

Strategic Analysis Paper

10 June 2021

The Challenges to China's National Rejuvenation Part Two: The Failure of China's Foreign Relations

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Key Points

- China's aggressive behaviour has caused its standing in many democracies to plummet.
- It has also increased suspicion of China's objectives in those countries.
- Several countries are enacting measures to reduce China's influence within their borders.
- They are also beginning to act together to counter China.

Summary

As the [first part of this paper](#) showed, the United States has, as a consequence of its heightened distrust of China, taken a hard line against it by restricting critical technology flows to Beijing. It has [called on "like-minded" democracies](#), including Taiwan, to re-structure global supply chains and move away from their reliance on Beijing. That aside, Beijing will be alarmed by [NATO's pivot to China](#), the US Department of State's proposal to create a [formal alliance, similar to NATO](#), with India, Japan and Australia, Washington's decision to continue President Trump's [revised stance on Tibet](#) and, arguably most importantly, the [Senate's vote to pass a bill to enhance technological competition](#) with it. As [Kurt Campbell said](#), 'a period that had been broadly described as engagement has come to an end'.

While the Chinese Communist Party (CCP) may have expected the hardening stance of the US, it was likely more than taken aback by the European Union's increasing antipathy

towards it. General Secretary Xi's goal in Europe was to prevent the EU from joining forces with the US to oppose China. He despatched Foreign Minister Wang Yi on a five-stop tour of the EU to prepare for a video-conference between the CCP leaders and the heads of the EU. In Berlin, however, [things did not go as Mr Wang planned](#). He castigated a Czech delegation, led by the President of the Czech Senate, Milos Vystrcil, for [visiting Taiwan](#) and warned that the latter would "[pay a heavy price](#)" because he had made an enemy of 1.4 billion Chinese people. That comment led Mr Heiko Maas, Germany's Foreign Minister, who was standing beside Mr Wang, to retort that 'We, as Europeans, act in close co-operation', demand respect and that 'threats don't fit in here'. Other EU politicians, including those from Slovakia and France, backed Mr Maas's comment. It was a local Czech mayor, however, who truly captured that mood. In a letter to Mr Wang, he demanded an apology from China within twenty-four hours. His diatribe is available [here](#).

Like the US and the EU, Australia, Canada, India, Italy, Japan, the Philippines, New Zealand, South Korea, the UK, and many other countries are also rising up against China's predations.

This part of the paper will examine some of the measures that countries are taking to reduce their ties to China. By doing so, it will demonstrate that China is becoming increasingly isolated from developed countries, which places its economy at further risk and has the potential to derail General Secretary Xi's overall plan to rejuvenate China. If that were to occur, it would put China or, more specifically, General Secretary Xi Jinping and the CCP, under even more pressure, thereby elevating further the risk of kinetic conflict between China and the Western democracies and their allies.

Analysis

The first part of this paper showed that the US, recognising the danger that China posed to its global leadership, has begun to act to, first, lift its economy and, second, to block China's goal of offering its authoritarian model of governance. That model is predicated on people foregoing some of their freedom in exchange for economic gain. It is based, in turn, on technological leadership in fields such as artificial intelligence, bio-technology and suchlike, all of which have a common dependence: semiconductors, otherwise known as chips, which are used in computers. The US has, therefore, initiated reforms to ensure that it retains its hegemony in the manufacture of those semiconductors. Those initiatives, coupled with China's demographic trends, could act to block China's goal of becoming the world leader. Anti-China hawks in the US Government are working with those who were [previously considered dovish](#) to hinder China's efforts in that endeavour and President Biden, having expanded the Trump blacklist of Chinese companies, could [further expand](#) that list.

The US also recognises that it cannot contain China's rise by itself. The Biden Administration, in contrast to its immediate predecessor, has started to work with like-minded democracies around the world to ensure that China adheres to the established rules and norms of the international system that have obtained since 1945. The administration's goal is to ensure that all countries have equal opportunity and that internationally-accepted norms and institutions cannot be manipulated by any country in order to advance its agenda.

Washington has, accordingly, begun to work with the EU to force China to abide by those laws and norms, once again in contrast to the Trump Administration, which sought to ensure its primacy unilaterally. Its initiatives in that respect appear to be working. It is working, simultaneously, with [NATO](#) to counter China.

The EU, led by Germany, entered into an in-principle agreement with China for mutual investment. The US objected to the Comprehensive Agreement on Investment between them, but German Chancellor Angela Merkel brushed that objection aside, saying that the EU had done nothing that the US had not done previously. In her view, the Agreement would give European companies access to the Chinese bodies that formulated manufacturing and other standards, eliminate the forced transfer of technology to Chinese firms and, importantly, force Chinese authorities to be more transparent in their subsidies to domestic companies, thereby enabling a more level field. Following China's decision to sanction several EU officials who criticised its human rights abuses in Xinjiang, however, it is [unlikely that the EU will ratify the agreement](#) (updated [here](#)). As the Trade Commissioner of the EU [noted](#):

We now, in a sense, have suspended ... political outreach activities from the European Commission side. It's clear in the current situation with the EU sanctions in place against China and Chinese counter-sanctions in place, including against members of European Parliament, [that] the environment is not conducive for ratification of the agreement.

On a separate note, an internal EU report is alleged to show that [the EU is increasingly pessimistic](#) about keeping business interests and political concerns separate in the wake of China's "authoritarian shift". It criticises China for failing to keep its promises regarding the opening up of its digital and agricultural markets, addressing steel overcapacity and reining in industrial subsidies. The EU is also worried about other differences that exist between their economic systems and other norms. In a letter outlining the report to the European Council, dated 21 April, European Commission President Ursula von der Leyen and Josep Borrell, the bloc's foreign policy chief, wrote that:

The reality is that the EU and China have fundamental divergences, be it about their economic systems and managing globalisation, democracy and human rights, or on how to deal with third countries. These differences are set to remain for the foreseeable future and must not be brushed under the carpet.

Some of the EU's concerns include China's military threats against Taiwan, its human rights violations (which it continues to deny), against its Muslim population in Xinjiang, its violations against Tibetans and its crackdown on democracy activists in Hong Kong. The internal EU report also notes that China:

... has continued its authoritarian shift with further closure of the domestic political space, increased social controls and repression in Xinjiang and Tibet. China has also cracked down on fundamental freedoms in Hong Kong [which] ... can only have a negative impact on EU-China relations. The EU has clear

interests at stake when it comes to peace and stability in the South China Sea. The recent rise in tensions across the Taiwan Strait should be closely followed.

The EU continues to insist that China “remains fully relevant”, not just as a strategic competitor and systemic rival, but also a “negotiating partner for cooperation” on climate change and “the democratic transition ... in Myanmar.” Any hopes that it seeks a more conciliatory approach to China are dashed, however, by the following statement:

The multi-faceted approach ... should remain as the preferred way for the EU to deal with China. At the same time, further, robust efforts are needed on the implementation of existing actions and to address a number of new challenges.

The EU also published a joint statement with the US last year, [A new EU-US agenda for global change](#), which took aim at China’s delaying tactics in delivering on its promises on trade and market access. It has increased its barriers to Chinese investment in Europe and Chinese dumping of its over-capacity there. Europe appears to be moving towards a more confrontational stance against China than previously. That would align it more closely with the US and would be a solid basis from which to conduct its discussions on China with President Biden when he visits in June for a EU-US summit.

As was noted above, much to his surprise and chagrin, the Chinese Foreign Minister encountered on his tour of the EU a grouping that was prepared to hit back at China if it felt that was needed. Now [Italy](#) appears to be backing away from China’s Belt-Road Initiative and Hungary from Prime Minister Orban’s plan to build a branch of [China’s Fudan University](#) in Budapest.

The EU’s economic and diplomatic stances aside, its member states are also increasing their defences against China. Germany, for instance, plans to [sail a warship](#) across the South China Sea. France despatched a [nuclear-powered attack submarine](#) to that sea in February this year, followed that up with a [frigate and an amphibious ship](#) and took part in [military exercises](#) in Japan with Japanese and US forces. Separately, the [UK despatched its newest aircraft carrier](#), the HMS *Queen Elizabeth*, and its attendant carrier strike group to sail through the South China Sea despite Chinese warnings.

The EU, it would appear, has [shed its illusions about China](#) and has [given up on its plan to attract Chinese finance](#). Worse, the [celebrations](#) among the majority of Members of the European Parliament when the Comprehensive Agreement was suspended would appear to indicate that they were not happy that an in-principle agreement had been reached in the first place. The European Union [unveiled draft rules](#) on 5 May aimed at cracking down on state-subsidised foreign companies in Europe, a move that could allow regulators to pursue big Chinese companies in another sign of Europe’s shifting stance toward China, the EU’s biggest trading partner for goods and a crucial market for its exporters. While the new rules do not single out China, analysts said large Chinese companies are a primary target. The rules would have the effect of curtailing China’s desire to buy up European firms in order to access their technology, a major part of Mr Xi’s plan to make China the global technological

hegemon. The EU also unveiled a plan to [cut its dependency](#) on Chinese suppliers in six strategic areas including raw materials, pharmaceutical ingredients and semiconductors, after the pandemic-induced economic slump. It outlined the urgency of the task, citing its reliance on China for over 60 products used in sensitive ecosystems, mainly raw materials, pharmaceuticals and other products key to its green and digital goals. China made, it would appear, a [huge strategic blunder by imposing sanctions](#) on ten European Union politicians and four other entities.

Further east, Japan has emphasised its [concerns with China's behaviour](#) in the 2021 edition of its Diplomatic Bluebook. The Japanese Government said that China's expansion of its military capabilities that lack transparency and growing unilateral actions to change the *status quo* in the East and South China Seas – a reference to China's activities around the waters of Japan's Senkaku Islands, which China claims and calls the Diaoyu Islands – pose 'strong concerns' in the region and to the international community. It did not take China, ever sensitive to criticism, long to retort to that statement. It castigated Japan the very same day that the Bluebook was made available, saying that Tokyo was 'hying up the so-called China threat, maliciously attacking China and unreasonably interfering in China's internal affairs.' A [Chinese Foreign Ministry spokesman](#) added that:

The Blue Book hypes up the China threat, smears China and interferes in China's domestic affairs. We firmly oppose that and have lodged solemn representation with the Japanese side.

Reiterating China's claim to the Senkaku Islands and denying Japan's, the spokesman said, 'We urge Japan to redress these mistakes and build a stable China-Japan relations with concrete actions.' It was typical that the Chinese claim was automatically assumed to be the correct one. That is predicated on China's perception of itself as being "perennially just". As Andrew Scobell [argues](#), China's history inclines it towards the use of force for two reasons: first, because China is severely influenced by its civilisational history that affects its tendency to use force and, second, because China has a 'unique traditional philosophy'. In Scobell's view, Chinese assumptions about its perennial justness increase its propensity to use force by giving it a 'defensive moral rationale for using force, even offensive force'. That is evidenced by its annexation of Tibet and its threat to use military means to "reintegrate" Taiwan, which it sees as a rebel province. That reasoning explains Beijing's tendency to lecture other countries, a recent example being Yang Jiechi's seventeen-minute diatribe in Alaska on the hypocrisy of the US. It is typical that Mr Yang made that speech with a straight face despite the fact that most, if not all, upper-echelon Chinese politicians send their children to [study](#) and [live](#) in the US and Europe.

China is, nevertheless, anxious about Japan's decision to subsidise the costs of Japanese firms that leave China. Tokyo's decision to offer an initial group of 87 companies subsidies of around US\$653 million (\$845 million) to expand production at home and in South-East Asia has started discussions as to whether it is trying to decouple from China. Echoing China's fears for its economy, one [report notes](#) that:

Although the companies involved are estimated to be less than 1 per cent of total Japanese investment in China, and there will not be an immediate

economic impact, if the trend continues, it might shake the foundation of China's long-term growth model and potentially lead to some hollowing out of the country's industrial base.

The same report points out that:

A survey by Teikoku Databank, a leading Japanese credit research house, showed that there were 13,685 Japanese firms in China at the end of May 2019, down from 13,934 in the previous survey conducted in 2016. At the peak in 2012, there were 14,394 Japanese firms with operations in China.

Major Japanese firms such as Kyocera, Fuji Xerox, Brother and Sharp are relocating some of their production facilities from China to Vietnam and Thailand. Apart from the economic costs associated with the loss of those firms, China is also worried about its loss of "face" in the region. To be clear, as a [UN report](#) notes, China attracted the largest foreign direct investment of any country in 2020, a year in which global foreign direct investment fell by 42 per cent, from US\$1.5 trillion (\$1.9 trillion) in 2019 to US\$859 billion (\$1.1 trillion) in 2020, exceeding investment in the US in the process. Despite China surpassing the US in the flow of foreign direct investment in 2020, however, the total stock of foreign investment remains much larger in the US than in China, according to data compiled by the Organisation for Economic Co-operation and Development. That anxiety will only be compounded by Japan's decision to scrap the [one per cent cap](#) that it placed on its defence spending and its decision to review the operations of the [Confucius Institutes](#) in Japan.

It is, perhaps, a mark of the heightened tensions between the US and China that [Chinese investment in the US has fallen drastically](#). US Secretary of State Antony Blinken cautioned that the West needs to [exercise a great deal of caution](#) in determining the nature of Chinese investments. Some Chinese telecommunications manufacturers, especially Huawei, have long been the subject of that caution, being seen as tools for spying on the West and as a means of putting Western competitors out of business. It came as little surprise, then, that three major Chinese telecommunications firms, China Mobile Ltd., China Unicom (Hong Kong) Ltd. and China Telecom Corp. said that the New York Stock Exchange would apply to the Securities and Exchange Commission for permission to [delist](#) their American depository receipts. That took place as expected. The Biden Administration, it would appear, has few compunctions in following President Trump's anti-China initiatives.

It is not only the US that has banned Huawei, however; Japan, India, New Zealand, Singapore, Denmark, Norway, the Czech Republic, Estonia, Poland, Taiwan and Vietnam have excluded Huawei from their networks. The first country to do so was [Australia](#) in 2018. Now [Italy](#) is taking steps to exclude that company from its 5G telecommunications networks and in [Poland](#) the trial of an ex-Huawei employee charged with spying for the company has begun. If the EU bans Huawei, based on its new stringent checks, [Austria](#) will follow. [Belgium](#) chose a European firm instead of Huawei. [Britain](#) has opted to remove all Huawei equipment from its networks and many [other countries](#) are taking measures to keep Huawei components out of their telecommunications infrastructure. In [Ethiopia](#), a US-backed consortium beat a Chinese-backed one to build a nationwide 5G wireless network.

Economic groupings have added their voices to the growing criticism of China. The Foreign Ministers of the G7, for instance, released a [statement](#) denouncing China's human rights abuses, calling on it to act in accordance with the Sino-British Joint Declaration and its other legal obligations and respect fundamental rights and freedoms in Hong Kong and castigating it for ramping up tensions with Taiwan.

China's relationships with other countries are equally strained, if not more. Australia is a case in point. While the bilateral relationship had begun to deteriorate earlier amid growing unease in Australia of the extent of Chinese influence in its domestic politics, Canberra's [call for a global inquiry](#) into China's handling of the coronavirus outbreak saw the relationship plummet. Furious at having its narrative questioned, China struck back, likely with the intent of making Australia an example of what would happen to other countries if they too questioned its "righteousness". It imposed [tariffs](#) on much of its imports of Australian agricultural products and blocked others. Its fury could only have grown after Australia found [alternative markets](#) for its exports and its allies, especially the US, stated that they would [support Australia against China's economic coercion](#). As US Secretary of State Blinken [put it](#):

I reiterate the United States will not leave Australia alone on the field, or maybe I should say alone on the pitch, in the face of economic coercion by China. That's what allies do. We have each other's backs so we can face threats and challenges from a position of collective strength.

That sentiment was [echoed by the UK](#) and [Members of Parliament](#) and of the global Inter-Parliamentary Alliance on China from Canada, the Czech Republic, Denmark, the European Parliament, France, Germany, Italy and New Zealand.

China's behaviour has led to calls from within the Australian Government for [Canberra to impose its own retaliatory sanctions](#) on China and in conjunction with like-minded democracies to combat China's economic warfare. Canberra has enacted legislation to override agreements that Australian states enter into with foreign countries and has [cancelled](#) the state of Victoria's Belt-Road Initiative partnership agreement with China. It is also [reviewing the 99-year lease](#) of a commercial and military port in the country's north to a Chinese firm, which is also part of Mr Xi's legacy Belt-Road Initiative, and could also [review the sale of Newcastle Port](#) to another Chinese firm.

China's anger is due in large measure to its perception that Australia's withdrawal of its assets from Mr Xi's Belt-Road Initiative could be viewed globally as a loss of face for China. It announced, consequently, that it was [suspending all further interaction](#) with Australia on their Strategic Economic Dialogue due to Australia's [Cold War mindset and ideological discrimination](#). Not to be outdone, the editor of the *Global Times*, the Chinese Communist Party's mouthpiece, went several steps further, [calling on China](#) to 'make a plan to impose retaliatory punishment against Australia once it militarily interferes in the cross-Straits situation.' That 'retaliatory punishment' would include 'long-range strikes on the military facilities and relevant key facilities on Australian soil if it really sends its troops to China's offshore areas and combats against the PLA.' He called, in other words, for China to bomb Australia, a suggestion that is hardly likely to help repair the bilateral relationship. It also

demonstrated the loss of face being felt in China that its coercion against Australia has [not worked](#). In fact, [Australia could be profiting](#) from its trade with China. In any case, it is adopting a more [muscular policy](#) towards China.

Public sentiment against China is also [growing in Canada](#). Apart from Ottawa likely blocking Huawei from its 5G telecommunications infrastructure, it has confined that company's Chief Financial Officer to house arrest over the last year while her petition to the Canadian courts of law not to be extradited to the US is being heard. Private institutions are also acting against China. In complete disregard of Beijing, the Halifax International Security Forum, which receives half of its funding from the Department of National Defence, announced that it would award its 2020 John McCain Prize for Leadership in Public Service to President Tsai Ing-Wen of Taiwan, [saying](#):

Her courage and her fortitude in defending her people against the Chinese Communist Party's aggression are precisely the qualities the John McCain Prize was designed to recognise.

Provincial governments in Canada are also prepared to act to reduce connections to China. When the [University of Alberta](#) announced that it would forge close research ties with China, for instance, the Government of Alberta expressed its alarm and [vowed to take action](#) to curb any such collaboration.

New Zealand, which had previously lectured Australia on respecting China, has now declared that it finds it increasingly difficult to ignore [Beijing's human rights abuses](#). That statement prompted the [now-standard backlash](#) from Beijing, which is becoming increasingly sensitive to its loss of face.

China has not fared any better in South Korea. In 2016, when Seoul announced its decision to install a US missile system, China [banned](#) its citizens from travelling to South Korea, along with concerts and TV appearances by South Korean artists in China, causing South Korean computer-game companies, travel agencies and retail stores much hardship. Anti-China sentiment has risen in South Korea as a result, with a billion-dollar project to build a Korea-China Culture Town in Gangwon province, South Korea, being [scrapped due to strong opposition](#) from members of the public.

China's relationship with India is more or less in free-fall due to Beijing's actions along the Line of Control, the common border between the two countries. Its aggression along the border has led to calls for New Delhi to [re-think its one China](#) and [Tibet](#) policies and to [exploit China's "fault lines"](#).

In the Philippines, President Duterte, who had sought a closer relationship with China even at the expense of its relations with the US, is taking a harder line of late. He [rebuffed a call from China](#) to withdraw vessels from disputed areas of the South China Sea, saying that he would not bow to pressure, even if it jeopardises his friendship with Beijing, and that '[This is where our friendship will end](#).' Those statements followed a rather [colourful tweet](#) from the Philippine Secretary of Foreign Affairs, asking China to leave its EEZ and the disputed

territory in the West Philippine Sea. To be fair, Secretary Locsin apologised when he was informed that only President Duterte was permitted to swear in tweets.

Elsewhere in the western Pacific region, after then-US Secretary of Defence Mark Esper visited Palau at the end of August 2020, the President of Palau, Tommy Remengesau Jr., urged the United States military to [build bases](#) on its territory, an offer that the US has [accepted](#). More recently, Samoa's newly-elected Prime Minister has pledged to [cancel a \\$100 million Chinese-backed port development](#), calling it excessive for the small Pacific island that is already heavily indebted to China.

China's foreign relations are deteriorating rapidly and with them, its standing in the international system. It is probably safe to say that Mr Xi is being assailed on several fronts, economic and political, and is under tremendous [pressure](#) even from within the Party. With nationalism rising in China, Mr Xi could be tempted to engineer a situation that would act as a release valve for the pent-up anger and frustration in China and which would allow him to put the foreign powers that are arrayed against him on the back foot. That gambit could succeed – or, just as likely, fail. Either way, it is unlikely that liberal democracies in North America, Europe and Asia would continue to treat with the CCP if he were to do that. It truly would be the beginning of a divided world, one that runs a heightened risk of further conflict.

Continuing its examination of the many challenges that China faces, the third part of this paper will look at the problems that Russia and Central Asia could present to China as a consequence of its perceived hubris and exceptionalism in Siberia and its human rights abuses in Xinjiang, respectively.

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