

## China's international relations in the new era of Xi Jinping – implications for Europe

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At the 19th National Congress of the Chinese Communist Party last October, China's President Xi Jinping outlined the country's future foreign policy. In Europe, most observers interpreted Xi's speech as a turn to a more nationalist foreign policy that strives for fundamental changes in the international order along the lines of Chinese interests. This perception is fundamentally mistaken: China's rise may indeed call into question whether the liberal Western approach to development and international cooperation is without alternative. However, China rather strives for reforms from within the existing system than to fundamentally change it. In fact, China continues to profit from the existing international order and strives to be accepted as a responsible great power that contributes to the global common good. This implies that China's leaders take the positions of their international partners into careful consideration. In this dialogical process of reform, the European Union is competent to play a particularly crucial role to sustain legal predictability and international norms preserving of the rules-based international order. The reason lies in the European Union's experience as a "regulatory superpower".

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*This paper expresses the view of the authors and not the European Institute for Asian Studies*

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In mid-October, the Chinese Communist Party (CCP) gathered for a historic national Party Congress in Beijing. Since Deng Xiaoping took over power in the late-1970s, no other Party Congress has attracted so much international attention: Not only has the People's Republic of China (PRC) risen to one of the most influential powers in the world but the United States is retracting from international affairs following US-President Donald Trump's "America first" doctrine. In recent years, China has gained tremendous ground internationally. In light of these developments, China's power-savvy President and General-Secretary of the CCP, Xi Jinping, has made China's international rise a priority. In his opening address, Xi said that *"the Chinese nation ... has stood up, grown rich, and is becoming strong; it has come to embrace the brilliant prospects of rejuvenation ... It offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solving the problems facing mankind. [...] It will be an era that sees China moving closer to center stage and making greater contributions to mankind."* He termed the PRC a "mighty force" in international affairs and emphasized the growing role of China's army: *"Our military is built to fight. Our military must regard combat capability as the criterion to meet in all its work and focus on how to win when it is called on."*<sup>2</sup> In a quantitative analysis of Party Congress speeches over the last 20 years, the *New York Times* found that no party leader has referred to China as a *great power* or *strong power* more often than Xi in his opening address.<sup>3</sup>

A few days later, this new-found emphasis of China's international ambitions was also expressed in the personnel decisions of the Party Congress: The country's top-ranked diplomat, Yang Jiechi, was promoted into the CCP's Central Committee. For more than a decade since former Secretary of State Qian Qichen retired, no diplomat has achieved such a high-rank position in the Party.<sup>4</sup>

This paper reviews the foreign policy agenda that Xi outlined at the Party Congress. Although this agenda heavily draws on what Xi has said over the last five years, I consider his address to be crucial because in China the Party is of greater importance than the respective state organs.<sup>5</sup> The Party Congress, in turn, is the highest authority of the CCP which meets only once in five years. In this paper, I outline core challenges for the European Union and argue that the EU should refocus on its traditional strengths as a "regulatory superpower"<sup>6</sup> to deliver an adequate response to Xi's initiative. This is not only to safeguard European interests but to preserve and develop mutually beneficial international cooperation more generally.

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<sup>2</sup> Xi, J. (2017): Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive from the Great Success of Socialism with Chinese Characteristics for a New Era. Delivered at the 19<sup>th</sup> National Congress of the Communist Party of China. October 18, 2017. Retrieved from [http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf)

<sup>3</sup> Buckley, C., & Ryan, O.M. (2017 October 19) Environment, Security, Power: What China's Changing Vocabulary Reveals About Its Future. *The New York Times*. Retrieved from <https://www.nytimes.com/interactive/2017/10/19/world/asia/china-xi-jinping-language.html?rref=collection%2Ftimestopic%2FChina>

<sup>4</sup> Shi, J. (2017, October 15) Will Communist Party give China's top diplomat more say? *South China Morning Post*. Retrieved from <http://www.scmp.com/news/china/diplomacy-defence/article/2115238/will-communist-party-give-chinas-top-diplomat-more-say>

<sup>5</sup> McGregor, R. (2012): *The Party: The Secret World of China's Communist Rulers*. New York: Harper.

<sup>6</sup> Leonard, M. (2016) Introduction: Connectivity Wars. In: Mark Leonard (ed.), *Connectivity Wars. Why Migration, Finance and Trade are the Geo-economic Battlegrounds of the Future* (pp. 13-27). London: ECFR

## Xi's three core messages to the world

At the beginning of the Party Congress, Xi Jinping delivered a 3.5-hour long speech.<sup>7</sup> Similar to any previous opening remarks of CCP leaders, Xi's speech is hard to follow because it is ideology-laden wording borrowed from China's communist ideological past. However, this is not to say that Xi's speech did not contain significant political content. To the foreign audience, Xi had three core messages:

*Firstly*, China's economic development offers new options for developing countries around the globe. For a long time, the "Western" path to long-lasting prosperity consisting out of a double liberalization of the economy and the society, i.e. a market-economy alongside democracy, was seen as the one and only successful developmental model. For Xi, these days are over. Although Xi did not mention the term "China Model" it may fuel again the discussion whether other countries could follow a Chinese blueprint of development.

*Secondly*, China has turned into a powerful country that deserves to be respected as one of the greatest nations on earth. Other countries around the world cannot neglect the PRC's interests and perspectives. The country is no longer hiding its political potential. China is here to (re-)shape international affairs.

*Thirdly*, China does not intend to turn into an imperial power and will never seek international dominance. In contrast, the PRC is a "responsible great power".

These foreign policy ambitions carry both chances and risks for the world:

### Which "China Model"?

China's economic rise over the last decades has reshaped international perspectives on development. Most fundamentally, the Chinese success undermines the Western appraisal of liberal development paths.<sup>8</sup> In recent years, this is even more pronounced because China's rising financial clout has made the country provide unconditional loans to developing countries. Liberal institutions such as the International Monetary Fund or the World Bank find it more difficult to push through their agenda because China has emerged as an alternative.<sup>9</sup> However, apart from undercutting the previous certainty that liberal development was the only promising path available to developing countries, the characteristics of China's growth model can hardly be replicated elsewhere.

Analysts describing the Chinese development path mostly refer to three distinctive characteristics of China's rise which could be instructive for other countries: Firstly, China has only selectively opened itself up and integrated its economy partially into the liberal world order. In essence, the Chinese economy remains a *state-permeated* one.<sup>10</sup>

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<sup>7</sup> CGTN. "Opening session of CPC National Congress 中国共产党第十九次全国代表大会开幕会". Filmed (2017, October). YouTube video, 5:39:40. Posted (2017, October).

[https://www.youtube.com/watch?time\\_continue=5431&v=wEn8AZqAAf4](https://www.youtube.com/watch?time_continue=5431&v=wEn8AZqAAf4)

<sup>8</sup> Dirlik, A. (2006) Beijing Consensus: Beijing "Gongshi". Who Recognizes Whom and to What End? *Globalization and Autonomy Online Compendium*. Retrieved from [http://www.ids-uva.nl/wordpress/wp-content/uploads/2011/07/9\\_Dirlik1.pdf](http://www.ids-uva.nl/wordpress/wp-content/uploads/2011/07/9_Dirlik1.pdf)

<sup>9</sup> Alden, C. (2005) Leveraging the Dragon. Toward an Africa that Can Say No. *Yale Global Online*. Retrieved from <https://yaleglobal.yale.edu/content/leveraging-dragon-toward-africa-can-say-no>

<sup>10</sup> ten Brink, Tobias (2011) Institutional Change in Market-Liberal State Capitalism: An Integrative Perspective on the Development of the Private Business Sector in China. *Max-Planck-Institut für Gesellschaftsforschung Discussion Papers*. Retrieved from [http://www.mpifg.de/pu/mpifg\\_dp/dp11-2.pdf](http://www.mpifg.de/pu/mpifg_dp/dp11-2.pdf)

Secondly, the PRC has adopted a meritocratic system of leadership selection.<sup>11</sup> Third and finally, the Chinese development is driven by the PRC leaders' pragmatism and flexibility.<sup>12</sup> Do these three characteristics highlighted by many foreign observers constitute a "China Model" that could serve as a promising blueprint for other developing countries to follow? The answer is a simple "no":

First, China's state-permeated economy faces severe challenges. After decades of double-digit growth, the development is naturally slowing down and the CCP leadership aims to moderate this transition period in order to soften potentially grave social consequences. The PRC's growth rates decrease and have been acknowledged as the "new normal". In line with this overall development, China has lowered its growth targets and rather aims at more sustainability rather than rapid growth. To this day, the Chinese economy is largely driven by state investment. However, the country's indebtedness has risen to 235 percent of China's GDP and is likely to be as high as 280 percent by 2020.<sup>13</sup> According to independent sources, the non-performing loan ratio of China's state-owned banks might be as high as 25 percent.<sup>14</sup> In addition, China's real estate sector directly contributes around 8 percent to the country's GDP growth. However, recent independent research calculates that no less than 20 percent of China's apartments are currently uninhabited.<sup>15</sup> The risk that the housing bubble bursts is rising as well as the chance of a deep financial crisis. This could severely call into question the state investment driven economic growth model of the PRC. In fact, this is not just an outside observer's analysis but the Chinese leadership acknowledges these economic challenges and tries to contain financial risks.

Second, one may dispute whether the assessment criteria of China's meritocratic system earn their name or not – obviously China's economic rise is proof of the country leadership's ability.<sup>16</sup> However, it is widely acknowledged that corruption, personal relations (*guanxi*) and loyalty are crucial in determining cadres' career prospects. This calls into question China's meritocracy and with it the idea of a "China Model" based on cadre selection purely based on competence.

Third, most importantly the dictum of pragmatism and flexibility is not a precise guideline for other developing countries to follow. China's enormous economic success story since the late 1970s is the result of China's willingness *not* to follow a model but to adhere to pragmatic problem-solving that enables local divergences: China's rise is based on the leadership's openness to local experimentation; the germ cell of the successful "reform and opening up policy" are "Special Economic Zones" that provided international investors favorable investment conditions – in specific geographical areas. Some successful local experiments are adopted in other localities or even nationwide while

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<sup>11</sup> Zhao, B. B. & Bell, D. (2015) Appendix 2. A Conversation Between a Communist and a Confucian. In Bell, D. (ed.) *The China Model. Political Meritocracy and the Limits of Democracy*. Princeton: Princeton University Press.

<sup>12</sup> Ramo, J.C. (2004) *The Beijing Consensus: Notes on the New Physics of Chinese Power*. London: The Foreign Policy Centre. Zhao, S. (2010) *The China Model. Can It Replace the Western Model of Modernization?* In: *Journal of Contemporary China* 19(65), pp. 419-436.

<sup>13</sup> International Monetary Fund (2017) *People's Republic of China. Selected Issues*. IMF Country Report No. 17/248. Washington D.C.: IMF

<sup>14</sup> Merics #45 Willy Lam: "Xi Jinping has benefitted tremendously from the leadership vacuum left by Trump". Recorded (2017, October). Soundcloud recording, 18:00. Posted (2017, October) Retrieved from <https://soundcloud.com/merics-612350689/willy-lam-xi-jinping-has-benefitted-tremendously-from-the-leadership-vacuum-left-by-trump>

<sup>15</sup> Giessen, C. (2017) *Das Volk der Ungleichen*. In *Süddeutsche Zeitung*, pp. 18

<sup>16</sup> Bell, D. (2015) *The China Model. Political Meritocracy and the Limits of Democracy*. Princeton: Princeton University Press.

others are completely dropped or remain in place only in one locality. The result is an economic and regulatory hotchpotch. China's size, diversity and fragmentation are unprecedented and do not allow for a "one size fits all" model.<sup>17</sup> It is this diversity that led Chinese experts react irritated when foreigners talk about a "China Model". How could a "trial and error" method and a context sensitive diversity of economic approaches in different parts of the country be a valuable template for other developing countries, they asked:<sup>18</sup>

*"The whole idea of a "China Model" started as a Western media narrative caused by China's miraculous economic success, particularly upon the background of the 2008 global financial crisis. When foreigners start talking about the "China Model" Chinese become concerned, including me: We have muddled through. This is not a model but only a Western myth."<sup>19</sup>*

Hence, it is no wonder that although Xi Jinping highlighted the "new options" and the "Chinese wisdom" available to developing countries but refrained from using the terminology of a "China Model" in his speech at the Party Congress in October 2017. At the same time, his remarks triggered again some discussion of a potential "China Model". However, an advisor to the Chinese central government anonymously told me in an interview:

*"It is all about increasing our soft power in the world. It is a rhetorical strategy. In substance, there is no such thing as a 'China Model' but we try to exploit the widespread believe in this mysterious 'China Model'."<sup>20</sup>*

In short, it remains uncertain what the "China Model" entails: Pragmatism is hardly a precise guideline; meritocracy is called into question by corruption; and China's state-permeated economy may face financial challenges because of its reliance on state investment, indebtedness, and a real-estate bubble. Finally, the rise of international protectionism is further calling the "China Model" into question because the PRC's rise relies on export and has profited from open world markets and the country's selective integration policy.

In a nutshell, China's rise fundamentally questions the liberal developmental path; but it is unclear what exactly an alternative "China Model" would be all about.

### **Nationalist self-interested or responsible great power?**

Apart from China's impact on development, many observers have reacted with great concern to Xi's nationalist rhetoric at the Party Congress: Traditionally, China has seen itself as a civilizational center of gravity in the world. From the mid-19<sup>th</sup> to the mid-20<sup>th</sup> century, China has undergone what is often referred to as the "century of humiliation": The country experienced semi-colonization, military defeat, internal turmoil and civil

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<sup>17</sup> Rühlig, T. N. (2016) How Does China Impact the Future International Political Order? Conceptual Reflections of the "China Model" in Light of China's Fragmented Polity. In *International Relations and Diplomacy* 4(1), pp. 48-59

<sup>18</sup> Holbig, H. (2010) Das Land hat einen Plan. Der Westen nicht. China als autokratisches Erfolgsmodell?, in: *Berliner Debatte Initial* 21(3), pp. 67-77.

<sup>19</sup> Author's interview, July 2016, Beijing.

<sup>20</sup> Author's interview, November 2017, Beijing

war.<sup>21</sup> According to the official narrative of the CCP, the century of humiliation ended with the Communist Revolution in 1949. Mao Zedong united the country and safeguarded its independence. Deng Xiaoping opened the country up and made it rich again. Xi Jinping wants to be the leader who is completing this road to China's "national rejuvenation" and make China a great power again.

Coupled with the reform of the People's Liberation Army (PLA), many Western journalists and observers fear a nationalist and self-interested China that will do anything to push through its own interests in world affairs. Most prominently, US Secretary of State Rex Tillerson accused the Chinese of undercutting the "rules-based world order" when the Chinese Party Congress was still ongoing.<sup>22</sup>

This perception is problematic and one-sided: Indeed, there is no doubt that China's rise and Xi's self-confidence will lead to changes in world affairs. The PRC's interests will be a crucial factor of international relations for years to come. However, it would be cynical if Western countries which have shaped international institutions and world affairs for decades denied the same right to non-Western states, including China.

In addition, China is not to overthrow the international order: The PLA, for example, is not only reformed to win wars but also to participate in multilateral peacekeeping operations mandated by the United Nations (UN). In fact, China contributes more personnel to blue helmet missions than any other permanent member of the UN Security Council. China will most likely aim to reform and change the international liberal order from within. This process of rewriting of international affairs is widely perceived to be a challenge for the West.

Nonetheless, the above fears overlook the significant chances that lie in Xi Jinping's speech: Firstly, China is increasingly investing around the world. This may enhance its international influence. However, China's investments also increase the country's interest in peace, stability and predictability around the world. To ensure the sustainability of its investments and influence, China will need to provide global public goods that have a stabilizing effect internationally. One example is China's Belt and Road Initiative (BRI), formerly referred to as "One Belt, One Road": While the country has introduced this policy in part to export its economic surpluses (e.g. cement and steel), it is heavily investing in such unstable countries as Pakistan or Afghanistan. This massively increases the PRC's self-interest in a stable, prosperous and reliable region.

Secondly, China's President made it clear that the PRC would never seek to "dominate" the world. Clearly, this is Xi's formula to re-assure the rest of the world that China does not seek to impose its own interests upon all others. The CCP leadership is well aware of the widespread perception of a "China threat" and knows that the country has to carefully consider the interests of its international partners. Hence, China will not just follow its own interests but seek mutual gains. The Chinese President's message to the world is that China is taking a responsible leadership position because it cares about climate change, nuclear proliferation, cybercrime and terrorism and subscribes to a

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<sup>21</sup> Kissinger, H. (2011) *On China*. New York: Penguin.

<sup>22</sup> BBC News Asia (2017, October 19) US: Tillerson calls for India ties to counter China. *BBC News*. Retrieved from <http://www.bbc.com/news/world-asia-41675796>

multilateral approach to all those issues through collective cooperation.<sup>23</sup> In his speech, Xi emphasized that “no country can address alone the many challenges facing mankind; no country can afford to retreat into self-isolation.”<sup>24</sup>

Thirdly, time and again, China has emphasized that it prefers international cooperation that does not violate state sovereignty. As a result of China’s century of humiliation, the country highlights that it wants to uphold the non-interference principle. China shares its appreciation for state sovereignty with most developing countries around the world. Hence, international institutions which interfere into the internal affairs of states may come under pressure in the foreseeable future.

However, even this third and final aspect does not indicate that China aims to overthrow the existing international order striving for fundamental change. Instead, changes will be of limited scope. In essence, there are two reasons preventing that the PRC will comprehensively strengthen state sovereignty at the expense of existing international institutions and international law: China has risen to international power under the current international order. There is no reason to believe that the PRC has an active interest in overthrowing a system which it is thriving in. In addition, China has to reassure its international partners of its reliability. This is only possible if China’s cooperation with weaker partners is characterized by a minimum degree of institutionalized rules.

Hence, Chinese-led institutions might violate state sovereignty less compared to existing liberal institutions that have been established under US hegemony. In this sense, a rewriting of international institutions and world affairs is underway. However, it is very unlikely that China is substantially questioning the “rules-based” international order altogether. The result is rather gradual reform than fundamental change.

A prominent example for this development is the Asian Infrastructure Investment Bank (AIIB): Many observers in the West have characterized the AIIB as undermining the liberal agenda of the Western-dominated World Bank. However, when it comes to governing style, structure, resource acquisition, and operative implementation the AIIB displays striking similarities with the World Bank. In other words, the AIIB may undermine US hegemony but it does not break with the most fundamental rules of multilateral investment banks established by the West.

All in all, Xi’s announcement that China’s international engagement will enter a new era brings both challenges and chances. The PRC will aim to reform the rules of world affairs and make them more in line with its own interests. What needs to be noted is that China is paying particular attention to its international reputation and its actively cooperative image. China’s international relations of the new era will not be determined by the PRC exclusively but to a significant extent by the country’s international partners – including the European Union.

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<sup>23</sup> SCMP Editorial (2017, October 23) China working to preserve agreements. *South China Morning Post*. Retrieved from <http://www.scmp.com/comment/insight-opinion/article/2116515/china-working-preserve-agreements>

<sup>24</sup> Xi, J (2017): Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive from the Great Success of Socialism with Chinese Characteristics for a New Era [FN 2].

## What is Europe's responsibility?

In this situation, China will need to carefully listen to other powers' demands and interests. Shortly after the Party Congress ended, a Hong Kong-based expert who is intimate with the CCP's foreign policy-making told me:

*"China's international strategy is evolving. [...] The leadership is well aware that it is not only them who will determine how the country can and will reshape the world. To a large extent this depends on China's international partners: It is an interactive process and China knows that it has no other choice than to listen to other nations. [...] Xi takes Europe's interests very serious. There is a great chance for you guys to play a crucial role in impacting China's foreign affairs. But you have to actively pick up this role and develop a pro-active strategy and not react to China like you do right now."*<sup>25</sup>

At times when the US is retracting from international affairs, it is upon the European Union to meet its responsibility and engage in a dialogue with the Chinese political elites in order to shape international affairs in a new Chinese era:

- For Europe, it is crucial to speak with one voice and unite vis-à-vis rising China. The PRC may prefer to speak with single countries or smaller groups of countries such as the 16+1 format over dealing with the whole EU because it increases the Chinese leverage. Economically and technologically strong countries such as Germany may be able to respond to this Chinese strategy. However, all EU member-states would be better off if they agreed to a more comprehensive and more inclusive China policy.
- China's rise demonstrates that there is an alternative to the shock therapy that many post-socialist countries underwent in the 1990s. However, East and Southeast European countries cannot follow China's developmental path. They may learn from China not to dogmatically follow any "model". However, the national conditions are very different from the PRC and even China faces economic threats in light of the country's high indebtedness, reliance on state investment and the real-estate sector.
- More generally, China may aim to reform international institutions somewhat strengthening state sovereignty at the expense of international rules but not dissolving them. In fact, China emphasizes that it complies with international law while trying to redefine core terms and concepts. China has become the champion of legal norms that do not comprehensively limit sovereign state control. Europe has to respect the historical legacy of China's preference for sovereign self-determination and non-interference. However, the EU should also emphasize the value of predictability and rules-based cooperation.

Hence, the EU has to acknowledge China's legitimate concerns about weakening state sovereignty and take the PRC's reform proposals into serious consideration. At the same time, the EU should not just accept Chinese demands but highlight its commitment to and benefits of the rules-based liberal international order. In other words, the EU should be open to Chinese reform proposal but play the role to preserve legal predictability of the liberal world order.

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<sup>25</sup> Author's interview (by phone), October 2017, Hong Kong.



In this context, the EU is a particularly competent actor to remind China of the benefits of the rules-based international order. It is the European Union's essential character and experience with its foreign policy that makes it a particularly important partner that can shape and redefine Chinese approaches to international affairs: Both European integration and foreign affairs have been characterized by the setting of standards and their institutionalization to provide predictability and reliability. The European Union is the world's "regulatory superpower": Economically, the EU has the world's largest single market and most multinational corporations – including China's leading (state-owned) companies – have a strong interest in accessing it. This requires them to comply with EU standards and impacts domestic law-making with regards to such different issues as economic competition, data protection and privacy, product quality, labor law, social standards, or environmental guidelines. The EU's accession process and neighborhood policy has made us Europeans an expert in exporting conditions for engagement with the European Union: "To join the Union, candidates need to integrate over 80,000 pages of law – governing everything from gay rights and the death penalty to lawnmower sound emissions and food safety – into domestic legislation."<sup>26</sup>

Clearly, the European Union cannot and should not apply the processes of its accession and neighborhood policy to its treatment of China one by one or in their entirety. At the same time, however, a European Union that meets China united could develop from its regulatory competences a sustainable, durable and rather cheap policy that serves its own as well as the world's. Never before has the world needed Europe's regulatory competence more than now at a time when China aims to redraw international affairs and the US is retracting from global governance.

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<sup>26</sup> Leonard, M. (2016) Introduction: Connectivity Wars [FN 6], p. 23.

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