Enter the Dragon: the New Global Economic Order and What It Means for Europe

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Trade wars, sanctions, hostile takeovers, currency manipulations – a new economic order is emerging. To paraphrase Clausewitz: the economy is the continuation of war by other means. The world economy has become the key battleground for geopolitical hegemony between the US and China. Roderick Kefferpütz, who works on strategy and technology issues in the Green-led State Ministry of Baden-Württemberg in Germany, argues that Europe needs a strategy to navigate this new economic landscape. As new proposals from the German Greens indicate, progressive politics are more than compatible with an ambitious trade policy that makes sure Europe is not relegated from player to playground. In changing times, a positive trade agenda could even help Europe push its social and environmental model further afield.

The international economic order is in the midst of a tectonic shift. Having built and dominated the global economic landscape for centuries, the West is steadily losing influence. The economic centre of gravity is moving to the East, with China the main force behind this development. In three core economic areas, China is making a run for economic hegemony.

First up: trade. Back in the 1980s China's share of world trade amounted to a meagre one per cent. Fast forward to today and that one per cent has grown into double digits (12 per cent). China has become the world's eminent trade power and is displacing the United States. It is the most important trading partner for more than 130 countries around the world. By 2020, it is expected that China will even supersede the United States as the European Union's largest trading partner. The People's Republic is the world's workshop. It is the biggest producer of hundreds of industrial products and a key exporter of important natural resources. In this context, the Middle Kingdom is the engine of global economic growth. In 2016, this one country alone was responsible for a third of worldwide growth. Economically, China has penetrated every country on earth.

This trend is continuing because, second, China pursues an active foreign economic strategy. Its foreign direct investment has dramatically increased over the years. In 2016 over 180 billion euros was invested abroad , a rise of 40 per cent compared to the previous year. Europe in particular saw many of these investments. Over 35 billion euros – a 77 per cent increase – flowed into European companies in 2016. The vast majority of all of these Chinese investments was made by state-owned enterprises that enjoy cheap access to capital to fund company takeovers. This chequebook diplomacy abated in the last two years as Chinese investment came under increasing scrutiny and China tightened capital controls, but economic interdependence is increasing.

By 2035, China wants to become the world's most important force for innovation

China's grand infrastructure plan – the Belt and Road Initiative (also known as the new Silk Road) – is similarly about expanding economic influence. This Chinese investment drive is a geo-economic bear hug. It aims to ultimately connect more than 60 countries across three continents to China. It will bring together more than 60 per cent of the world's population, the majority of the world's energy resources, and a substantial share of global gross domestic product. This flagship project intensifies China's economic reach into Eurasia and Africa, deepening economic ties and economic dependencies, thereby carving out a new Chinese-dominated economic space. With this initiative all roads will literally lead to Beijing. Joe Kaeser, chief executive of Europe's largest industrial manufacturing company, Siemens, warns that "China's One Belt, One Road, is going to be the new WTO – like it or not."

Third, China is gunning for technological superiority. China's days of being belittled as the world's workshop of cheap, low-quality products are over. The world's workshop is becoming the world's research centre. The era of Western technological supremacy seems to be coming to an end. While Europe's research and development spending was still on an equal footing with China in 2014, the Middle Kingdom has now overtaken Europe and is now responsible for 20 per cent of global spending on research. Huge amounts are invested in key technologies such as artificial intelligence, quantum computing, and biotech. Unlike in Europe, the venture capital market is also booming. Start-ups are mushrooming, with a third of all 'unicorns' (start-ups valued at over 1 billion US dollars) based in China.

By 2035, China wants to become the world's most important force for innovation, and the Made in China 2025 strategy sets the course for this. China aspires to be an international leader in ten key sectors – from biomedicine and robotics to artificial intelligence and alternative car technologies. It is not just about surpassing the West; China wants self-sufficiency. As stated by Chinese President Xi Jinping, "In order to become an internet superpower, we need our own technology. And we have to master it completely". As early as 2020, the share of domestic components in key technological sectors is mandated to be between 50 and 70 per cent of the national market. China is striving for technological autarky, because it knows that imports are its Achilles heel. The country currently buys more semiconductors for its digital industry than oil. China is also exporting its digital technologies to strengthen authoritarian regimes abroad. Beijing is hosting numerous capacity-building workshops for countries in Africa, teaching them how to regulate their digital space, many of which have gone onwards to enact Chinese-style internet controls and cybersecurity laws. Its tech companies are a dictator's dream. Guangzhou-based Cloudwalk Technology, for example, has penned a deal with Zimbabwe to provide the country with a massive facial recognition infrastructure. China's big brother is coming to Africa.

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These three developments are rocking the world economy. China is escaping the traditional global division of labour, in which the West is responsible for high value-added products and China for the rest. Beijing knows that if it wants to keep its economic dynamism going (and thereby keep its population content and autocratic political system stable), it must secure export markets and escape the middle-income trap by becoming a leader in technology.[1]

Its economic expansion is changing the international economic order. And in the end, it is also a power play. First because economic dependencies translate into political influence and second, because China's increasing economic penetration abroad creates a sphere of influence that sidelines the US in the broader struggle for geopolitical hegemony. It is no wonder that North America is the only continent that is not included in China's One Belt One Road initiative. China is following Sun Tzu's *Art of War*: avoid the main power, penetrate the open spaces. It is playing *Wei Qi*, the strategy board game better known as *Go*, in which it is important to encircle territory and control empty spaces, rather than attack your opponent head on, as in chess.

America's answer to China's economic expansion

The geopolitical struggle between the US and China is being played out in the economic sphere. The US-China trade war is not just a trade war. It is one theatre in the grander competition over who will be the world's economic hegemon. The United States does not just want to address its trade deficit with China; it wants to halt China's economic and technological expansion, reverse China's interconnections, and isolate it.

The US's desire to curb China's economic rise explains its recent trade policy moves. In the Northern American Free Trade Agreement (NAFTA) re-negotiations, Trump included a caveat that allows the US to terminate NAFTA if Canada or Mexico signs trade agreements with non-market economies, i.e. China. The United States is also pursuing a policy of "decoupling". It aims to reorient supply chains away from the Middle Kingdom and promote foreign companies leaving China due to extra tariff costs. Some export-oriented manufacturers are already leaving. A UBS survey showed that a third of manufacturing respondents in China had already moved some production out of the country last year and that another third intended to do so this year. On top of that, the US wants to halt China's technological rise by tightening restrictions on exports, limiting Chinese takeovers of high-tech companies, restricting visas for Chinese students studying in high-tech areas, and increasing funding for strategic technologies such as artificial intelligence.

Europe stuck in the US-China competition

Former US Treasury Secretary Hank Paulson warned that an "economic iron curtain" is descending. The question is: on which side of that economic iron curtain will the European Union end up? The EU is stuck in the middle of the US-Chinese economic competition.

China is offering economic carrots – foreign direct investment and access to its massive market. Prior to the EU-China Summit of April 2019, China inked investments deals with France and Italy, and it now allows foreign companies to take majority ownership of joint ventures in China, which German firms are making particular use of.

The US is carrying an economic stick. Washington sees the danger of the EU slipping ever more into Chinese economic dependence. It is no wonder that on the very same day the EU held its EU-China Summit, US President Donald Trump announced tariffs on French, Italian, and EU goods – namely cheese, wine, and Airbus planes. And he continues to threaten to slap tariffs on the EU car industry. Beijing pays, Washington punishes. Trump, in his competition with China, is demanding EU fealty, hoping to circle the Western wagons against China.

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The EU has already toughened its stance on China. French President Emmanuel Macron announced that the era of naivety towards China is over. The EU has strengthened its foreign direct investment screening mechanisms (as previously called for in the *Green European Journal*) and in a recent strategy paper, the EU labelled China a "systemic rival". It also signalled to China that it was willing to walk away from the EU-China Summit without a declaration if it did not get Chinese assurances on reciprocity in market openness, the end of technology transfer, and the reform of the WTO.

The EU is facing a tough balancing act. Both markets – the American and the Chinese – are crucial to the European economy. In countless scenarios the EU could lose out economically. If the US-China trade war escalates, European industry could suffer. Likewise if there is a trade deal. Economists at Barclays estimated that a trade deal could cost the EU 50 billion euros in exports.

Europe shaping the new economic order

Europe's challenge lies in finding a strategic orientation in this new economic order; an order determined more by *realpolitik* than rules, power politics than partnership, and where economics and foreign security policy are inseparable. It must face up to the new economic reality and define its economic place in the world.

First and foremost, it needs to be self-confident, promote its interest, and be willing to take the necessary measures. It is one of the largest markets in the world – that gives Europe economic weight. It does not need to be swayed by the siren song of China's market and should be more confident when dealing with China. China has copied products, stolen trade secrets, forced companies to engage in technology transfer, and conducted cybertheft. That Europe persuaded China to commit to ending such practices is a success, but actions speak louder than words. Europe should be ready to take economic measures if China does not come good on the commitments it made in the EU-China Summit declaration – otherwise, the EU would be nothing less than a sheep in wolf's clothing. Economic relations are a two-way street. Without the EU, China would have not enjoyed its massive growth rates and technological development over these last years. The EU should not forget that.

Second, the EU would do well to open up alternative markets. Africa is a high-growth potential partner right on the EU's doorstep. An economic perspective for Africa together with the EU, would open up massive mutual benefits. India, likewise, is a sleeping giant. A democratic country waiting for an economic break-out moment, which could also be a geopolitical bulwark against China.

Third, Europe needs to stay a technological leader, which means investing in groundbreaking developments such as artificial intelligence, quantum computing and biotechnology. If Europe fails to invest in the innovations of the future, if it no longer plays in the technological 'premier league', then what will be left for it? "Once we have been excluded, there is no second chance", says Germany's former Green Foreign Minister Joschka Fischer.

Europe should also consider tightening its regime for high-tech exports to ensure that strategically important technologies do not flow to countries where they are used to suppress human rights or advance a digital authoritarianism. And it must seriously consider a policy advancing technological sovereignty. Europe should not let its 5G network, the nerve center of the future digitally connected world, be built by China's Huawei, but instead have it built by the European alternatives available. This is also about our democratic and social model. If Europe does not invest in and develop cutting-edge technologies, and regulate and standardise them according to our moral values and democratic principles, others will. That is why we need to develop an ethical framework for such technologies, but it also means actually developing the technologies themselves and deploying them to solve great societal challenges such as climate change.

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Fourth, Europe must be at the forefront of reforming the emerging economic order into a multilateral, rules-based one. It must find partners, such as Japan, Canada, South Korea, and others for such an endeavor.

The Greens in Germany are – in the context of a new party programme – even calling for a social and environmental power politics in trade relations (*sozial-ökologische Machtpolitik*). Those countries that produce in ecologically and socially sound ways, and in line with human rights, should have an advantage when it comes to participating in the EU market. Those that do not should have a disadvantage in the form of tariffs. This policy would turn the European market into a political lever. This is a welcome change from the Greens – putting forward active proposals rather than just criticising and looking to block trade agreements with other countries. Especially given that global politics have entered a new phase in which trade agreements with liberal democratic countries such as Canada, Australia and Japan have become even more important.

Putting feasibility and desirability aside, the fact that the German Greens are making such a proposal speaks to a desire to shape the new economic order with a progressive trade agenda that looks at economic relations also through one of the confrontations that will define the century – liberal democracy against Chinese-style digital authoritarianism.

The world is undergoing an economic upheaval. Long-held rules and institutions are losing strength. Economies are being weaponised and economic spheres of influence established. Europe needs an answer to this new world. If it wants to continue being an economic player rather than playground for great powers, it better come up with one fast.

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[1] The middle-income trap is the situation in which a country's growth slows after reaching middle income levels. According to World Bank estimates, only 13 of 101 middle-income economies in 1960 had become high-income economies by 2008.

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