



# Quo Vadis Global Governance?

## Assessing China and EU Relations in the New Global Economic Order

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## INTRODUCTION: A NEW GLOBAL ECONOMIC ORDER?

The concept of global governance first gained prominence in academic and policy debates in the 1990s. Unprecedented levels of global interdependence after the Cold War ushered in a new era of multilateral collaboration under the leadership of the United States (US). From the outset, global governance served as both an analytical framework and a political programme, seen by many as 'a way of organizing international politics in a more inclusive and consensual manner'.<sup>1</sup> Liberalism provided a powerful normative framework for the post-Cold War world order, prompting Fukuyama to declare the 'end of history'.<sup>2</sup>

Today, the liberal international order is widely seen as in crisis. In light of growing multipolarity, diverging interests and staggering levels of global inequality, old and new lines of contestation have (re)emerged. With intergovernmental organisations gridlocked across policy domains, public trust in these institutions is eroding and global governance is increasingly perceived as an elite project that benefits the few, not the many.<sup>3</sup> Populist leaders around the world have seized on these concerns, most notably US President Donald Trump, who has repeatedly questioned the value of multilateral organisations and likened global governance to 'control and domination'.<sup>4</sup>

Global power structures are also in flux. Even before Trump's ascent to power and the shift towards 'America First', US global leadership was waning as a consequence of deep structural shifts in the global economy.<sup>5</sup> Indeed, global economic governance has undergone profound change in recent years, with the aftershocks of the 2008 global financial crash still reverberating through major international organisations and far beyond. Observers are scrambling to understand the contours of both the familiar and the novel in an unsettled global economic order, placing particular attention on the changing balance of power between advanced and emerging economies, as well as public and private sources of authority.<sup>6</sup> Signs of global economic disorder are particularly visible in the faltering architecture of economic governance, with the multilateral

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<sup>1</sup> Barnett and Duvall (2004), p. 5.

<sup>2</sup> Fukuyama (1989).

<sup>3</sup> Hale, Held and Young (2013); Kahler (2018); Zürn (2018).

<sup>4</sup> Trump (2018).

<sup>5</sup> Acharya (2014).

<sup>6</sup> Drezner (2019).

trade regime rendered inoperative by contestation, and efforts to hold accountable private market actors and constrain the social forces of unfettered globalisation falling short.<sup>7</sup>

Against a backdrop of US retreat from its role as hegemonic stabiliser, the European Union (EU) – the world’s most advanced experiment in governance beyond the nation-state – is struggling to adjust to rapid changes in the global economy while grappling with a number of internal challenges that may weaken support for the European project as a whole. Nevertheless, the European Commission is actively manoeuvring to respond to a new global economic governance landscape. A recent think piece by the European Commission’s Director-General for Economic and Financial Affairs calls upon the EU to shift focus away from “winning the war” – i.e. responding to the 2008 crisis – to “winning the peace” – i.e. overcoming the legacy of the crisis and creating conditions for strong, sustainable, balanced and more inclusive growth’.<sup>8</sup> However, reflective of growing geopolitical turbulence, Europe has also dramatically sharpened its political stance on China’s trade practices. The careful formulation of China as a ‘strategic partner’ in the 2016 EU strategy on China has been replaced by the much more forceful designation of ‘economic competitor’ and ‘systemic rival’ in the 2019 EU-China strategic outlook.<sup>9</sup>

For its part, China increasingly appears to view US retreat as an opportunity to assert its role in global economic governance. Observers have identified the 2008 crisis as a notable inflection point for Chinese ambitions to use economic statecraft as a key plank of its foreign policy.<sup>10</sup> Strategically, China under the leadership of President Xi Jinping has privileged participation in the informal intergovernmental mechanisms of the G20 over engagement with key Western-dominated organisations, such as the International Monetary Fund (IMF), the World Trade Organization (WTO) and the World Bank. This likely reflects longstanding Chinese discontent over the terms of its membership within the WTO in particular, as well as a preference for the more representative and open institutional design of the G20.<sup>11</sup> On the plus side, the rise of China and other emerging markets has significantly broadened participation in global economic governance, but it has also made cooperation more difficult. Despite reassurances from Chinese officials that Western powers have ‘nothing to worry about, as China has been a big beneficiary of the current system and global governance architecture’<sup>12</sup>, many observers view China as a destabilising force in the rules-based international order.

While the great powers retain primacy in economic diplomacy, power and authority in global economic governance is clearly no longer the preserve of states. A growing number of market actors are now involved in global economic policy-making and delivery. This phenomenon is particularly prominent in the field of ‘megaregulation’, augured in by the now defunct Trans-Pacific Partnership (TPP) and finally realised in the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), among other ambitious interstate and transregional economic ordering schemes.<sup>13</sup> Such megaregulatory economic projects have also mobilised significant civil society opposition amidst allegations of corporate capture and elite governance. To understand the internal dynamics of global economic governance, it is not only necessary to incorporate non-state actors, but also to ‘disaggregate’ the state, with different domestic agencies participating quasi-independently in the politics of negotiating and implementing globally defined economic goals.<sup>14</sup> This has opened up space for new forms of collaboration between heterogeneous actors – organising governance in less formal, less legalised, more ‘networked’ ways – but it has also revealed new areas of contestation as authority

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<sup>7</sup> Shaffer (2018); Mattli (2019).

<sup>8</sup> Buti (2017).

<sup>9</sup> European Commission (2016); European Commission (2019a).

<sup>10</sup> Wong (2019).

<sup>11</sup> He (2016).

<sup>12</sup> Yafei (2018).

<sup>13</sup> Kingsbury et al. (2019).

<sup>14</sup> Slaughter (2004).

becomes more diffused and it is increasingly difficult to say who exercises economic power, how and over whom.

Rapid change is a hallmark of global economic governance. Global governance scholars have an important role to play in stepping back from the dizzying speed of real world developments to try and take stock of the situation at hand. At a time when the major international organisations are beset by geopolitics and economic nationalism, there is an evident need to reimagine 'the global as a realm of disputes and confrontation, rather than one driven primarily by interest alignment within multilateral state forums'.<sup>15</sup> Close scrutiny of major structural dynamics is important if we are to begin to decipher clues as to global economic governance futures. This paper offers some modest reflections in this direction, focusing in particular on the interrelationships of two of the major players in global economic governance: China and the EU. It builds upon the discussions of a workshop, hosted jointly by University College London (UCL)'s Global Governance Institute, UCL Laws and CEU San Pablo University Madrid on 22 March 2019. Funded by a Jean Monnet Network grant, it brought together a multidisciplinary group of scholars from the EU and China to discuss global economic governance and regulation across issue areas spanning trade facilitation, investment, competition, tax and environmental concerns.

The study of China-EU economic governance offers a valuable sightline onto areas of innovation for a new generation of global governance scholarship. In particular, by framing key organisations and initiatives as sites of intervention and contestation, scholars can shed light on the endogenous causes of conflicts and struggles as functions of international organisations themselves, as opposed to 'seeing global politics as an epiphenomenon of struggles between independent units'.<sup>16</sup> We evidence this through showcasing two key domains of China-EU economic relations: (1) China and the EU in the WTO and (2) the Belt and Road Initiative and Chinese foreign direct investments (FDI) in Europe. Puncturing the cooperation bias which permeated much first generation global governance scholarship is an important first step to arriving at an appreciation of the *politics* of 'making' global governance and the distributive struggles involved, jettisoning linear accounts of changing global power dynamics. It also invites observers to take seriously conflict over norms, values, ideas and identities – issues that global governance scholars have too often shied away from. Finally, such an effort can shed light on some of the practical challenges of global policy-making and delivery in the 21st century and the pressing question of 'what works?'

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<sup>15</sup> Coen and Pegram (2015), p. 419.

<sup>16</sup> Zürn (2018), p. 263.

## COMING INTO VIEW: A THIRD GENERATION OF GLOBAL GOVERNANCE SCHOLARSHIP

If global governance research is to make sense of the full complexities of global public policy making and implementation, it must advance debate across disciplinary, theoretical and issue-specific silos. Against this background, Coen and Pegram have called for a 'third generation of global governance scholarship'.<sup>17</sup> Whereas a first generation of global governance researchers, grounded primarily in the liberal institutionalist tradition of international relations (IR) theory, has focused almost exclusively on interstate cooperation through formal multilateral structures, a second generation of scholars, spanning IR, public policy, international law and other disciplines, has investigated the emergence of new actors, institutions and mechanisms in a rapidly changing, increasingly complex global governance landscape. An emergent third generation of global governance research has much to gain from accelerating a convergence across this pluralist body of research to develop a more comprehensive understanding of what is causing blockage in global governance and, crucially, to devise 'coherent and realistic solutions to global public policy challenges'.<sup>18</sup>

Arguably, one of the most pressing tasks for this new generation of researchers is to move decisively beyond the understanding of global governance as a consensual problem-solving exercise and think more seriously about the sources, dynamics and effects of contestation. Importantly, explanations must go beyond simplistic juxtapositions of 'global vs. national interests' or 'status quo vs. revisionist states', focusing instead on the complex power dynamics that are embedded in thick interdependencies. As Zürn has argued 'world politics is now embedded in a normative and institutional structure that contains hierarchies and power inequalities'.<sup>19</sup> This has produced distributional struggles – raising questions of 'who gets what, when, how'<sup>20</sup> – but also normative conflict over legitimacy, accountability and the thorny issue of how we arrive at transnational conceptions of the 'public good' and 'good governance'. In this endeavour, it is also important to not lose sight of world history. If scholars wish to understand the underlying causes of contestation within the global system, it will be imperative to describe and explain systematically how power dynamics have changed over time, and within specific historical contexts.<sup>21</sup>

More attention should also be paid to the drivers of contestation and resistance at the domestic level, the complicated relationship between 'rule-makers' and 'rule-takers', and the local actors and institutions that facilitate or impede the implementation of globally defined rules, norms, policies and goals. Simply put, notwithstanding the density of multilateral structures with independent capabilities, direct enforcement has often been elusive to global governance arrangements, especially those directed by international organisations. Adaptive responses by policy agents to regulatory failure can be observed across public goods domains, perhaps best exemplified by the Paris climate agreement's bottom-up 'catalytic' approach to environmental governance.<sup>22</sup> A shift beyond state-driven, top-down efforts to negotiate 'global deals' is also apparent in the scholarship, with researchers turning their attention to the promises and pitfalls of efforts to organise governance in less formal, less hierarchical, and less centralised ways.<sup>23</sup> While scholarship is making important advances in elucidating arenas for experimentation in the shadow of interstate hierarchy, we still lack in-depth and systematic insights into how global regulatory arrangements connect to the realities of domestic implementation.

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<sup>17</sup> Coen and Pegram (2015; 2018).

<sup>18</sup> Coen and Pegram (2018), p. 109.

<sup>19</sup> Zürn (2018), p. 1.

<sup>20</sup> Lasswell (1958).

<sup>21</sup> Murphy (1994).

<sup>22</sup> Hale (2017).

<sup>23</sup> Kahler (2009).

As Coen and Pegram suggest, a promising starting point for advancing a more pluralist debate on these issues is the intellectual convergence that is already underway across IR, European Public Policy, and international law.<sup>24</sup> Whereas IR's long-standing concern with power is key to understanding conflict and distributional struggles in global politics, an international law perspective allows us to rethink normative concepts such as legitimacy and accountability and their application beyond the nation-state. In turn, scholarship on European Public Policy can offer practice-oriented insights on the politics of implementation in multi-level systems. Going forward, global governance has a lot to gain from integrating more disciplinary perspectives, such as political economy, psychology or historical sociology.<sup>25</sup> On a theoretical level, a third generation of global governance should strive to integrate both liberal-functionalist and critical scholarship, with the former focusing on the immediate need to resolve collective action problems and the latter drawing attention to questions of legitimacy and the distributional effects of power asymmetries. In addition, insights from constructivist scholarship can help us make sense of how shifting norms, ideas, values and discourses can prompt change in global governance. Finally, and importantly, global governance research should strive to become more global itself, making room for plural voices, experiences and perspectives, including those from the non-West.<sup>26</sup>



Chinese president Xi Jinping speaks at the 2019 G20 Summit in Osaka. Source: ['2019 G20 Summit'](#) (CC BY-ND 2.0) by [GovernmentZA](#).

<sup>24</sup> Coen and Pegram (2015).

<sup>25</sup> Haufler (2018); Buzan and Lawson (2015); Go and Lawson (2017).

<sup>26</sup> Acharya (2019).

## CHINA AND THE EU: WHOSE GLOBAL GOVERNANCE?

At the end of March 2019, Chinese President Xi Jinping met with French President Emmanuel Macron, German Chancellor Angela Merkel and EU Commission President Jean-Claude Juncker in Paris.<sup>27</sup> They issued a joint call for stronger global governance, emphasising common ground and points for convergence. Macron suggested that both the EU and China have an important role to play in defending multilateral cooperation and that their partnership should be 'exemplary' across issue areas such as climate change, security and trade.

Only two weeks earlier, the European Commission had published a Joint Communication that made headlines because it portrayed China not just as a partner but also as a 'systemic rival promoting alternative models of governance'. The report maintained that 'China's engagement in favour of multilateralism is sometimes selective and based on a different understanding of the rules-based international order' and suggested that the EU adopts a more robust, assertive and principled approach towards China.<sup>28</sup>

Similarly, 'China sees the EU both as an ally and as an opponent in its drive for reforms of the existing international system'.<sup>29</sup> The EU is generally seen as a partner in China's quest for more representation in global governance institutions and a greater diversification of power in the international system. At the same time, China remains suspicious of the EU's values-based engagement model and its efforts to upload its own normative preferences onto the global level.<sup>30</sup>

Thus, while Europe and China have both positioned themselves as defenders of global governance, multilateralism, and 'an open, balanced, and inclusive global economy' it appears that they are not always talking about the same thing.<sup>31</sup> While the EU's approach to global governance is based on an explicit mission to promote human rights, democracy and the rule of law worldwide, China maintains that equity, sovereignty and non-interference are the overriding guiding principles of international relations.<sup>32</sup> Therefore, Delage and Abad suggest that 'whereas the EU is committed to the promotion of *multilateralism*, what China is really interested in is [the promotion of] *multipolarity*'.<sup>33</sup>

### China's role in global governance: rule-taker or rule-maker?

The rise of China has captured the attention of policy-makers, researchers, investors and the general public for more than three decades. Much of the early debate has focused on whether China and the other BRICS countries (Brazil, Russia, India, China and South Africa) would accept the existing global order or attempt to overthrow it. Some saw in China a 'new "Prussian" threat', posing a fundamental challenge to the status quo.<sup>34</sup> Others maintained that China could be socialised into the existing international regime as a 'responsible stakeholder' on the basis of 'shared interests *and* shared values'.<sup>35</sup> Today, it has become increasingly clear that there is no linear logic to the rise of China and other emerging states. In the words of veteran Chinese diplomat Fu Ying, 'China has neither the intention nor ability to overturn the existing order'.<sup>36</sup> At the same time, China has maintained its own normative preferences with regard to global governance,

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<sup>27</sup> France24 (2019).

<sup>28</sup> European Commission (2019a), p. 1 & 2.

<sup>29</sup> Christiansen, Kirchner and Wissenbach (2018), p. 178.

<sup>30</sup> Crookes (2013).

<sup>31</sup> European Council (2019), p. 4.

<sup>32</sup> Pan (2012).

<sup>33</sup> Delage and Abad (2013), p. 125, emphasis added.

<sup>34</sup> Cooper and Alexandroff (2010), p. 5.

<sup>35</sup> Zoellick (2005), emphasis added.

<sup>36</sup> Ying (2017).

challenging the notion that China could be integrated into the international system through a one-directional socialisation process.<sup>37</sup>

Initially, China played only a limited role in global governance. Up until the late 1970s, Maoist China remained isolated from the mainstream international order, positioning itself as a revolutionary power that opposed 'United States imperialism and its lackeys'.<sup>38</sup> Under Deng Xiaoping, China gradually became more integrated into the international order, in particular in the economic and financial realm. However, as Kim has argued, its approach to global governance was 'distinctively system-maintaining and system-exploiting'.<sup>39</sup> Thus, rather than attempting to upset or transform the existing international system, China was interested in system stability to support its internal reforms aimed at building a strong domestic order and modernising its economy.<sup>40</sup> After the Cold War, China's interactions with the rest of the world were guided largely by Deng Xiaoping's 1990 '24-Character Strategy' which, among other things, called for China to hide its capacities, bide its time, maintain a low profile and never claim leadership.<sup>41</sup>

More recently, however, China – now the world's second largest economy by nominal GDP – has become a more proactive, ambitious and confident player in global affairs and in particular in global economic governance. It has adopted a dual strategy of *reform from within*, pushing for a greater influence in existing Western-dominated international institutions, and *reform from outside*, setting up new governance structures, some of which may pose a direct challenge to those already in existence.<sup>42</sup> For example, the establishment of the China-led Asian Infrastructure Investment Bank (AIIB) has raised concerns in the US and Japan, who view it as a rival to lenders such as the IMF, the World Bank and the Asian Development Bank (ADB). However, China insists that the AIIB is designed to complement and not upend the current global economic governance architecture and, significantly, the UK and other European countries have chosen to join the AIIB despite pressure from the US not to do so.<sup>43</sup>

## The EU's role in global governance: a leader by example?

For many years, the EU has been considered a remarkably successful model in multilevel and multistakeholder governance and 'the most advanced model for international cooperation'.<sup>44</sup> The EU self-identifies as a normative leader and shaper of the rules-based international order.<sup>45</sup> The 2007 Treaty of Lisbon has enshrined this ambition into EU primary law, with Article 21 of the Treaty on European Union stating that EU's external actions should be 'guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law'.<sup>46</sup>

The EU can also be viewed as an 'experimental laboratory' for global governance.<sup>47</sup> The EU's supranational governance framework has produced a number of legal, institutional and procedural innovations, some of which have found their way into the global governance architecture. However, the ability of the EU to act as rules-shaper in the global governance system remains contested. In the mid-2000s, some saw in Europe an emerging superpower, both in material and normative terms, offering a compelling alternative to the 'American Dream' and a better model for

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<sup>37</sup> Hurrell and Loke (2017).

<sup>38</sup> Mao (1970).

<sup>39</sup> Kim (1990), p. 193.

<sup>40</sup> Chen (2016).

<sup>41</sup> See: Deng Xiaoping qtd. in Song and Huang (2013), p. 81.

<sup>42</sup> Chen (2016).

<sup>43</sup> Yang (2016).

<sup>44</sup> Moravcsik (2007), p. 47.

<sup>45</sup> Larik (2013).

<sup>46</sup> Van Vooren, Blockmans, and Wouters (2013).

<sup>47</sup> Christiansen (2017).

collaboration to tackle today's most pressing global public policy challenges.<sup>48</sup> Others argued that Europe's soft power approach to foreign policy and its emphasis on international law and multilateralism stemmed from a position of relative weakness rather than strength.<sup>49</sup>

Today, the role of the EU in global governance is still characterised by contradictions. On the one hand, it enjoys considerable influence on the global stage and is recognised as a consistent promoter of multilateralism and a 'leader by example' in issue areas such as climate change and human rights. With the advent of Trump, the EU is seen by many as the principle defender of the rules-based international order.<sup>50</sup> On the other hand, the EU's global 'actress' appears to have decreased in light of changing external opportunity structures as well as the internal divisions laid bare by the European debt crisis, the refugee crisis and the Brexit vote.<sup>51</sup> The surge in far-right populist parties and movements across Europe is also casting doubts on the future global role of the EU as it risks undermining the very values on which the European project was founded and which it seeks to promote globally, prompting some to prophesise 'the end of Europe'.<sup>52</sup>



Federica Mogherini, EU High Representative for Foreign Affairs and Security Policy, at a press conference in Beijing. Source: ['Federica Mogherini in China'](#) (CC BY-NC-ND 2.0) by [European External Action Service](#).

## Negotiating global governance: zones of agreement and contestation

The concept of global governance has received increased attention in academic and policy discussions in China since the turn of the century.<sup>53</sup> Chinese and Western scholars share a number of common views on global governance, including, most fundamentally, that it is necessary to address pressing global problems. However, they often disagree on the question of

<sup>48</sup> McCormick (2007); Rifkin (2004); Leonard (2005).

<sup>49</sup> Kagan (2002).

<sup>50</sup> Dworkin and Leonard (2018).

<sup>51</sup> Bretherton and Vogler (2013).

<sup>52</sup> Kirchick (2017).

<sup>53</sup> Zang (2011); Wang and Rosenau (2009); Florini (2011).

what makes global governance effective and/or legitimate, juxtaposing values such as ‘harmony, inclusiveness and respect for differences’ with Western values of democracy, freedom, and universal human rights.<sup>54</sup> China’s interpretation of global governance has also found expression in policy slogans, notably the vision of a ‘harmonious world’, first put forward by Hu Jintao and later incorporated into Xi Jinping’s ‘Chinese Dream’.

However, as Nordin reminds us, the values and experiences that inform different notions of global governance are also contested *within* policy communities: ‘Just as “democracy” means different things to different people, discussions of “harmony” represent a diversity of opinion’.<sup>55</sup> A static perspective on contestation cannot explain how both China and the EU are constantly renegotiating their role in and interpretation of global governance in a complex and messy world. As China seeks a more proactive role in global governance, it must confront contradictions in its own grand strategy and accept that its ability to shape global – and even regional – governance remains constrained.<sup>56</sup> The EU, on the other hand, has to come to terms with the fact that the promotion of its own model is no longer supported by a global trend towards deeper integration. Maybe most importantly, it has to confront its own illiberal backlash which threatens European identity and unity at a time when it is needed more than ever to sustain the EU’s role as a global rules-shaper.

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<sup>54</sup> Jinping (2015).

<sup>55</sup> Nordin (2016), p. 164.

<sup>56</sup> Buzan (2014); Summers (2016).

## CONTESTATION IN GLOBAL ECONOMIC GOVERNANCE: CHINA AND THE EU

Many of the tensions discussed above also play out in the arena of global economic governance and the bilateral economic relations between the EU and China. The two powers have developed strong economic ties: The EU is China's biggest trading partner, while China is the EU's second-biggest trading partner behind the US. In 2018, China accounted for about a fifth of EU goods imports and more than a tenth of its exports.<sup>57</sup> Thus, there is significant scope for collaboration on global economic governance based on shared interests. Yet, this is also a realm of contestation triggered by the shifting of geopolitical tectonic plates. As one senior EU official recently reflected: "It has finally sunk in...While we were absorbed in our own crises for 10 years, the GDP of China soared and Trump was elected. We entered a different game".<sup>58</sup> Significant differences in the economic systems of China and the EU limit opportunities for collaboration and are at the root of many disputes between the two countries. Some of these conflicts also reflect more fundamental disagreement about normative priorities and differing views on how economic governance and regulation should be done.

For global governance scholarship this illustrates the need to take seriously different sources of contestation. This is not to suggest that material interests and normative preferences can be neatly separated but that the complex interactions between identities, interests, and norms are key to understand the role of China and the EU in global economic governance. Importantly, these identities, interests, and norms are formed and negotiated through both domestic and international processes. The dynamics of contestation between China and the EU in the area of global economic governance also point to the need of thinking across issue area boundaries. Economic governance is not a distinct game and the interactions between China and the EU in this area often raise a host of related problems in issue areas such as security, human rights and the environment. At the same time, as US and China relations deteriorate, raising the very real possibility of a balkanisation of the internet and related IT standards, the EU is uniquely positioned to serve as a mediating (and moderating) influence on both parties.<sup>59</sup>

As China and the EU renegotiate their economic relationship, they also need to rethink their own growth models. In the EU, the euro crisis has laid bare significant disparities between member states which some view as the direct result of the 'technocratic attempt to promote a single [...] export growth model strategy, built around ordoliberal ideas of rules-based fiscal governance and cost-based competitiveness'.<sup>60</sup> China, meanwhile, seeks to respond to slowing economic growth by shifting from an investment and export-driven 'global factory' growth model towards a more sustainable model based on innovation and consumption. This has important implications for Europe, which has traditionally viewed China as a source of labour-intensive manufactured products and a market for European high-end goods and services. As a result, new distributional conflicts have emerged and 'reciprocity' has become a key concern for the EU as it seeks a level playing field for European businesses in areas such as trade, investment or intellectual property.

The below discusses two areas of economic governance that see increased contestation between the EU and China but also offer opportunities for further collaboration: the World Trade Organization (WTO) and China's Belt and Road Initiative (BRI).

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<sup>57</sup> Peel, Hornby and Sanderson (2019).

<sup>58</sup> Unnamed EU official qtd. in: Peel, Hornby and Sanderson (2019).

<sup>59</sup> The Economist (2018).

<sup>60</sup> Johnston and Regan (2018), p. 155.



2019 WTO Special Session with António Guterres (UN Secretary-General), Sunanta Kangvulkij (WTO General Council Chairperson) and Roberto Azevedo (WTO Director-General). Source: [‘Official visit of the Secretary-General’](#) (CC BY-NC-ND 2.0) by UN Geneva.

## China and the EU in the World Trade Organization (WTO)

The WTO is the most important rule-making, monitoring and dispute resolution body in global trade and a central pillar of the liberal international order. In light of the rise of China and other emerging economies, it has also become ‘a key site of global power struggles’.<sup>61</sup> While the WTO has been quicker than other institutions – such as the IMF or the World Bank – to adapt its governance structures to the new multipolar realities, this has left the system prone to deadlock.<sup>62</sup> The difficulty to overcome longstanding divisions along North-South lines has been demonstrated most sharply by the breakdown of the Doha Development Round, which came to a permanent impasse in 2008.

The WTO is facing a range of other challenges as well. Due to the persistent deadlock of multilateral talks, it has struggled to keep pace with the digitalisation of the global economy, the emergence of global value chains, and the growing need to reconcile trade objectives with other goals such as environmental protection.<sup>63</sup> This has prompted states to revert to regional and bilateral negotiations, leaving the global trade governance landscape increasingly fragmented. The radical shift towards protectionism in US trade policy threatens to undermine the WTO even further. By blocking the appointment of new appellate judges, Trump has taken particular aim at the dispute settlement system, which he accuses of an anti-American bias. This could leave ‘one of the major success stories of the WTO’ in paralysis for years.<sup>64</sup>

Both China and the EU have been alarmed by these developments. In a clear rebuke to Trump, the joint statement of the 2019 EU-China summit highlights the WTO as a shared priority, stating that ‘[t]he EU and China firmly support the rules-based multilateral trading system with the WTO

<sup>61</sup> Hopewell (2017), p. 1381.

<sup>62</sup> Narlikar (2010).

<sup>63</sup> Woolcock (2019).

<sup>64</sup> Klasen (2017), p. 73.

at its core, fight against unilateralism and protectionism, and commit to complying with WTO rules'.<sup>65</sup> Brussels and Beijing have agreed to work together to advance WTO reform and address the crisis of the dispute settlement system, including through a joint working group. However, while China and the EU share an interest in a stable multilateral system, finding common ground on specific reform proposals will be much more difficult. On critical issues, such as subsidies for state-owned enterprises and forced technology transfers, the EU is firmly aligned with the US. Meanwhile, China has made clear that it will not accept any reforms that amount to 'a tailor-made straitjacket of trade rules to constrain China's development'.<sup>66</sup>

Another issue that looms large because of its practical, political and symbolic implications is China's status within the WTO. China joined the WTO in 2001, after a long and arduous negotiation process. Although it was allowed to join as a developing country – a status that normally comes with special rights and preferential treatment – it had to accept a number of 'extraordinary concessions'.<sup>67</sup> These included a unique sunset clause that allowed other WTO members to treat China as a non-market economy (NME) in anti-dumping proceedings during a 15-year transition period, giving them greater scope when imposing tariffs on imports from China. At the time, there was a widespread expectation among Western negotiators that China would gradually develop into a fully liberalised market economy. However, these expectations have not been met and China's particular brand of state capitalism continues to pose a number of challenges to the global trade regime. Differing legal interpretations of China's accession protocol have contributed to the politicisation of the issue. The EU and the US, fearing an influx of under-priced goods, have refused to grant China market economy status after the 15-year transition period lapsed in December 2016. China's efforts to appeal this decision at the WTO have been unsuccessful.<sup>68</sup>

The debate on China's status at the WTO is also tied up with wider questions of China's identity – or, rather, *identities* – and its position in the international order. Chinese media and officials have repeatedly stressed the symbolic importance of market economy status as a recognition that the West engages with China on equal terms, 'the way a friend treats another friend'.<sup>69</sup> At the same, China is unwilling to give up its identity as a developing country, which has long constituted a key component of its foreign policy, even though its interests often differ from most developing countries.<sup>70</sup> In the eyes of the US and the EU, China has been leveraging its status as 'the world's largest developing economy' strategically to strengthen its voice in global governance through South-South coalitions while also securing benefits and avoiding taking on unwanted responsibilities. The current US administration has taken a particularly strong stance, arguing that China has benefited from WTO membership 'to the detriment of its trading partners' by resisting further liberalisation of its economic system and refusing to give up its status as a developing country.<sup>71</sup> While the EU takes a less zero-sum approach and acknowledges that China has made progress in reforming key parts of its economy, it agrees that 'China can no longer be regarded as a developing country' and maintains that WTO rules must be reformed 'to ensure a level playing field and eliminate unfair practices deployed by China'.<sup>72</sup>

Given the conflicting interpretations of China's identity and positioning in the WTO, it is difficult to pin down its overall role in global trade governance. China's economic structure raises a number of unique legal and political issues, leading some to conclude that 'the rise of China presents a major challenge to the multilateral trade regime'.<sup>73</sup> However, China's behaviour since joining the WTO has

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<sup>65</sup> European External Action Service (2019).

<sup>66</sup> Miles (2018).

<sup>67</sup> Scott and Wilkinson (2005), p. 204.

<sup>68</sup> Miles (2019).

<sup>69</sup> Wen Jiabao, qtd in Burnay and Wouters (2016), p. 131.

<sup>70</sup> Pu (2017).

<sup>71</sup> United States Trade Representative (2019), p. 5.

<sup>72</sup> European Commission (2019a), p. 1 & 6.

<sup>73</sup> Wu (2016).

not been consistent with that of a power-hungry 'international scofflaw'.<sup>74</sup> In fact, Scott and Wilkinson find that, during its first decade of WTO membership, China 'has consistently demonstrated a stubborn commitment to the preservation of the status quo'.<sup>75</sup> Webster shows that China has a strong record of implementing WTO rulings, even compared to the EU, which has delayed or resisted compliance in a number of disputes.<sup>76</sup> Although China is becoming a more self-confident and assertive player, it has a strong stake in maintaining the system, leaving ample room for cooperation with the EU, in particular in light of Trump's repeated attacks against the WTO.

## The Belt and Road Initiative and Chinese FDI in Europe

Since it was first announced in 2013, China's Belt and Road initiative (BRI) has garnered widespread attention around the world. Xi Jinping has hailed BRI as a 'new model of win-win cooperation' that promises to forge 'a big family of harmonious co-existence' by scaling up connectivity on a trans-continental scale.<sup>77</sup> Outside of China, BRI has been greeted with a mix of excitement, suspicion and confusion. Conceived as a contemporary re-imagination of the historic Silk Road, BRI is a massive infrastructure investment scheme across Eurasia, made up of two components: an overland route (the 'belt') and a maritime route (the 'road') that together connect China with more than 70 countries across Asia, Europe, and Africa. Although estimates on total investments vary considerably, it is widely expected that BRI will cost more than 1 trillion USD.<sup>78</sup> Projects supported under BRI range from the construction of ports, roads and railways to the development of power plants, pipelines or fibre-optic connections. Flagship initiatives in Europe include the upgrade of the Piraeus port in Greece and the refurbishment of the Budapest-Belgrade railway. Many EU members are also indirectly engaging with BRI through participation in the AIIB, which is not an official BRI institution but key to financing projects under the initiative.<sup>79</sup>

BRI has become a centrepiece of China's foreign policy but its exact meaning remains elusive. Ang contemplates that 'BRI may be the most talked about and least defined buzzword of this decade'.<sup>80</sup> There remains substantial disagreement about the initiative's scope, ambition and conceptual boundaries within both Chinese and Western scholarly, policy and media discourses. Some see BRI primarily as a regional investment strategy that is largely a reflection of domestic concerns, in particular the need to ensure continued economic growth through capital exports and the development of new external markets. Others maintain that BRI is a new grand strategy for China's rise that promotes an alternative model of global governance, directly challenging the existing liberal international order.<sup>81</sup> Although the extent and intent of BRI remains ambiguous, it is clear that it has both material and normative elements, with 'connectivity' referring not just to the 'hardware' of physical infrastructure but also to the 'software' of the ideas, norms and rules that shape the global order.<sup>82</sup>

In the EU, engagement with BRI varies significantly between and within member states and sectors.<sup>83</sup> While some see it as a potential threat to European competitiveness, security, identity and internal cohesion, others have embraced the initiative enthusiastically. To the consternation of some, the Czech president, Milos Zeman, has declared his country's ambition to be China's 'unsinkable aircraft-carrier' in Europe.<sup>84</sup> Italy has become the first G7 country to formally endorse

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<sup>74</sup> Webster (2015), p. 98.

<sup>75</sup> Scott and Wilkinson (2015), p. 214.

<sup>76</sup> Webster (2015).

<sup>77</sup> Jinping (2017).

<sup>78</sup> Chatzky and McBride (2019).

<sup>79</sup> Wang and Ruet (2017).

<sup>80</sup> Ang (2019).

<sup>81</sup> Reeves (2018).

<sup>82</sup> Callahan (2016); Dave and Kobayashi (2018).

<sup>83</sup> Wang and Ruet (2017).

<sup>84</sup> Milos Zeman qtd. in Barboza, Santora, and Stevenson (2018).

the BRI global investment drive, provoking rebukes from Washington and Brussels.<sup>85</sup> The EU as a bloc has taken a cautious approach. It has sought to increase dialogue and cooperation, including through the EU-China Connectivity Platform which aims to strengthen synergies between BRI and European connectivity initiatives such as the Trans-European Transport Network policy.<sup>86</sup> At the same time, it has repeatedly voiced concern over the lack of guarantees on transparency, sustainability and fair competition for BRI projects.<sup>87</sup> The Budapest-Belgrade railway, for example, came under scrutiny by the European Commission for failing to comply with EU tender regulations, reinforcing concerns that BRI could dilute European standards and pose a challenge to the EU's rule-setting power.<sup>88</sup>

The discussion on BRI also feeds into broader concerns about the growing presence of Chinese companies and investments in Europe, in particularly in the years following the financial crisis, which saw Chinese FDI jump from 700 million EUR in 2008 to 35 billion EUR in 2016.<sup>89</sup> While investments have traditionally targeted countries such as the UK, Germany and France, more recently, China has shown an increasing interest in Eastern, Central and Southern European countries.<sup>90</sup> An important vehicle in this regard is the 16+1 cooperation framework which aims to strengthen China's linkages with 11 EU member states in Central and Eastern Europe and five Western Balkan states.

China's engagement with the 16+1 group and states such as Greece or Italy has raised concerns in Brussels, with some accusing China of 'debt trapping' targeted states and deploying 'divide and rule' tactics to weaken European cohesion. The fact that, in recent years, Hungary and Greece have refused to support some EU statements on critical issues, such as China's human rights record or the South China Sea dispute, has reinforced these fears.<sup>91</sup> China's ambitious international investment drive also throws into sharp relief the lacklustre performance of the European Investment Bank (EIB) and the European Bank of Reconstruction and Development (EBRD) in jump-starting research and development within and beyond the union. Observers criticise the EU for being overly focused on reducing deficits, including in countries such as Germany which have ample scope to expand investment.<sup>92</sup> Such criticism chimes with the sentiment still expressed among some Eastern and Central European members that they remain 'second class' EU countries.<sup>93</sup> The EU appears to be reluctant to mobilise the kind of resources that may be required to help 'win the peace'.<sup>94</sup>

Assuming a defensive posture, growing unease over Chinese FDI in Europe and its political, economic and security implications has led the EU to adopt counter measures such as the new framework for FDI screening which entered into force in April 2018 and establishes an EU-wide system to enable member states and the Commission 'to exchange information and raise concerns related to specific investments'.<sup>95</sup> While in principle not targeted at a specific country, the mechanism is widely seen as directed against China and it is estimated that over 80% of Chinese M&A transactions in Europe could fall under it.<sup>96</sup> Interestingly, BRI also seems to have prompted the EU to recalibrate its own vision of connectivity. In September 2018, the EU released a joint communication that provides building blocks for a new strategy on connecting Europe and Asia. Although the document does not mention BRI, its promotion of a European brand of

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<sup>85</sup> Ghiglione et al (2019).

<sup>86</sup> European Council (2019).

<sup>87</sup> Rolland (2019).

<sup>88</sup> Kyngé, Beesley and Byrne (2017).

<sup>89</sup> Hanemann and Huotari (2018).

<sup>90</sup> Wang and Ruet (2017).

<sup>91</sup> Benner and Weidenfeld (2018).

<sup>92</sup> Financial Times Editorial Board (2019).

<sup>93</sup> Zalan (2017).

<sup>94</sup> Buti (2017).

<sup>95</sup> European Commission (2019b).

<sup>96</sup> Hanemann, Huotari and Kratz (2019).

‘sustainable, comprehensive and rules-based connectivity’ appears to be directly juxtaposed to the Chinese vision of connectivity under BRI.<sup>97</sup>

For global governance scholars, BRI raises a number of broader questions: Is BRI ‘changing the rules of globalization’ or is it old wine in new bottles?<sup>98</sup> Is it indicative of a broader shift towards mega-regionalism or mega-regulation? How is BRI tied up in China’s identity and normative agenda? What are its implications for European identity and actorness on the global stage? What does *connectivity* actually mean and can it be usefully theorised in global governance? Evidently, these questions cannot be addressed without looking at both the ‘hardware’ (material) and the ‘software’ (normative) dimensions of BRI.



Secretary-General António Guterres addresses the 2017 Belt and Road Initiative Forum for International Cooperation in Beijing. Source: ‘[Secretary-General Addresses BRI Forum](#)’ (CC BY-NC-ND 2.0) by [United Nations Photo](#).

## Discussion

Contestation between China and the EU in global economic governance plays out in a variety of complex ways. The discussion about China’s status in the WTO, for example, has not just practical but also important legal, symbolic and political dimensions and it epitomises China’s multiple, and sometimes conflicting, interests and identities in global economic governance. Meanwhile, the difficulties of the EU to find a common response to BRI reflects its own internal divisions as well as a substantial amount of confusion about China’s ultimate agenda.

<sup>97</sup> European Commission (2018).

<sup>98</sup> Zhang, Alon and Lattemann (2018).

As the case studies above suggest, static and binary accounts of China's role as either 'revisionist' or 'status-quo' fail to capture the more complex ways in which China engages with an evolving global order.<sup>99</sup> As China (re-)negotiates its place in global economic governance, it takes on different roles – as rule-taker, rule-shaker and, increasingly, rule-maker – opening up new areas for contestation as well as opportunities for collaboration. China's participation in the WTO suggests that it has indeed been socialised into the multilateral trading system but not necessarily as expected: It has largely embraced and complied with existing procedures and rules but without fully liberalising its economy, leading some to argue that 'China has been undermining the principles of open trade even while observing the letter of the law'.<sup>100</sup>

BRI provides a fascinating example of how China is increasingly reshaping global economic governance 'from the outside', shifting the discourse from how established powers such as the EU are socialising China into the international community to how 'China is changing us'.<sup>101</sup> As the EU takes a more self-confident and assertive stance towards China, this could sharpen internal divisions even further – or it could strengthen European identity and provide more clarity on the EU's own role in global economic governance.

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<sup>99</sup> Hurrell and Loke (2017); Hameiri and Zeng (2019).

<sup>100</sup> McBride and Chatzky (2019).

<sup>101</sup> Michael Clauss, German ambassador to the EU, qtd. in: Valero (2019).

## CONCLUSION: QUO VADIS GLOBAL GOVERNANCE?

Global governance scholarship has been criticised by some for '[assuming] globality where there is none' and 'portraying efforts at transboundary regulation as essentially "post-political"'.<sup>102</sup> In a practical sense, the growing engagement of China and other emerging states in global governance has made it more global – the rules of the game are no longer decided by an exclusive club of Western countries. But it has also highlighted the parallel existence of multiple 'globalities', exposing different views on what the global is and how it should be managed. In light of these differences, deciding collective goals and rules is not (and never was) an apolitical, consensual exercise.

It is important to clarify that while contestation is an inherent part of global governance, it does not necessitate conflict. The relationship between China and the EU in global economic governance is driven by both divergent and overlapping interests and goals. In some cases, further cooperation might be stymied by mistrust and misunderstanding rather than conflicting priorities. In other cases, contestation might be driven by norms, values, cultural differences and diverging definitions of global governance. Understanding the sources, dynamics and effects of contestation is key to developing global governance solutions that are seen as more legitimate and are more effective in the sense that they motivate compliance and do 'not encounter too much resistance'.<sup>103</sup> Thus, a concern for contestation responds directly to the pressing challenge which global governance must respond to: how to accelerate learning from what works to facilitate collective action on global public goods challenges at unprecedented scale?

Going forward, global governance scholars have much to gain from developing a better understanding of what drives contestation and resistance to global governance solutions on the domestic level. The rise of national-populist, anti-globalist parties and movements in the EU and elsewhere has prompted researchers to pay more attention to what global governance looks like 'from the perspective of those on the bottom'.<sup>104</sup> This ontological shift is to be welcomed. However, it does beg the question as to why mainstream IR scholarship for so long has arbitrarily segmented the international from the domestic, hampering efforts to engage questions of multi-level governance and compliance. In China, domestic resistance to its growing global engagement is less pronounced and more difficult to assess but not inconsequential. For example, as Rolland notes, there is evidence of growing unease about BRI and its economic risks among some public intellectuals in China.<sup>105</sup>

As national decision-making authority has become increasingly fragmented, domestic contestation may also arise between different state agencies that engage in negotiating global goals and policies as well as between national level policy makers and the 'street level bureaucrats' who ultimately implement these policies and who often have a substantial degree of discretion in the execution of their work.<sup>106</sup> In the multilevel governance system of the EU, these dynamics have long been acknowledged. China, however, has traditionally been seen as a unitary actor with a centralised, hierarchical and authoritarian political architecture that leaves little room for internal contestation. Recent scholarship has challenged that view, arguing that 'the uneven transformation – fragmentation, decentralisation and internationalisation – of state apparatuses' in China has resulted in conflict and coordination problems between different domestic agencies, with implications for global governance.<sup>107</sup> As Hurrell urges us, we must take 'the power of the

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<sup>102</sup> Dingwerth and Pattberg (2010), p. 702.

<sup>103</sup> Acharya (2019).

<sup>104</sup> Hurd (2018).

<sup>105</sup> Rolland (2019).

<sup>106</sup> Lipsky (1980).

<sup>107</sup> Hameiri and Zeng (2019), p. 3.

global' seriously.<sup>108</sup> Grappling more fully with a globalised governance reality directs our attention to perhaps *the* crucial site of intervention, contestation and compliance: where supranational regulatory structures intersect with power relations within recipient states and societies.

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<sup>108</sup> Hurrell (2015), p. 3.

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