcoming the Dalai Lama in 2007[49] or former Foreign Minister Heiko Mass meeting with Joshua Wong in 2019,[50] have been the exception rather than the norm.

Germany's past ability to avoid episodes of Chinese economic coercion is also a result of China's own dependence on Germany. The roughly 5,000 German companies that currently operate in China make an important contribution to Chinese economic growth, employing more than one million staff. While they are heavily concentrated on China's booming east coast, they also create economic stimulus in struggling Chinese provinces, such as Liaoning and Jilin.[51] German investments in China also often align with core Chinese policies on industrial upgrading, specifically regarding high-tech manufacturing and R&D.[52] China's government also still views Germany as a partner that can aid technical governance reforms and institution building. Germany's *Industrie 4.0* industrial policy has served as a blueprint for the conception of China's own industrial innovation strategies, like "Made in China 2025",[53] and China has started to emulate Germany's SME landscape.[54]

As Germany is in the process of developing and pursuing a more robust approach towards China, the litmus test for Germany in dealing with Chinese coercion is yet to come. For other EU member states, exposure to more substantial and frequent Chinese coercive economic episodes has already been a reality, as other contributions to this volume underscore. Given the political hardening in Beijing, even if punitive economic measures also damage China's own economy, the EU and Germany are likely to be increasingly exposed to a new quality of Chinese coercive measures.[55] In light of the growing challenges on the horizon, shoring up the EU's economic security toolbox and helping German companies diversifying markets and supply chains must remain a priority. At the same time, the new German government must invest in more seamless institutional coordination around the economic security policy nexus among relevant ministries, the chancellery, and sub-national administrations, following the example of Japan, and in building economic security coalitions with like-minded countries.

[46] https://www.handelsblatt.com/politik/international/wirtschaftliche-beziehungen-handelspartner-und-systemrivale-deutschlands-neuer-chinakurs-wird-konkret/28142168.html
[47] https://merics.org/de/executive-memo/dealing-chinas-economic-coercion-case-lithuania-and-insights-east-asia-and-australia
[48] https://www.spiegel.de/politik/deutschland/heiko-maas-und-china-cdu-und-csu-stuetzen-aussenminister-und-joshua-wong-a-1286481.html
[49] https://www.faz.net/aktuell/politik/inland/nach-kritik-am-dalai-lama-besuch-merkel-ich-entscheide-selbst-wen-ich-empfange-und-wo-1491981.html
[50] https://www.zeit.de/politik/ausland/2019-09/heiko-maas-joshua-wong-treffen-hongkong-china
[51] https://china.ahk.de/filehub/deliverFile/74912be3-ce50-45a8-8d33-282d4d60487b/1407744/AHK-GC_BCS_2122_web.pdf_1407744.pdf
[52] https://merics.org/de/kurzanalyse/china-relies-little-giants-and-foreign-partners-plug-stubborn-technology-gaps
[53] https://merics.org/sites/default/files/2020-05/China_Monitor_No_23.pdf
[54] https://www.dw.com/en/china-eyes-germanys-famous-hidden-champions-model/a-58986878
[55] https://merics.org/de/executive-memo/dealing-chinas-economic-coercion-case-lithuania-and-insights-east-asia-and-australia

Czech Republic

Filip Šebok and Ivana Karásková

From values to economic pragmatism… and back again

The Czech relationship with China has gone through pendulum-like developments over the past decade. The political constellation of President Miloš Zeman and the government of Social Democrats (ČSSD) which formed in 2013-2014 provided an impetus for a dramatic change in Czech policy on China.[56] This was to mean, specifically, less focus on conflictual issues in the relationship related to human rights, Tibet and Taiwan, which have traditionally played a significant role in the Czech approach to China. Instead, the new policy claimed to be more "pragmatic", focusing on economic diplomacy and avoiding political friction, which had previously led to the freezing of bilateral contacts.

The so-called "restart" of the Czech policy on China was thus motivated chiefly by economic considerations, in line with the whole region's turn to China in the aftermath of the global financial crisis. The Czech Republic found itself competing with other countries in Central and Eastern Europe over becoming a "gateway to Europe" for Chinese investment. Moreover, it was reciprocated by China's increased attention to the region, manifested through the establishment of a format for cooperation between Central and Eastern European countries and China (the so-called 16+1 format) in 2012.[57] Apart from structural factors, specific political business interests also played a significant role on the Czech side, as the Czech business and political elites have built a dense web of relationships with Chinese actors.[58]

China, however, failed to make up on its promises in the economic sphere, which were also often exaggerated by Czech domestic actors for their own interests. The peak of political relations, when Xi Jinping visited the Czech Republic on a historic visit in 2016, was not matched by economic aspirations. In the economic sphere, the case of the Chinese company CEFC Europe, a subsidiary of the Chinese energy and financial services conglomerate CEFC China Energy, was most emblematic of China's failure: the company's highly erratic acquisition behaviour in the country was revealed to have been fuelled by essentially a Ponzi-scheme and the company was taken over by China's state-owned CITIC in 2018.[59] Many other cases of unrealised Chinese investment projects followed.[60]

In the political sphere, the issues of Taiwan, Tibet, and human rights violations resurfaced again, and were often used by opposition politicians to criticise the government and the president. This was most visible in the tearing up of sister cities agreements (between Prague and Beijing and Prague and Shanghai in 2019 and 2020, respectively) as well as the visit of the Senate President Miloš Vystrčil to Taiwan in 2020.

Finally, security issues have become a new area of concern in bilateral ties. Czech politicians and society have started to focus more attention on them after Chinese covert funding of conferences and classes at Charles University,[61] Chinese propaganda in Czech media,[62] revelation of ties between the Chinese Communist Party and local political and economic elites,[63] as well as concerns over the security risks associated with the Chinese company Huawei.[64]

The political environment has also become less friendly to China, a trend which already became apparent with the creation of the new government led by the ANO party in 2017. President Zeman became one of the few Czech politicians who remained interested in the development of bilateral ties. The Covid-19 pandemic and deliveries of personal protective equipment from China provided a brief positive impetus for the relationship, yet the situation again deteriorated quickly.[65] The new Czech government led by a coalition of centre and centre-right parties that assumed power in October 2021 promised to redefine its China policy, return to a values-based foreign policy and reconsider the "strategic partnership" with China.[66]

56 Ivana Karásková, „Vytváření pročínské agendy v Česku: aktéři, jejich role a vazby", Association for International Affairs (AMO), 2018, https://mapinfluence.eu/cs/vytvareni-procinske-agendy-v-cesku-akteri-jejich-role-a-vazby/.
57 Ivana Karásková, Alicja Bachulska, Agnes Szunomár, Stefan Vladisavljev, Stefan (eds.), "Empty shell no more: China's growing footprint in Central and Eastern Europe", Association for International Affairs (AMO), 2020, https://chinaobservers.eu/wp-content/uploads/2020/04/CHOICE_Empty-shell-no-more.pdf.
58 "Relations Between Czech Political and Business Elites With Links to China," MapInfluenCE, https://mapinfluence.eu/en/relations-between-political-elites-and-pro-china-business/.
59 Jeremy Garlick, "Chinese Investments in the Czech Republic: Opportunity or Threat?" China Observers in Central and Eastern Europe (CHOICE), February 12, 2020, https://chinaobservers.eu/chinese-investments-in-the-czech-republic-opportunity-or-threat/.
60 Kateřina Menzelová, „Čínské investice v Česku: Nesplněné sliby," *Lidové noviny*, April 10, 2018, https://ceskapozice.lidovky.cz/tema/cinske-investice-v-cesku-nesplnene-sliby.A180406_115524_pozice-tema_lube.
61 Alžběta Bajerová, „The Czech-Chinese Centre of Influence: How Chinese Embassy in Prague Secretly Funded Activities at the Top Czech University," China Observers in Central and Eastern Europe (CHOICE), November 7, 2019, https://chinaobservers.eu/the-czech-chinese-centre-of-influence-how-chinese-embassy-in-prague-secretly-funded-activities-at-the-top-czech-university/.
62 Ivana Karásková, Tamás Matura, Richard Q. Turcsányi, Matej Šimalčík, "Central Europe for Sale: The Politics of China's Influence," Association for International Affairs (AMO), 2018, http://www.chinfluence.eu/central-europe-for-sale-the-politics-of-chinas-influence-2/.
63 "Relations Between Czech Political and Business Elites With Links to China," MapInfluenCE, https://mapinfluence.eu/en/relations-between-political-elites-and-pro-china-business/.
64 "Software i hardware společností Huawei a ZTE je bezpečnostní hrozbou," Národní úřad pro kybernetickou a informační bezpečnost, December 17, 2018, https://nukib.cz/cs/infoservis/aktuality/1303-software-i-hardware-spolecnosti-huawei-a-zte-je-bezpecnostni-hrozbou/.
65 "Chinese plane carrying medical supplies arrives in Czech Republic," *Xinhua*, March 21, 2020, http://www.xinhuanet.com/english/2020-03/21/c_138900277.htm.
65 Daniela Lazarová, „Newly-emerging government planning return to Václav Havel's values," Radio Prague International, October 22, 2021, https://english.radio.cz/newly-emerging-government-planning-return-vaclav-havels-values-8731977.
66 Daniela Lazarová, „Newly-emerging government planning return to Václav Havel's values," *Radio Prague International*, October 22, 2021, https://english.radio.cz/newly-emerging-government-planning-return-vaclav-havels-values-8731977.
67 "China cancels another Czech musical tour as dispute with Prague escalates," *Kafka Desk*, September 7, 2019, https://kafkadesk.org/2019/09/07/china-cancels-another-czech-musical-tour-as-dispute-with-prague-escalates/.

Political pressure intensified

The Czech Republic has experienced several cases of Chinese political coercion, with so far unsubstantiated claims of economic coercion. All the recorded cases have been linked to the issues of Taiwan.

The Prague municipal government led by Mayor Zdeněk Hřib assumed power in 2018 and promised it would renegotiate its partnership with Beijing, signed by the previous city government. The agreement concluded a clause on Prague's respect for "One China Policy," which the new government sought to renegotiate. Moreover, the mayor has been rather outspoken not just on the issue of the agreement, but on ties with Taiwan and human rights abuses, especially in Tibet and Xinjiang. Chinese partners refused to renegotiate the agreement; instead, China initiated coercion measures. China cancelled tours of Czech musical ensembles,[67] and several trade deals were reported to have been put on hold. Economic countermeasures including divestment, were discussed as a potential next move by the Czech President Zeman.[68] However, no direct economic repercussions connected to the controversy could be conclusively confirmed, even after the Prague-Beijing partnership was severed in October 2019.

In late 2019, the planned visit of Senate President Jaroslav Kubera to Taiwan as a head of a business mission became another controversial issue in bilateral relations. The Chinese embassy pressured Kubera, together with Czech politicians, most notably President Zeman, not to proceed with the visit. Kubera suddenly died in January 2020, after which a document was found in his office from the Chinese Embassy.[69] As it was later ascertained, the document was ordered by the Office of President Zeman. The letter noted specific repercussions for the Czech Republic, including damage to the Czech companies Škoda Auto, Home Credit, Klavíry Petrof and others.[70] Kubera's successor in the office, Miloš Vystrčil, decided to proceed with the visit anyway in late August 2020. In response, Wang Yi, the Chinese Minister of Foreign Affairs, promised Vystrčil would pay "a heavy price".[71] However, no significant economic sanctions were recorded. The only publicly documented case was that of Klavíry Petrof having its orders in China rescinded.[72] How-ever, the company was reported to not be facing any issues on the Chinese market a few months later.[73]

Diplomatic condemnation backed up civil society response

The Czech Republic's response to China's pressure has been two-fold and includes a diplomatic condemnation of China's pressure supported by strong societal response. In the cases of severing sister cities agreements and threats of retaliation for Czech political and economic delegations to Taiwan, the Czech Ministry of Foreign Affairs strongly condemned Chinese threats. The Minister of Foreign Affairs Tomáš Petříček even reprimanded the Chinese Ambassador in Prague for his comments, saying "there is no place for threats in diplomacy"[74] and that "the ambassador went too far".

In both cases the Ministry of Foreign Affairs explained to the Chinese counterparts that the decisions were made by autonomous actors (e.g. municipalities, the Senate), hence it had no legal mandate to interfere in their decision-making processes. In the same time, the ministry reiterated the Czech position on the One China Policy, keeping in line with the EU's interpretation and (most likely) serving to reassure Beijing that these incidents were rather exceptions than a rule.

The second set of responses is perhaps more interesting as it includes a societal response. The resilience against China's pressure owes much to a broader Czech intellectual and political opposition to authoritarian tendencies. China has been linked in this discourse to the pre-1989 experience of communist Czechoslovakia, and generally used as a (internal) warning against the dangers of totalitarian rule.[75] The anti-totalitarian stream of thinking in Czech society has been kept alive by very active civil society organizations and investigative journalists, focusing on uncovering, reporting and countering China's influence.

Curiously, it was a civil society organization (i.e. the Association for International Affairs, AMO) which presented economic models to evaluate the potential economic and societal impact of Vystrčil's delegation visit to Taiwan. The research found that even in the hypothetical case of the most severe retaliation from China, the Czech GDP would be affected by a drop of a mere 1%, as the country's economy is shielded from sanctions by its membership of the EU. The analysis[76] was presented to the Ministry of Foreign Affairs and other stake-

[68] Ivana Karásková et el., "China's Sticks and Carrots in Central Europe: The Logic and Power of Chinese Influence," Association for International Affairs (AMO), 2020, https://mapinfluence.eu/wp-content/uploads/2020/06/Chinas-Sticks-and-Carrots-in-Central-Europe_policy-paper_-1.pdf.

[69] Lukás Valášek, Helena Truchlá, ",Za návštěvu Tchaj-wanu budete platit.'Kubera si z Hradu přinesl výhrůžky od Číny," *Aktuálně*, February 19, 2020, https://zpravy.aktualne.cz/domaci/za-navstevu-tchaj-wanu-budete-platit-kubera-si-z-hradu-prine/r~3602b9ba51a711eaa5e40cc47ab5f122/.

[70] Helena Truchlá, Lukáš Valášek, Ondřej Leiner, "Nový šéf Senátu Vystrčil potvrdil, že v Kuberově kanceláři byl výhrůžný dopis Číňanů", Aktuálně, February 19, 2020, https://zpravy.aktualne.cz/domaci/vystrcil-potvrdil-ze-v-kancelari-kubery-nasel-vyhruzny-dopis/r~2f018d98531011ea85aaac1f6b220ee8/.

[71] Ben Blanchard, Yew Lun Tian, "Czech senate speaker will pay ‚heavy price' for Taiwan visit, China says," *Reuters*, August 31, 2020, https://www.reuters.com/article/us-taiwan-czech-china-idUSKBN25R059.

[72] "Čína stopla zakázku na česká piana za miliony. Kvůli senátní misi," *iDNES*, September 4, 2020, https://www.idnes.cz/ekonomika/podniky/petrof-senator-vystrcil-cesta-na-tchaj-wan-zruseni-zakazky.A200904_154831_ekoakcie_fih.

[73] "Panika byla zbytečná. Petrof dál naplno dodává do Číny, zakázky má i z Tchaj-wanu," *Aktuálně*, November 24, 2020, https://zpravy.aktualne.cz/ekonomika/panika-byla-zbytecna-petrof-dal-naplno-dodava-do-ciny-zakazk/r~5db260b62e6d11eb8972ac1f6b220ee8/.

[74] "Změňte přístup, nebo pocítíte újmu, varoval čínský velvyslanec Prahu. Petříčkovi se výhrůžky nelíbí," ČT24, October 9, 2019, https://ct24.ceskatelevize.cz/regiony/2946251-zmente-pristup-nebo-pocitite-ujmu-varoval-cinsky-velvyslanec-prahu;
"Čínský velvyslanec musí Petříčkovi vysvětlit výrok k Vystrčilovi. Vyjádření diplomata jsou podle ministra za hranou," *lidovky.cz*, August 31, 2020, https://www.lidovky.cz/domov/ministerstvo-zahranici-velvyslanci-ciny-vyjadrilo-nesouhlas-s-vyrokum-k-vystrcilove-ceste.A200831_142158_ln_domov_ele.

[75] Ivana Karásková, Alžběta Bajerová, Tamás Matura, "Images of China in the Czech and Hungarian Parliaments," Association for International Affairs (AMO), March 2019, http://www.amo.cz/wp-content/uploads/2019/03/AMO_Images-of-China-in-the-Czech-and-Hungarian-Parliaments.pdf.

[75] Ivana Karásková et el., "China's Sticks and Carrots in Central Europe: The Logic and Power of Chinese Influence," Association for International Affairs (AMO), 2020, https://mapinfluence.eu/wp-content/uploads/2020/06/Chinas-Sticks-and-Carrots-in-Central-Europe_policy-paper_-1.pdf.

[76] "Political leaders express solidarity with Czech Senate President Miloš Vystrčil in connection to his official visit to Taiwan," Miriam Lexmann website, August 25, 2020, https://lexmann.eu/political-leaders-express-solidarity-with-czech-senate-president-milos-vystrcil-in-connection-to-his-official-visit-to-taiwan/.

holders and passed to journalists which helped to debunk the myths of China's upper hand and mitigated fears connected to the Vystrčil's visit.[77] However, the case of Lithuania and Chinese weaponization of value chains and indirect economic links has shown that the danger of Chinese economic coercion is larger than anticipated.

Failure of China's „sticks and carrots" approach

Although it may be argued that China has become a somewhat influential actor in Central and Eastern Europe, in recent years several factors have made it a less attractive cooperation partner.

First and foremost, a detailed research and outreach to the public by respected Czech civil society organizations directly focusing on China have helped uncover patterns of Chinese foreign policy behavior. Their efforts were echoed by the work of investigative journalists who described in detail cases of Chinese influence in the Czech Republic. The media raised awareness in the Czech society and this increased reputational risks for local political and economic elites eager to promote Chinese positions in the country.

The second factor relates to the fact that China was not able to fulfil the economic expectations in relation to its investment in the Czech Republic. As other, including Asian (e.g. Japan, Republic of Korea or Taiwan), investors were considered more important for the Czech economy, China has not succeeded in presenting itself as the most attractive alternative.

The spectacular failure of CEFC Europe in the Czech Republic and a sudden disappearance of its chairman Ye Jianming in China, made the Czech business community aware of potential risks of economic deals with Chinese counterparts.

Moreover, it is noticeable that China plays a great role in Czech domestic political debates and even features in parliamentary and presidential election debates. While the government parties usually defended economic relations with China, the opposition parties utilised the criticism of China as a handy tool for attacking the government and the president for their affinity to Beijing.[78]

Last but not least, the rising scepticism in the European Union regarding the cooperation with China increased political and reputational risks for Czech politicians. Combined, these factors contributed to increased scrutiny of and general distaste for dealings with China in the Czech Republic.

Lithuania

Renaldas Vaisbrodas

From fairly positive to rock bottom: Downhill trend in the Sino-Lithuanian relations

Ever since Lithuania gained independence from the Soviet Union, relations with the People's Republic of China (PRC) were fairly positive and never lead to much public attention or debate. Hence, somehow appropriately, it took more than a decade for a highest-level Chinese politician to come to Lithuania: President Jiang Zemin, who travelled through all of the Baltic states in mid-2002. This remains the only presidential visit thus far.

A distant and fairly small Lithuania has not been seen as a "significant" player by the PRC. But this does not mean that Baltic States in general and Lithuania in particular have not been noticed for their role in the break-up of the communist Soviet Union. Furthermore, the active positions Lithuania took when assuming the Presidency of Council of the European Union in 2013 and its non-permanent membership in the UN Security Council from 2013 – 2015 were looked upon with interest in Beijing. Its ferocious opposition to communist policies and demand for political responsibility for the crimes committed by the communist regimes, made Lithuania an uncomfortable counterpart for the PRC with its three T's taboo (Tibet, Taiwan, Tiananmen). Regular diplomatic scuffles erupted over the course of the relationship between the two countries, be it over an informal meeting of President Dalia Grybauskaitė with the Dalai Lama in 2013 or the demonstration in support of Hong Kong protesters in Vilnius in 2019.

The PRC's interest in Lithuania seemed to be driven by its diplomatic and economic initiatives in Europe, be it the Belt and Road Initiative (BRI), connecting the Eurasian continent, or the establishment of the 17+1 (now 16+1) format, promoting cooperation with Central Eastern European countries. Lithuania's proximity to the PRC strategic partners Belarus and Russia and its importance for the transit route to its Baltic port of Klaipėda has incentivised more contact in early 2010's.

Similar to many other countries worldwide, Lithuania took notice of a "positive" potential that was inspired by the

[78] Ivana Karásková, Alžběta Bajerová, Tamás Matura, "Images of China in the Czech and Hungarian Parliaments," Association for International Affairs (AMO), March 2019, http://www.amo.cz/wp-content/uploads/2019/03/AMO_Images-of-China-in-the-Czech-and-Hungarian-Parliaments.pdf.

attractiveness of China's market and financial resources. Sino-Lithuanian economic relations, however, remain modest, with the total volume of bilateral trade passing the symbolically important mark of €1 billion only in 2017. Despite the fact that Lithuanian exports to China have recently grown faster than imports from it, a huge trade imbalance (€277 million vs. €929 million respectively in 2019[79]) remained a major issue in the economic relationship. At the same time Foreign Direct Investment remains negligible.

A certain turning point in Sino–Lithuanian relations was reached in February 2019 when the State Security Department and the Second Investigation Department under the Ministry of National Defence published their annual National Threat Assessment. It underscored the "increasing aggressiveness of Chinese intelligence and security services' activities" in Lithuania and explicitly named the PRC's Ministry of State Security and military intelligence as the two services operating in the country. The document noted that such activities are driven by China's domestic policy issues, particularly silencing Lithuania on Tibet and Taiwan, but also aiming at broader interests, including "Lithuanian foreign policy and economy, the defence sector, information accessible to Lithuanian citizens about foreign countries' international co-operation projects and future plans with China."[80] One year after, the assessment of the same institutions was equally damning, highlighting 'ongoing malicious use' of Chinese cyber-capabilities for acts of hacking and spying that had been observed in Lithuanian cyberspace.[81] This was the beginning of the downhill turn for the Sino-Lithuanian relations.

As Lithuania entered its electoral year (parliamentary elections were held in the fall of 2020), a number of events shaped the political debate and made relations with the PRC one of the issues in the campaign.

In mid-September 2020, the country signed a Memorandum of Understanding on 5G Security with the US, which underlined 'the importance of encouraging the participation of reliable and trustworthy network hardware and software suppliers in 5G markets'.

Centre-right and liberal politicians openly reflected on a possibility of being much more proactive on the issues surrounding Taiwan. The liberal Laisvės Party included a clause which supported Taiwan's statehood and independence in its electoral programme[82]. Consequently, after the parliamentary elections in 2020 delivered a governing coalition agreement between conservative and liberal parties, who committed to promote 'value based foreign policy' and 'actively oppose any violation of human rights and democratic freedoms, and defend those who are fighting for freedom around the world, from Belarus to Taiwan', it was clear that Sino-Lithuanian relations would not improve.

The Lithuanian government has stayed true to its word and its consequent actions promoted an inclusion of Taiwan in WHO discussions on the management of COVID-19. In March 2021, after the EU imposed sanctions on a number of officials involved in serious human rights violations in the PRC, Beijing reacted by sanctioning a number of politicians, among others Lithuanian social-democrat (opposition) MP Dovilė Šakalienė. The Lithuanian parliament expressed its full solidarity and adopted a cross party resolution on the genocide carried out in Xinjiang. Lithuania announced its official withdrawal from 17+1 format, stating that its objectives did not serve the purposes of unity within the EU. At the same time, Taiwan announced its plan to open an economic representation in Lithuania. Predictably, this led to the recall of ambassadors for consultations. Later that year, Lithuania's National Cyber Security Centre said it had found major cybersecurity risks concerning Huawei and Xiaomi mobile devices and advised government officials and agencies to discontinue their use. Finally, Sino-Lithuanian relations hit rock bottom when the Taiwanese representative office in Lithuania started its operations in November 2021, prompting the PRC to downgrade the official diplomatic representation of Lithuania to a Chargé d'affaires office in Beijing. As this spiral of events developed, the PRC deployed unprecedented coercive actions to "punish" Lithuania for its decisions.

Aggressive Chinese sanctions policy towards Lithuania

After the PRC furiously withdrew its ambassador from Vilnius, it chose to go the extra mile: in December 2021, China effectively blocked Lithuanian imports by delisting it as a country of origin, meaning goods could not clear Chinese customs. It also pressured multinational businesses to sever ties with Vilnius. Such a measure applied not only to goods that are produced in Lithuania but also in some cases to goods that in their supply chain include components produced in Lithuania. Moreover, it also affected the European exports in transit through Lithuanian ports. The application of these unannounced measures undoubtedly influences the efficient functioning of the EU internal market. The PRC is using its market power to push other countries and businesses to choose between Vilnius and Beijing. This case reveals the emergence of a far more aggressive Chinese sanctions policy, as well as an intensifying global struggle over Taiwan.

Three tracks of the Lithuanian response to the pressure

The response to the pressure from Beijing focused on three tracks: national, bilateral, and multilateral. In the face of the increasing pressure and unprecedented moves by the PRC, Lithuania chose to go 'all-in' and intensify the search for

[79] Lietuvos – Kinijos dvišalė prekyba 2020 gegužės 20, https://www.verslilietuva.lt/wp-content/uploads/2020/07/2020-05-20_Kinija_LT.pdf.
[80] National Threat Assesment 2019, https://www.vsd.lt/wp-content/uploads/2019/02/2019-Gresmes-internetui-EN.pdf.
[81] National Threat Assessment 2020, pp 5 & 32-34, https://www.vsd.lt/wp-content/uploads/2020/02/2020-Gresmes-En.pdf.
[82] Laisvės partijos 2020 metų Seimo rinkimų programa: pasiūlymai Lietuvos proveržiui, https://www.laisvespartija.lt/wp-content/uploads/2020/06/Laisv%C4%97s-partijos-2020-m.-Seimo-rinkim%C5%B3-programa.pdf.

alternative markets for its businesses affected by the Chinese punitive measures. The beginning of 2022 saw official Lithuanian diplomatic representations formally open in Singapore, South Korea and Australia. An official economic representation in Taiwan is scheduled to open soon. These new diplomatic representations primarily focus on seeking new economic opportunities for the export of Lithuanian goods. Dedicated financial facilities were set up by the Government to offer Lithuanian businesses incentives to develop new export markets[83].

On the bilateral front, predictably, Lithuania received an extended hand from Taiwan. Taipei has started a $1 billion worth credit programme to fund joint projects between Lithuanian and Taiwanese companies, as well as a separate $200 million fund to invest in Lithuanian industries and boost bilateral trade.

The United States has also stepped in to make up the shortfall caused by China's blockade. The U.S. Export-Import Bank signed a $600 million export credit agreement with Lithuania, focusing on manufacturing, business services and renewable energy.

Finally, on a multilateral track, two ongoing processes were initiated. First, the EU started preparing a so-called anti-coercion instrument to hit back at exactly the sort of tactics China is using against Vilnius. However, the instrument could take years to come into force. Secondly, the European Union launched a World Trade Organization case against China over „discriminatory trade practices". This case was joined by US, Japan, UK, Australia, Taiwan, and Canada. However, proving economic coercion at the WTO is a complicated and risky process that could drag on over several years.

Assessment of the country's response: factors affecting success and failure

Reflecting upon the Lithuania's response measures, one can only acknowledge that the decisions to pursue a multi-vector approach and successfully acquire strong backing from the EU and other G7 countries is an important achievement for the Lithuanian government. It allowed for a certain diplomatic breathing room, but it has so far not reversed some of the measures taken by the PRC. In this context, measuring success and failure of one case, needs to be seen from a broader perspective. Current PRC leadership is clearly prepared to test Western democracies that believe in free trade and dare to speak up on the "Three Ts". The challenge that the PRC presents to those countries is clear - economic coercion and political blackmail. As a rule based player, the West at large has no quick fix to counteract these measures by the PRC without inflicting serious economic losses upon itself. Are we ready to take a stand for our principles and values and how far will we be prepared to go? The answer to this will determine the success and failure of our ability to respond to China.

[83] Press release by Ministry of Economy & Innovation of the Republic of Lithuania, 2022 02 17, https://eimin.lrv.lt/lt/naujienos/del-kinijos-sankciju-nukentejusiam-verslui-reali-pagalba.

Looking beyond the pond: How other countries are dealing with Chinese Economic Coercion

Democracy under threat

Ketty W. Chen

Authoritarian influence in Taiwan and how Taiwan manages to combat it

Taiwan is a democratic country that stands on the frontline of the People's Republic of China (PRC)'s coercion and influence, as the PRC considers Taiwan as part of its territory that has to be unified with "the motherland" as soon as possible. It's clear that the PRC's aim behind its economic and political coercion is to annex Taiwan, and its approaches include military threats, import bans of Taiwan's goods, and information operations. The PRC not only uncompromisingly intensified its influence operations in Taiwan, it also is using Taiwan as a testing and training ground on how to "improve" its methods.

However, Taiwan's vibrant democracy serves as a constant reminder to China on what it is not. Taiwan's democratic existence dispels the CCP's narrative that democracy is not only a product of the West but that it is also incompatible with Chinese or Asian culture. Taiwan's democracy now serves as a model for countries in the region demonstrating, that democracy can work in Asia, that it can be peaceful, stable and vibrant.

China's political and economic warfare on Taiwan

In the midst of the struggle between authoritarian uprising and democratic backsliding, Taiwan stands in the forefront of China's influence operation. The most utilized method of influence operation is the use of information manipulation. China's influence operations against Taiwan can be categorised into serving four main purposes. First, to corrode democratic institutions, national and local elections, and public trust on the democratic system. Second, Chinese influence operation to undermine the Taiwanese people's confidence, so their will to resist would be weakened, and their feeling of abandonment and isolation magnified. Most importantly, the CCP's intent is for the Taiwanese people to feel that becoming part of China is inevitable. Third, to polarize division and promote hatred between members of society. Fourth, to co-opt politicians, retired military officers, civil servants and the business community.

Massive economic capacity has been China's most powerful tool to support such operations. According to Prof. Jaw-niang Huang, the Chinese government has been increasing its purchase of advertisements in Taiwanese media since Taiwan's economic relations with China became closer under the Ma Ying-jeou administration, namely for the purpose of promoting tourism or business.[84] Some Taiwanese media increasingly used "embedded marketing" for these advertisements. This makes it more difficult for readers to identify advertisements, as they might just look like a news item or any other form of content.[85] In 2012, the Want-Want China Times Media Group placed a series of relevant embedded news items in its *China Times* and affiliated newspapers during the Taiwan visit of Fujian's governor. A report of Newtalk Media revealed, that these embedded news items were part of a propaganda plan from the Fujian and Amoy Governments. Following an Investigation of the Overseas Chinese and Foreign Investment Commission Want-Want China Times was fined because its placement marketing had violated the law.[3] keine Fußnote In the same year, students and professors launched an anti-media monopoly movement in Taiwan, urging the government to refuse Want-Want China Times Media Group's application to bid on a Taiwanese cable TV system company.[86] In 2008, the Want Want Group acquired and merged with China Times and two TV news stations in Taiwan. According to Prof. Jei-ming Wu's research, the company also received large subsidies from China's local government.[87] This led to concerns whether the company would be able to sustain the independence of its media while having significant business interests in China. In 2019, *Reuters* published a report showing that China paid Taiwanese media to write reports to improve CCP's image in Taiwanese "hearts and minds".[88]

China has also been leveraging market forces and business interests to gradually embed a culture of self-censorship in Taiwanese media. According to the 2021 Country Reports on

[84] Prof. Jiaw Niang Huang, The China Factor in Taiwan's Media: Outsourcing Chinese Censorship Abroad," *China Perspectives* 2017/3: 27–36. 2017, https://www.cefc.com.hk/download.php?file=ef39d6f84675efe600f79c1d13f84cda&id=100065037.

[85] Regulations for Advertising Goods, Labor and General Services of the Mainland Area in the Taiwan Area. https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=Q0060008.

[86] Li-jen Liu, Wei-cheng Tseng, Cheng-hsiang Fan, Chia-ling Tang, Directors of the top ten journalism departments in universities sign a petition to stop Want Want China Times Media Group's Media M&A, *Liberty Times*, May 26th 2012, https://news.ltn.com.tw/news/life/paper/586655.

[87] Wu Jieh-min, The China Factor in Taiwan: Impact and Response., pp. 425-445 in Gunter Schubert ed., *Handbook of Modern Taiwan Politics and Society, Routledge.* 2016

[88] Yimou Lee and I-hwa Cheng, Paid ‚news': China using Taiwan media to win hearts and minds on island – sources, *Reuter*, August 9th2019, https://www.reuters.com/article/us-taiwan-china-media-insight-idUSKCN1UZ0I4.

Human Rights Practices: Taiwan, business interests of Taiwanese media outlet's parent companies have been utilised by PRC officials to influence Taiwan's media. Faced with the threat of losing commercial revenue, journalists self-censored and refrained from publishing reports criticising China.[89]

A few years ago, China began aggressively using the internet and social media as a tool for its influence operations towards Taiwan. Using content farms, social media marketing companies and influencers, these new tools enabled the Chinese government to operate more stealthily and established a network of local collaborators. While it is difficult for civil society to track the direct flow of funds from the PRC to support its online information operation to Taiwan, some footprints identified by Taiwan's law enforcement agencies are revealing. For example, a Facebook fan page, uncovered by Taiwan's Ministry of Justice Investigation Bureau (MJIB), as linked to at least 12 websites spreading PRC propaganda and disinformation.[90] Buying and creating a substantial number of URLs, facebook pages, social media accounts allow content farms to repeatedly resurrected.[91]

In addition to information manipulation, economic coercion is another method the PRC utilised to intimidate Taiwan. For example, in spring 2021, China banned imports of Taiwanese pineapples, as a punitive trade measure. This served as a prime example of China weaponizing economic measures. Another instance came in September 2021, when the US deliberated changing the name of the Taipei Economic and Cultural Representative Office in Washington to that of Taiwan Representative Office, China reacted by again stopping Taiwanese fruit imports. This time sugar and wax apples.[92]

How Taiwan combats influence operations

The resilience, awareness, and fast-reaction of Taiwan's civil society have always been the shield that defends Taiwan against China's economic and political coercion. They led the following actions.

Closing loopholes in legislature

After the anti-media monopoly movement in 2012, Taiwan's government and Legislative Yuan (Taiwan's parliament) finally established an anti-media monopoly law. It is the first such law in Taiwan's history. The law stipulates that media should periodically disclose their source of advertisement revenue,[93] and clearly defines four "red lines" on how a media merger and acquisition (M&A) will be defined as media monopoly, and therefore be forbidden.[94]

To tackle CCP's infiltration through invisible flows of capital and resource, particularly targeting online information operation, members of civil society also pushed the government to establish the first anti-infiltration law in Taiwan. The law was passed by the Legislative Yuan and formally ratified in 2020.[95] The law closed up the loopholes in Taiwan's Political Donation Act,[96] Referendum Act,[97] Lobbying Act,[98] and Civil Servants Election And Recall Act.[99] People or organizations instructed or funded by hostile foreign agents to make political donations, lobby, canvass or interfere in elections, launch referendum, spread disinformation, disrupt assemblies or undermine the social order, will be penalised if a court rules their behaviour to violate the law.[100]

Actions of civil society

Taiwan's civil society played an integral part in Taiwan's liberalisation and democratisation and now, in its effort to combat authoritarian influence from China. In recent years, members of Taiwan's civil society organizations advocated the practice of digital democracy. Many organisations worked together to strategise and develop methods to combat information manipulation, offer media literacy lessons, write codes for fact check chatbots and to inform the public. Nongovernmental organisations such as the Taiwan Foundation for Democracy provide funding for their endeavour to safeguard Taiwan's democratic institutions.

The civil society organizations assumed different roles in combating information manipulation. For example, a group of civil society organisations devoted their focus on factchecking. Their work created the basis for analysing the patterns of the PRC's information infiltration, as they accumulated huge amounts of data on disinformation. The Taiwan Fact-Check Center,[101] MyGoPen,[102] and CoFacts[103] are all examples of NGOs with diligent members who work tirelessly to provide clarifications for disinformation and validate facts. MyGoPen and CoFacts also developed LINE chatbots, so individuals can

89 Bureau of Democracy, Human Rights, and Labor, U.S. Department of States, 2021 Country Reports on Human Rights Practices: Taiwan, https://www.state.gov/reports/2021-country-reports-on-human-rights-practices/taiwan/.
90 Taiwan's Ministry of Justice Investigation Bureau, Disclosing how China's cyber army buying Taiwan's internet domain, March 6th 2020, https://www.mjib.gov.tw/news/Details/1/578.
91 Te-lien Kung, Hao-hsing Ko,Jason Liu, Chia-yu Hsu, Uncovering the Money and China Factor Behind „Mission" – Taiwan's Most Controversial Content Farm, The Reporter, December 26, 2019, https://www.twreporter.org/a/information-warfare-business-content-farm-mission-english.
92 Dong Xing, First pineapples, now sugar apples. Taiwan threatens to take China to WTO over new fruit import ban,ABC News, September 21st 2021, https://www.abc.net.au/news/2021-09-21/china-taiwan-fruit-ban-may-jeopardise-application/100479612.
93 Li-ren Liu, NCC added new articles to anti-media monopoly law: news channels should periodically disclose its income generated through advertisement, Liberty Times, May 1st 2019, https://news.ltn.com.tw/news/politics/breakingnews/2776234.
94 Shu-hui Lin, NCC passed anti-media monopoly law., Commercial Times, Jan 16th 2019, https://ctee.com.tw/news/tech/24345.html.
95 Anti-Infiltration Law, https://law.moj.gov.tw/LawClass/LawAll.aspx?pcode=A0030317.
96 Political Donation Act, https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=D0020049.
97 Referendum Act, https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=D0020050.
98 Lobbying Act, https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=D0020062.
99 Civil Servants Election And Recall Act, https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=D0020010.
100 Legislative Yuan Passes Anti-Infiltration Bill to Strengthen Defense for Democracy and Preserve Stable and Orderly Cross-Strait Exchanges. News Release of Mainland Affairs Council, December 31st 2019. https://www.mac.gov.tw/en/News_Content.aspx?n=2BA0753CBE348412&s=88E5E1EF1343B1B8.
101 Taiwan Fact Check Centre, https://tfc-taiwan.org.tw/en/about-us.
102 MyGoPen, https://www.mygopen.com/. MyGoPen"' phenetically meant "Stop Lying" in Taiwanese.
103 CoFacts, https://cofacts.tw/.

add them to their chat application to easily fact-check information they received. Lastly, organisations such as the Double-Think Lab (DTL)[104] and Information Operation Research Group (IORG)[105] aim to research, compile and publish biweekly reports to inform Taiwan's population and the international community of China's information warfare. Organisations like DTL and IORG also offer policy recommendations to the government, so it can use more tools to tackle the information manipulation challenge.

Fast reaction of the Government

In recent years, the Taiwanese government dedicated many resources to counter China's political influence campaign, mainly on information manipulation. Taiwan's Premier Su Tseng-Chang ordered that government ministries must provide clarification to disinformation within two hours upon discovery. The Executive Yuan created a webpage and uses the messaging app LINE to provide timely clarification. President Tsai appointed former hacker and civic tech member Audrey Tang as Taiwan's first digital minister. Part of her portfolio is dedicated to combating disinformation and improving media literacy. Furthermore, the Taiwanese government managed to capture concrete evidence on disinformation that originated in China or was generated by CCP proxies based in Taiwan or elsewhere.

Addressing China's import ban on Taiwan's pineapples, the Taiwanese government, in response, launched a public campaign for "Freedom Pineapples". The campaign went viral quickly after its introduction. From Taiwan's President, Tsai Ing-wen, to its Foreign Minister, Joseph Wu, Taiwanese public figures and celebrities urged citizens to stand up to China and support Taiwanese farmers by purchasing more pineapples. The Taiwanese government also promoted the fruit to its democratic allies, as Japan became one of the major purchasing countries of Taiwanese pineapples. This campaign was met with enthusiasm from global netizens. Solidarity for "Freedom Pineapples" became Taiwan's way to combat economic coercion gaining support from countries such as Japan, Britain, Denmark, Australia and the US.

Conclusion

The effort made by the Taiwanese government, as well as members of civil society in Taiwan, not only raised public awareness on information manipulation and influence operation from China, it also managed to curb China's economic coercion and political influence. Taiwan's action undermining the effectiveness of China's influence strategy can be observed in the following areas:

Growing Taiwanese Identity stops China from winning Taiwanese hearts and minds

The goal behind China's economic and political coercion to Taiwan is to annex Taiwan. The emergence of a distinct "Taiwanese identity" may hinder that. Taiwan now has a strong national identity that is vastly different from China. According to an identity survey conducted by the National Chengchi University's Election Study Center (ESC), the proportion of Taiwanese who identify as Taiwanese increased from 22 percent in 1994 to approximately 60 percent in 2021. Those who identify with a dual identity, as both Chinese and Taiwanese, witnessed a sharp decline from 50 percent to less than 30 percent. Those who identified as only Chinese was down to 2.8%, while more than 90 percent of those surveyed considered being "Taiwanese" as part of their identity[106]. Therefore, the PRC had to confront the harsh reality that the future of Taiwan is moving increasingly further away from President Xi's dream of one unified Chinese nation.

Strong willingness to protect Taiwan and support democracy

Taiwanese's strong support to democracy and willingness to protect Taiwan will hinder China's goal to annex Taiwan. According to the survey of the TFD in 2021, when asked "Would you fight for Taiwan if China uses force against Taiwan for unification," 72.5% of the polled said they would. Also, 75.3% of the polled agree that democracy is the best political system even though some problems exist with it.[107]

Strong awareness of disinformation

In 2018, Taiwan was experiencing the peak of disinformation during the local election and ten referendums. In 2019 around 80,000 people marched on the street to join in the anti-red media parade.[108, 109] Participants witnessed the increasingly unbalanced reporting of some media that derived huge profits from China. They urged the government to take action to stop media from being "bought". Moreover, according to a survey conducted by TFD last year, more than 90% of the respondents agreed that disinformation hurt the development and quality of democracy in Taiwan. According to Professor Eric Yu, one of the co-convenors of the survey, this was the largest consensus of the Taiwanese people.[110]

[104] Double Think Lab, https://doublethinklab.org/.
[105] Information Operation Research Group, https://iorg.tw/.
[106] Election Study Center, National Chengchi University, "Taiwanese and Chinese Identity (1992/02 – 2021/12)," January 28th 2019, *Election Study Center, National Chengchi University*, https://esc.nccu.edu.tw/PageDoc/Detail?fid=7800&id=6961.
[107] TFD press release, 2021 *TFD Survey on Taiwanese View of Democratic Values and Governance*, December 29th 2021, http://www.tfd.org.tw/export/sites/tfd/files/news/pressRelease/ENG_press_release.pdf.
[108] SETN, *Aerial photography shows the number of participants of the anti-red media march are tremendous.* June 24th 2019, https://tw.news.yahoo.com/%E5%8F%8D%E7%B4%85%E5%AA%92%E9%81%8A%E8%A1%8C%E6%93%A0%E7%88%86%E5%87%B1%E9%81%93-%E9%9C%87%E6%92%BC%E7%A9%BA%E6%8B%8D%E7%85%A7%E6%9B%9D%E5%85%89-113018438.html.
[109] In Taiwan, "red media" has been used to describe media that spread disinformation and excise spring controls to amply PRC's propaganda in Taiwan. A red media and its parent companies usually rely on the PRC market as their main source of profits, and receive a huge amount of subsidies from the PRC's local governments or governmental apparatuses regarding Taiwan.
[110] TFD press release, 2021 *TFD Survey on Taiwanese View of Democratic Values and Governance*, December 29th 2021, http://www.tfd.org.tw/export/sites/tfd/files/news/pressRelease/ENG_press_release.pdf.

China's economic coercion and Australia's resilience

Benjamin Herscovitch

Addressing the Australian Parliament in November 2014, Chinese President Xi Jinping spoke of a "vast ocean of goodwill between China and Australia". [111] These waters are now stormy and foreboding. Diplomatic, political, military, and economic tensions simmered between Canberra and Beijing for years over everything from the Australian government's expanding efforts to combat foreign influence and interference to Canberra's public objections to Beijing's erosion of Hong Kong's autonomy. But 2020 was a watershed year. In the wake of Canberra's call in April for an inquiry into the origins of the COVID-19 pandemic, the bilateral relationship went into freefall.

Not since November 2019 has the Australian Prime Minister met a Chinese leader, and not since January 2020 has an Australian minister been able to speak directly to their Chinese counterpart. The drumbeat of mutual criticisms in official diplomatic statements and the press also reached a crescendo that shows no sign of easing. Meanwhile, Australia's move to build long-range nuclear-powered submarines and People's Liberation Army presence in Australia's northern maritime approaches have led to frostier military ties. Notwithstanding all these examples of the freeze in bilateral relations, perhaps the most dramatic is China's campaign of economic coercion. Set to enter its third year in May 2022, Beijing has pursued a sustained and severe campaign of trade restrictions against a wide array of valuable Australian exports.

The pain of parlous Australia-China relations

At least nine Australian exports have been targeted. Australian beef, barley, cotton, coal, timber, sugar, lobsters, copper, and wine exports have all been slammed with punitive trade restrictions. These trade barriers have reduced to zero the value of some of Australia's most lucrative exports to its biggest export destination – worth in total more than A$24 billion in 2019.[112] The value of Australia's exports to China has largely held up at the aggregate level: the value of goods exports to China only declined by roughly 2% to A$146 billion in 2020 from a record high of A$148 billion in 2019. But assessments of the overall costs to the Australian economy are significant: in the range of A$7 billion to A$10 billion by early 2021.[113]

The nine confirmed targets of China's trade restrictions saw their export value to China drop by as much as 78% in 2020, with exports of coal, barley, and copper ores and concentrates being slashed to zero by 2021. These key goods exports to China were still flatlining at zero in the latest trade data from late 2021 and early 2022. Meanwhile, the value of all other targeted exports to China slumped. Given that this includes other high-value exports, such as beef, wine, and cotton, which were all worth more than A$1 billion per annum in 2019, these drops in export values are a dramatic disruption of Australia's trade.

Even exporters of broadly fungible commodities, such as coal, copper ores and concentrates, and barley, have had to forgo the premium associated with exporting to the massive Chinese market, albeit in most cases while finding alternative export markets.[114] Meanwhile, select exports geared towards the Chinese market, notably premium Australian wines and lobsters, have either been unable to find alternative markets or have been forced to sell on the domestic Australian or other international markets at significantly discounted prices. For example, industry reports indicated that lobsters that would have been exported to China in late 2020 were sold on the domestic Australian market for approximately 30% of their sale price on the Chinese market.[115]

Raising resilience and enforcing rules

In response to the bite of trade restrictions, Canberra has refused to either offer concessions aimed at placating Beijing or enacting punitive counter-coercion measures against the Chinese economy. Instead, Australia has sought to raise its resilience via trade diversification, while also seeking to re-

[111] Xi Jinping, "House of Representatives Address by the President of the People's Republic of China," Commonwealth of Australia, Canberra, 17 November 2014. https://parlinfo.aph.gov.au/parlInfo/genpdf/chamber/hansardr/35c9c2cf-9347-4a82-be89-20df5f76529b/0005/hansard_frag.pdf;fileType=application%2Fpdf.

[112] Unless otherwise specified, figures in this paper are based on the author's calculations of official Australian government trade data, which is available here: Department of Foreign Affairs and Trade, "Trade statistical pivot tables," 2022, https://www.dfat.gov.au/about-us/publications/trade-statistical-pivot-tables; Department of Foreign Affairs and Trade, "Direction of goods and services trade," 2022; https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data.

[113] Roland Rajah, "The big bark but small bite of China's trade coercion," The Interpreter, 8 April 2021, https://www.lowyinstitute.org/the-interpreter/big-bark-small-bite-china-s-trade-coercion; Ron Wickes, Mike Adams, and Nicolas Brown, Economic Coercion by China: the impact on Australia's merchandise exports. Adelaide: The University of Adelaide, 2021, https://iit.adelaide.edu.au/ua/media/1479/wp04-economic-coercion-by-china-the-effects-on-australias-merchandise-exports.pdf. Estimates vary and are challenging to calculate given the counterfactuals of what would have occurred in the absence of China's economic coercion.

[114] James Laurenceson and Thomas Pantle, Australia's export exposure to China: Assessing the costs of disruption, The Australia-China Relations Institute, Sydney, 2021, https://www.australiachinarelations.org/sites/default/files/Australia%27s%20export%20exposure%20to%20China-%20assessing%20the%20costs_JL%20and%20TP.pdf; Scott Waldron, Victor Ferguson, and Darren Lim, "Market adjustments to import sanctions: Lessons from Chinese restrictions on Australian trade, 2020-21," SSRN, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3945451.

[115] Steven Schubert, "Victorian rock lobster industry 'on its knees' in ongoing China trade dispute," ABC News, 20 February 2021, https://www.abc.net.au/news/2021-02-20/victorian-rock-lobster-industry-suffers-in-china-trade-dispute/13174912.

medy China's coercive practices by appealing to both international trade law and diplomatic norms.[116] Australia's trade diversification efforts have focussed on export-promotion initiatives in emerging and established markets, additional market access, and government loans targeted at exporters impacted by economic coercion.[117] These measures have included additional Australian government representatives to promote Australian exports in key markets, ongoing efforts to negotiate access in alternative markets via new and expanded free trade agreements (FTAs), and small loans for exporters to enter and expand operations in other markets.[118]

On the trade law front, Australia has sought remedy via World Trade Organisation (WTO) dispute resolution processes. In response to China's formal anti-dumping and countervailing duties against Australian barley and wine, Australia has initiated ongoing WTO dispute resolution processes, which a range of likeminded partners have joined as Third Parties.[119] Australia has also made numerous unilateral criticisms of China's economic coercion and issued bilateral joint statements raising concerns about economic coercion with more than 11 countries and multilateral organisations.[120] Although most of these joint statements do not explicitly refer to China, they would probably be understood by Beijing as thinly veiled criticisms of its behaviour and are designed to impose reputational costs on China.[121]

The benefits and limitations of Australia's responses

On one level, Australia's responses to China's economic coercion have been unsuccessful. At the time of writing, some of Australia's most valuable exports, such as coal and copper ores and concentrates, were still being entirely blocked from the Chinese market. Moreover, there are currently few indications that trade restrictions will ease in the near term. But changing China's behaviour is not the only measure of effectiveness. From the point of view of the value of Australia's exports and Canberra's overarching goal of supporting the rules-based international order, Australian policy responses appear more favourable. As per successive authoritative policy documents and a long record of leader- and ministerial-level statements, Australia supports the rules-based international order.[122] This broad concept encompasses the United Nations, international law, and the WTO-centred global trading system, among other norms and rules. Maintenance of this order is considered "essential for Australia's security and prosperity".[123]

Australia's efforts to raise resilience and enforce rules are not only consistent with the broad principles of this rules-based international order, but also in many cases incrementally strengthen this system. Responding to China's economic coercion via WTO processes buttresses the rules-based global trading system, while efforts to enhance the power of diplomatic norms against coercive practices solidify the normative basis of the rules-based international order. Trade diversification measures such as efforts to support exporters find new markets do not directly serve the rules-based global trading system. But these measures are at the very least not inconsistent with the rules-based international order. Moreover, to the extent that this system seeks to enhance global economic connectivity, these trade diversification measures will produce outcomes that complement the rules-based international order.

Australia's export redirection

Australia's policy choices have also likely been made easier by the relatively fast and successful redirection of Australian exports.[124] Just as China has been able to find alternative suppliers, so too have most Australian exporters been able to find alternative markets.[125] Take the case of Australia's previously large wine exports to China. Although their value collapsed with the November/December 2020 introduction of anti-dumping and countervailing duties, their value to the rest of the world has steadily climbed since January 2021, despite exports to China flatlining.[126] It remains to be seen whether this rising value will fully offset the loss of the large and lucrative Chinese market. But the data so far suggests that a significant amount of export redirection has already occurred since China shut Australian wines out of its market. This story has been replicated in other industries targeted by China's trade restrictions. Despite Australian exports of

116 Dan Tehan, "National Press Club Address – Economic statecraft in a challenging time," Minister for Trade, Tourism and Investment, 22 September 2021, https://www.trademinister.gov.au/minister/dan-tehan/speech/national-press-club-address-economic-statecraft-challenging-time.

117 See, for example, "Agribusiness Expansion Initiative," Business Envoy, July 2021, https://www.dfat.gov.au/about-us/publications/trade-investment/business-envoy/july-2021/agribusiness-expansion-initiative.

118 See, for example, "Grants to boost Australian exporters' global growth," Minister for Trade, Tourism and Investment, 16 August 2021, https://www.trademinister.gov.au/minister/dan-tehan/media-release/grants-boost-australian-exporters-global-growth.

119 "WTO panel to be established in barley dispute." Minister for Trade, Tourism and Investment Minister for Finance, 28 May 2021, https://www.trademinister.gov.au/minister/dan-tehan/media-release/wto-panel-be-established-barley-dispute; "WTO action to defend Australia's wine makers," Minister for Trade, Tourism and Investment Minister for Finance, 19 June 2021, https://www.trademinister.gov.au/minister/dan-tehan/media-release/wto-action-defend-australias-wine-makers.

120 "Australia's diplomatic campaign against economic coercion," Beijing to Canberra and Back, March 2022, http://beijing2canberra.org/australias-diplomatic-campaign-against-economic-coercion/.

121 Dan Tehan, "Interview – Bloomberg," Minister for Trade, Tourism and Investment, 23 July 2021, https://www.trademinister.gov.au/minister/dan-tehan/transcript/interview-bloomberg.

122 2016 Defence White Paper, Commonwealth of Australia, Canberra, https://www1.defence.gov.au/sites/default/files/2021-08/2016-Defence-White-Paper.pdf; Foreign Policy White Paper, Commonwealth of Australia, Canberra, https://www.dfat.gov.au/publications/minisite/2017-foreign-policy-white-paper/fpwhitepaper/pdf/2017-foreign-policy-white-paper.pdf, 2020 Defence Strategic Update, Commonwealth of Australia, Canberra, https://www1.defence.gov.au/sites/default/files/2020-11/2020_Defence_Strategic_Update.pdf.

123 2016 Defence White Paper, Commonwealth of Australia, Canberra, https://www1.defence.gov.au/sites/default/files/2021-08/2016-Defence-White-Paper.pdf

124 The extent of this economic cushioning resulting from relatively successful export redirection has only become clear since the introduction of China's trade restrictions. As such, notwithstanding policy planners and economists foreseeing some level of natural export redirection, such redirection may not have been a significant motivating factor for the Australian government to pursue resilience and rules-enforcement measures.

125 Su-Lin Tan, "China's imports of US coal, Canadian barley continue to climb amid ban on Australian exports," South China Morning Post, 30 April 2021, https://www.scmp.com/economy/china-economy/article/3131652/chinas-imports-us-coal-canadian-barley-continue-climb-amid.

126 Benjamin Herscovitch, "Diplomatic signalling, no negotiating, and export redirection (again)," Beijing to Canberra and Back, 3 March 2022, https://beijing2canberra.substack.com/p/diplomatic-signalling-no-negotiating.

barley, coal, and copper ores and concentrates to China crashing to zero, the value of exports of these commodities to other markets has risen sharply. The overall value of Australia's coal exports in June 2021 (when coal was entirely excluded from the Chinese market) already eclipsed its value in May 2020 when coal exports to China spiked to just shy of A$1.5 billion. Surging global coal prices since mid-2020 have likely played a significant role in the rising value of Australian coal exports to the rest of the world. Nevertheless, rising coal prices alone do not account for the way in which the aggregate value of the nine Australian exports targeted by China's trade restrictions had by November 2021 far surpassed their April 2020 value prior to China's trade restrictions. Although the monthly value of these exports to China in November 2021 was approximately 9% of its value in May 2020, the value of these same nine exports to the rest of the world in November 2021 was approximately 267% of its value in May 2020.

Conclusion

Faced with the dilemma of making political and policy compromises to placate China or passively enduring the costs of Beijing's economic coercion, Canberra has chosen a third course. Australia has sought to make its economy more resilient by supporting its exporters to redirect to alternative markets while also seeking to use the rules-based global trading system and diplomatic norms to respond to China's coercive practices. Canberra's efforts to build resilience and seek redress will, of course, neither yield immediate compensation nor avoid all costs. But Australia enjoys a key structural advantage. While Canberra waits for WTO processes and government-led trade diversification measures to do their work, many of the largest impacted Australian exporters have been able to take advantage of dynamic global markets to redirect to alternative buyers.[127]

Just as Australia's status as an economically liberal trading nation paved the way for the country's export dependence on China and accordingly made it vulnerable to Beijing's trade restrictions, it has equally cushioned the blow of economic coercion by ensuring that Australian exporters can find alternative international markets. China has the economic clout and determination to pursue punishing campaigns of economic coercion against countries that defy its will. But the Australian experience suggests that the reality of China's economic coercion need not be as bad as the ominous threat portends.

USA

Sascha Tamm

Preliminary note

The character of U.S.-China relations is different from that of China's relations with smaller and economically weaker states. China has significantly less pressure potential than in these relations. At the same time, the U.S. exerts considerable pressure on China in various fields. The following brief analysis has been adjusted accordingly.

The relationship between the USA and China

The U.S. sees China as by far the most important global competitor. This trend began at the latest under President Obama and has support on both sides of the political spectrum. The term „Great Power Competition" neatly summarises the evolving relationship between the two states.[128] In addition, there is extensive criticism of human rights violations and, more generally, of China's evolution toward totalitarian one-party rule. As a result, China is seen less and less as a partner by the U.S. and today almost exclusively as a threat. This is evident in a number of areas. Apart from the dynamic expansion of Chinese military strength through huge investments, there are several factors in the field of economics that are perceived as a threat. Most important among these is unfair competition from Chinese companies, which enjoy significant advantages over their U.S. competitors through subsidies and partial home market protection. Closely related to this is the criticism that intellectual property and other investments by U.S. companies in China are inadequately protected. Finally, there are concerns that China and Chinese banks and companies could use the large amounts of U.S. Treasury bonds they hold to exert pressure.

From China's perspective, the U.S. claim to global power and influence is seen as an obstacle to its own goals in the economic and political spheres. China defends its right to economic intervention and regulatory mechanisms in its home market. This is even more true of the Chinese leadership's brutal crackdown on ethnic and religious minorities and its suppression of freedom of expression and pro-democracy movements. These are, of course, assessed quite differently by the Chinese leadership, but above all, they are described as purely domestic matters. Finally, China maintains that Chinese companies are nothing more than private enterprises and are not used for strategic and threatening actions in other countries.

127 Although beyond the scope of this paper, it is worth highlighting that Australia has also significantly benefitted from China having primarily targeted broadly fungible commodities (e.g., coal) that can be relatively easily redirected to alternative international markets.
128 On the parameters and controversies about „Great Power Competition": Joseph S. Nye, Jr.: America's New Great-Power Strategy, 2021 https://www.project-syndicate.org/commentary/us-china-new-great-power-strategy-by-joseph-s-nye-2021-08?barrier=accesspaylog.

At the same time, the economic ties are (still) very close.[129] China is the U.S.'s most important foreign trade partner, even ahead of neighbouring Canada and Mexico. The same is true in reverse: the U.S. is also China's largest foreign trade partner. This gives both sides leverage for economic pressure. But it also gives them incentives to avoid too much disruption of the trade relations so as not to jeopardize their own economic development.

Cases of economic or political coercion exerted by China and the USA

The U.S. exerts economic pressure on China with different justifications and different methods. Economic sanctions to protect the Uyghur minority include, for example, a ban on trading with the Xinjiang Uyghur Autonomous Region. American companies are exempt only if they can prove that forced labor did not play a role in the production of the goods they trade. In addition, sanctions were imposed on individuals responsible for serious human rights violations against Uighurs.[130]

In 2018 and 2019, under Donald Trump's presidency, existing trade and economic policy differences mentioned above turned into an outright trade war, which included, for example, hefty special tariffs on certain Chinese export goods. As a result, after intensive negotiations, the so-called Phase One Agreement was reached, which takes up some of the American criticisms, but also opens up stronger export opportunities for China. The U.S. is pressing China to meet all its obligations under the agreement.

From a strategic and security perspective, President Biden has banned American businesses from investing in 59 Chinese companies that are closely linked to the military and intelligence services. The U.S. is also trying to convince its partners around the world, including Germany and the entire EU, to exclude Chinese companies from expanding their critical infrastructure, especially in the field of information technology.

Mutual reactions to pressure and threats from the other side

China has responded to US economic pressure in different ways. The sanctions for human rights violations have seen a blunt rejection and counter-sanctions against American individuals and entities, including former Secretary of Commerce Wilbur Ross and former Secretary of State Mike Pompeo[131].

However, apart from these more symbolic acts, China is often willing to negotiate on specific issues. These negotiations are not easy, but there is great interest in markets for Chinese exports that are as open as possible. That is why the Chinese leadership is ready to make some concessions, at least on paper. Both sides know that their economies could hardly function without close ties with each other.

At the same time, efforts can be observed on both sides to become less dependent on potential threats from the other side. This is especially true in fields of high strategic importance. China is pushing research[132] and development in areas where American companies still have a clear advantage. The USA, on the other hand, wants to break away from China in certain areas of the economy, such as the steel industry. It remains to be seen how this will affect the complex supply chains in the globalised world economy.

Assessment of the response, factors affecting success and failure

The effectiveness of the pressure exerted by the U.S. on China must be judged in a differentiated manner. It is obvious, for example, that sanctions imposed for human rights violations have no direct influence on the behaviour of the Chinese leadership. At the same time, it can be observed that companies can be persuaded to change their supply chains and thus increase the pressure for change.

Two things became apparent during the negotiations on the Phase one trade agreement: first, the Chinese leadership is very much interested in long-term trade relations and cannot do without the United States as a trading partner. For this reason, compromises are sometimes made that contradict the domestic economic policy orientation. Second, however, it also became apparent that the United States' trade policy is currently not primarily oriented toward the development and implementation of general rules and towards for free trade, but rather toward the enforcement of national, often particular domestic political interests.

A critical aspect not to be forgotten is that the U.S. does not use the WTO's dispute settlement mechanisms, which are applicable to various problem areas. Under President Trump, these have even been effectively blocked. In doing so, the United States is giving up an instrument that can be very useful for them and even more so for their allies.

[129] For an overview see: https://sgp.fas.org/crs/row/IF11284.pdf.
[130] For details of the sanctions see: https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/24/fact-sheet-new-u-s-government-actions-on-forced-labor-in-xinjiang/.
[131] https://www.reuters.com/world/china/china-imposes-counter-sanctions-former-us-commerce-secretary-ross-others-2021-07-23/.
[132] On the strategies applied by China see: https://www.economist.com/business/china-wants-to-insulate-itself-against-western-sanctions/21807805.

Lessons learnt for the EU?

Policy proposals for a strategic response to Chinese coercion

Jan Weidenfeld

The European Union and its member states have already taken important steps to increase Europe's resilience in the face of Chinese economic and political coercion. Various measures aimed at bolstering the EU's economic security have been in the making for years, with the anti-coercion instrument (ACI) that the European Commission presented in December 2021 constituting a key measure.[133] The EU institutions and EU member states have also expanded resources in relevant ministries and intelligence agencies and even created new institutions to detect and counter malign Chinese political influence and disinformation. As a result, awareness of such activities has grown across the EU.

However, this is not a time for complacency. The country case studies in this volume suggest that past Chinese announcements of economic punishment did not always translate into decisive action and hence painful economic effects. The recent experiences of Australia and Lithuania also demonstrate that even in cases where China is serious about pursuing economic coercion through trade and investment restrictions the effects can at least be partially contained and even be made up for over time, for instance, by diverting exports to other markets or sourcing capital from like-minded partners. However, the EU and its member states would be ill-advised to underestimate the depth and breadth of risks that future episodes of Chinese economic coercion pose. Beijing is more willing than ever to pay a high economic price for pursuing its political goals, specifically when core interests regarding Taiwan, Hong Kong, or Xinjiang, are at stake. At the same time, Beijing explores new economic coercion tools and approaches. China's pressuring of third country multinational companies to stop trading with Lithuanian entities in relation to the ongoing dispute over an upgrading of Taiwan's representation in Vilnius is a case in point.

Avoiding confrontation with China is unlikely to prove a viable strategy in going forward. China's willingness to engage in a more aggressive use of economic coercion comes at a time when European publics are increasingly weary of the Chinese Communist Party's violation of human rights, fundamental freedoms, and minority rights at home as well as its more assertive posture in international affairs, including Beijing's de facto support for Russia's war in Ukraine. In light of these developments, it seems increasingly doubtful that the "politics of self-constraint" that Greece, for example, has pursued in the past when it comes to criticising China and Chinese policies will be sustainable. Similarly, past efforts by several German governments to erect a firewall between economic cooperation and difficult human rights issues, which were often parcelled out to German-Chinese dialogue formats, seem increasingly untenable.

The EU and its member states must expedite preparations for strengthening their economic security and resilience capacities in the face of what are likely to be more frequent and more consequential episodes of Chinese economic coercion. **As the case studies of EU member states and like-minded partners in the Indo-Pacific in this volume show, at least three elements can be critical in successfully managing episodes of Chinese economic coercion.**

First, the EU and its member states need to strengthen coordination and resilience to cope more effectively with Chinese economic coercion:

→ **The EU and its member states should engage in more structured intelligence sharing regarding Chinese economic coercion practices and effective responses, also drawing on the input of like-minded countries.** Specifically, EU institutions and member states should create a hub for gathering economic intelligence and exchanging relevant information. In doing so, they can learn from like-minded partners. For example, Australia already benefits from government structures that provide regular economic intelligence and strategic assessments of China's economic coercion intentions, strategies, and capabilities as well as Australia's own economic vulnerabilities.

→ **The EU institutions must put in place mechanisms to coordinate EU solidarity in the face of economic coercion.** EU member states should consult each other on an ad hoc basis when one of them is subject to economic coercive measures in order to signal solidarity with targeted member states as well as dissatisfaction to China. Learning from missed opportunities in the case of Lithuania, for example, the EU should send coordinated messages during future episodes of economic coercion that any Chinese measures aimed at undermining the single market are unacceptable and that the cooperation agenda between the EU and China is massively impaired if this key element of European integration is not respected.

[133] https://trade.ec.europa.eu/doclib/docs/2021/december/tradoc_159958.pdf

→ **The launch of new tools and mechanisms that are aimed at strengthening the EU's economic resilience, specifically the ACI, should be expedited.** The European Commission's ACI proposal remains contested among member states. The legislative procedure might therefore take still a considerable number of negotiations and drafting before the ACI can be voted on. EU member states should pull together to make sure that this process is expedited as much as possible. At the same time, in order to build up a credible track record in the sphere of anti-coercion, the EU and its member states must be fully prepared to impose the restrictions on financial services, trade, and investments envisaged by the ACI when warranted.

Second, where feasible, markets and supply chains must be diversified away from China:

→ **The EU and its member states should create tangible incentives for industries and companies to diversify their global markets, supply chains, and sources of investment.** Calls for the diversification of markets and supply chains away from China have been a commonplace in EU and EU member state Asia and Indo-Pacific strategies of recent years. However, these calls have rarely been met with tangible action. In deploying such action, other EU member states might look to Lithuania. Faced with Chinese economic coercion, the Lithuanian government has not only opened up new diplomatic and trade representations in several countries along the Indo-Pacific, but it has also created dedicated financial facilities to encourage Lithuanian businesses to develop new export markets. While not necessarily easily reproduceable, Lithuania also secured new sources of inbound investment, as Taiwan set up a $200m fund to invest in Lithuanian businesses and to boost bilateral trade. The EU and its member states might also look to Australia for measures to put market diversification into practice. The Australian government has handed out small loans to exporters developing new markets and tried to expand access for Australian businesses in alternative markets through negotiating additional and expanded free trade agreements.

→ **The EU and its member states should devise a facility for providing financial support to companies most affected by Chinese economic coercion.** This would entail the introduction of emergency relief funds as well as longer-term support schemes for the diversification of supply chains and markets. If such measures cannot be integrated into the ACI, member states must be prepared to act on a less formal, ad hoc basis. In doing so, they might want to study the way Australia has offered government loans to Australian exporters impacted by Chinese economic coercion.

→ **The EU should mainstream project-based elements aimed at the diversification of markets and supply chains into the implementation of its strategies for engaging third countries, especially those related to connectivity.** The EU's Global Gateway and Indo-Pacific strategies offer important reference frameworks for strengthening partnerships that can help diversify the EU's economic relations, especially if initial connectivity projects are chosen strategically and are implemented swiftly.

Third, in countering Chinese economic coercion, the EU and its member states must leverage international partnerships as well as international institutions and rules:

→ **The EU should continue to make use of relevant international fora when tackling episodes of economic coercion.** As it did with launching a WTO case against China over discriminatory trade practices in relation to Lithuania, the EU should adhere to the WTO and its principles to deal with Chinese economic coercion, wherever possible and likely to yield results. The EU should also continue to lend support to like-minded partners in relation to WTO cases, as it has, for example, with supporting Australia in response to China's anti-dumping and countervailing duties against Australian barley.[134]

→ **To raise the reputational costs associated with episodes of economic coercion for Beijing, the EU and its member states should raise international awareness of China's activities.** As the country case studies in this volume shows, Australia has issued numerous criticisms of China's economic coercion in international fora and expressed concerns about economic coercion in bilateral joint statements, thereby raising international awareness of Chinese practices.

→ **The EU and its member states should proactively coordinate international support for countries affected by Chinese economic coercion through relevant fora of like-minded partners, such as the OECD.** The establishment of a dedicated working group in the Transatlantic Trade and Technology Council could help promote greater alignment between the EU and the U.S. when it comes to dealing with episodes of Chinese economic coercion.

→ **The EU and its member states should initiate and engage in more structured dialogues with like-minded economies on dealing with Chinese economic coercion.** By engaging with partners in the Indo-Pacific, like Australia or Taiwan, EU member states cannot only build the foundation for seeking support in the event of economic coercion episodes, but they can also learn from these partners what works and what does not when it comes to dealing with Chinese economic coercion.

As the contributions to this volume underscore, **Chinese coercion is not limited to the economic dimension alone but also involves malign political influencing activities.** Some segments of political and business elites in European countries, like the Czech Republic, Germany, or Greece, have already been captured by China, while European civil society representatives and academics critical of China have been

[134] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds598_e.htm.

put under pressure, including through the imposition of Chinese sanctions. The evidence from the country case studies also shows that China has made efforts to sway wider public opinion in favour of its own policy priorities. Not least the war in Ukraine has underscored China's growing role as a sponsor and promoter of disinformation in Europe. China's state-backed media have frequently taken up and reinforced Russian propaganda and disinformation in relation to the conflict, including denials of atrocities and the attribution of blame to the U.S. and NATO.[135]

Awareness of Chinese political influencing efforts has grown steadily in European capitals in recent years, and the EU institutions have put in place mechanisms to call out Chinese (and other) disinformation campaigns. However, EU member states need to remain vigilant. **The case studies of EU member states and like-minded partners in the Indo-Pacific presented in this volume hint at two critical elements in dealing with malign Chinese political influence.**

First, EU member states need to facilitate and promote awareness and transparency in relation to Chinese political influencing efforts:

→ **The EU should promote awareness raising programmes and activities for parliamentarians and senior public officials at national and sub-national level.** Chinese political influencing strategies are often successful because they go undetected, due to a lack of awareness of Chinese aims and strategies among political decision-makers. The cases of the Czech Republic and Hungary underline that opposition parties often play a critical role in exposing Chinese political influencing activities. However, in order to exert effective political scrutiny in relation to Chinese political influence activities, they also need to be made aware of aims and mechanisms.

→ **Chinese political influencing efforts should be the subject of regular debates in national and sub-national parliaments.** The relatively high level of awareness of Chinese political influencing efforts in the Czech Republic, for example, is a result of the opposition parties having regularly raised the issue in parliamentary debates.

→ **EU member state intelligence agencies should regularly release public reports about the scope, intensity, and nature of Chinese political influencing efforts.** If providing concrete examples of influencing activities, as has been the case, for instance, in the past by the German and Lithuanian intelligence agencies, such reports can help create greater public awareness.

→ **European governments as well as foundations and other philanthropic actors should further bolster existing funding of investigative journalism, research and civil society actors covering and countering Chinese political influencing activities at the national and sub-national level.** As the country case studies from the Czech Republic and Hungary show, independent journalism as well as a vibrant and highly aware civil society scene often have a critical role to play in uncovering malign political influence and mobilising political and civil society responses.

Second, investments in countering disinformation more rapidly and strengthening the media literacy of European publics are critical:

→ **The EU institutions and relevant EU member state bodies should put in place mechanisms to respond and correct disinformation in real time.** The target set for Taiwanese ministries, for example, to address disinformation within two hours upon discovery could serve as a yardstick. However, such an ambition would not only require even closer collaboration between European government ministries and relevant social media platforms, but also a considerable expansion of public sector resources to monitor relevant social media platforms.

→ **EU member states should promote national alliances and campaigns for media and disinformation education.** Akin to the Taiwanese approach discussed in the country case study in this volume, relevant government departments and civil society organisations working on media and digital themes as well as education could come together to develop curricula and delivery campaigns for fighting disinformation and increasing media literacy among a wide spectrum of societal stakeholders. Also, media literacy training should be offered in all high schools across Europe in a regular and compulsory manner.

The episodes of Chinese economic and political coercion discussed in the country case studies in this volume highlight the challenges that lie ahead in the relationship with China, especially as Beijing is more willing and able to escalate when its key interests are at stake. In facing these challenges, the EU and its member states can and must learn from each other and from other like-minded countries to rapidly bolster their economic and political resilience.

[135] https://www.euractiv.com/section/digital/news/russia-and-china-align-on-war-disinformation-eu-service-says/.

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