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# Perspectives on an EU Dialogue with China on Digitalization

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## **Abstract**

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Establishing a Digital dialogue between the EU and China will be essential for global recovery from the COVID-19 crisis and sustained economic growth for the next decade. EU digital strategies have steadily evolved since 2015, including the recently approved EU Recovery Plan that emphasises a digital and green recovery of the EU economy. There is now a concrete opportunity for both the EU and China to maintain a bilateral, digital dialogue to improve Sino-European relations and de-escalate ongoing tensions.

## **Introduction**

It is well-recognized that digital transformation and connectivity will be key for the development of more innovative, interconnected, and efficient economies and societies in recovering from the COVID-19 crisis for years to come. Digitalisation will be essential for the competitiveness, economic development, cohesion, and security of Europe, which has asserted the ambition to become a world leader in this sector throughout the next decade. The fourth industrial revolution ("Industry 4.0"), e-government, e-commerce, e-globalization, data sharing, and robust cybersecurity will only be attainable by promoting the use of digital technologies (cloud, Big Data, AI, IoT, and 5G), processes, and skills development.

In recent months, the COVID-19 pandemic has exposed EU dependence on global supply chains with imports of goods and services in response to the crisis. At the same time, the pandemic has also confirmed the importance of international cooperation, including information and data-sharing, collective and effective management of monitoring and surveillance mechanisms, the sharing of best practices and the pooling of resources for medical research.

The post-COVID-19 economic recovery and reconstruction, especially in Europe, China and the US, provides an additional justification and boost towards digital innovation, automation, application of AI and robotics, data-sharing, connectivity and the use of common digital platforms at national and international levels. There is now wide recognition of the need for major efforts to reach mutual agreement for a healthy, competitive, stable business environment through the harmonization of technical standards, certification, and international cyber norms. These must achieve legal certainty, transparency and inter-operability of technical equipment to drive economic growth in recovery from the crisis. Automation will also be needed to improve efficiency, productivity, and performance of human and technical resources employed in manufacturing and the service sector. Network speed and capacity will be a crucial factor for technologies and business processes depending on fast and reliable connectivity. This will drive a shift towards 5G and 6G technologies, the use of fast and ultra-fast computers, and development of more advanced software.

Similarly, there is a growing awareness that digital, cyber, and data applications in the economy need to ensure full protection of consumers' privacy. Internationally agreed common principles and rules or self-regulation are indeed needed to prevent or offset the diffusion of false and consequently dangerous information and messages ("fake news"), protect children and other vulnerable people, and fight against cyber-crime (often associated with terrorist movements or organized crime). International cooperation in cyberspace must support recovery from the COVID-19 crisis with mutual agreement of international digital agendas and frameworks set out by organisations such as the G20 and UN.

Both the EU and China have asserted the ambition to drive this ongoing thrust towards digital transformation and take up a leading position as regards the use of the most advanced digital hardware and software, while shaping the future regulatory framework. At first glance, the two entities seem competitors or even strategic rivals but, at the same time, the EU and China would benefit from a sustained dialogue on digital

transformation and develop bilateral digital diplomacy to enhance the likelihood and success of dialogue and the prospects for technical and financial synergies.

Both the EU and China are aware of the limitations of these exchanges as a result of a more cautious and defensive stand vis-à-vis China developed by the EU over the last couple of years. Trade and investment imbalances remain significant, while even negotiations on the Bilateral Investment Agreement (BIA) agreement has not been progressing as originally envisaged. Nevertheless, dialogue on digital matters has become a more sensitive matter beyond economic application as both partners have acknowledged the dual-use nature of digital technologies with military or political application. Availability of data could also deliver additional advantages in key areas such as the economic, financial, industrial, and space sectors.

## **1. EU Digital Strategies and Instruments**

The EU digital policy agenda was progressively broadened in both its scope and specialisation when the first, comprehensive European Digital Single Market Strategy<sup>1</sup> (DSM) was launched in May 2015. The DSM focused on providing better access for consumers and businesses to online goods and services across Europe (e-commerce) and creating the right conditions for digital networks and services to flourish. This latter objective could be achieved by enhancing high-speed, secure and trustworthy infrastructures and content services.

This eventually led to the EU Tallinn Declaration on e-Government in 2017, the EU strategy on AI in 2018, two important Council Conclusions in November 2018 and February 2019 and the new Digital Europe strategy in early 2020.

The EU suggested that, to reach this goal, it would be necessary to open-up a broadband for 5G mobile internet by 2020, strengthen the mandate of the European Network and Information Security Agency (ENISA) and agree on the right regulatory conditions for innovation, investment, fair competition and a "level playing field". The EU strategy also aimed at promoting high-tech investments in a) ICT infrastructures and technologies such as cloud computing and Big Data, and b) research and innovation to boost industrial competitiveness, automation and skills. By launching such an ambitious strategy, the Commission also proposed to harmonize national telecom regulations, copyright and data protection legislation, the management of radio waves and the application of competition law. In terms of economic impact, the EU estimated that a connected Digital Single Market could generate up to 250 billion of additional growth in Europe by 2020, thereby creating hundreds of thousands of new jobs.

The Council Conclusions of 14 November 2018 on the strengthening of European content in the digital economy<sup>2</sup> underlined the importance of ensuring adequate rules on data flows with third countries in trade agreements and reaching agreement on copyright and digital content, as well as the need of increased transparency in platforms' practices and uses.

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<sup>1</sup> <https://ec.europa.eu/digital-single-market/en/policies/shaping-digital-single-market>

<sup>2</sup> <https://data.consilium.europa.eu/doc/document/ST-13949-2018-INIT/en/pdf>

The Council Conclusions of 11 February 2019 on the Coordinated Plan on Artificial Intelligence<sup>3</sup> aimed, inter alia, at achieving world-class high-speed fixed and mobile networks (5G) across the EU and increasing coordination on the availability of spectrum by 2020 under consistent regulatory and economic conditions. The Council also called for a common approach to cyber security: "The digital world requires trust, and trust can only be achieved if we ensure more proactive security by design in all digital policies, provide adequate security certification of products and services, and increase our capacity to prevent, deter, detect and respond to cyberattacks".

The Council also suggested that the EU should make a determined R&D and investment effort to support new forms of entrepreneurship, and stimulate and assist the digital transformation of industries and services. EU instruments such as the EU Horizon 2020 and its successor Horizon Europe research programmes, the European Structural and Investment Funds and the European Fund for Strategic Investments could help achieve this objective. The EU should also explore ways to set up the appropriate structures and funding to support breakthrough innovation. The Commission was also invited to urgently address emerging trends, including artificial intelligence and blockchain technologies, while at the same time ensuring a high level of data protection, digital rights and ethical standards.

In 2019 the Commission launched a new "Digital Europe" initiative focused on building the strategic digital capacities of the EU and facilitating a wide deployment of digital technologies<sup>4</sup>. With an overall budget of EUR 9.2 billion for the programming period 2021-27, it will shape and support the digital transformation of Europe's society and economy. The programme will boost investments in supercomputing, artificial intelligence, cybersecurity, advanced digital skills, ensuring a wide use of digital technologies across the economy and society, also through "Digital Innovation" hubs. Its goal is to improve Europe's competitiveness in the global digital economy and achieve technological sovereignty. It will do so by deploying new digital technologies and investing in capacity-building in order to support a digital transformation that will guarantee high-quality public services benefitting citizens and businesses.

A new Communication " Shaping the future of Digital Europe" <sup>5</sup> was finalized in February 2020, followed by a Cyber security Act<sup>6</sup> and a European strategy for data<sup>7</sup> adopted in March. They were accompanied by a White Paper on "Artificial intelligence: a European approach to excellence and trust"<sup>8</sup>.

This Cybersecurity Act will assess how to boost EU-level cooperation, knowledge and capacity-building. It will also help Europe to strengthen its industrial capabilities and partnerships, and encourage the emergence of SMEs in the field. This will accompany the review of the EU Directive on Security of Network and Information systems (NIS)<sup>9</sup> and foresees a new proposal for additional measures regarding the protection of critical

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<sup>3</sup> <https://data.consilium.europa.eu/doc/document/ST-6177-2019-INIT/en/pdf>

<sup>4</sup> <https://ec.europa.eu/digital-single-market/en/news/digital-europe-programme-proposed-eu92-billion-funding-2021-2027>

<sup>5</sup> EU COMM (2020)67 final of 19/2/2020

<sup>6</sup> <https://ec.europa.eu/digital-single-market/en/eu-cybersecurity-act>

<sup>7</sup> <https://ec.europa.eu/digital-single-market/en/policies/building-european-data-economy>

<sup>8</sup> [https://ec.europa.eu/info/publications/white-paper-artificial-intelligence-european-approach-excellence-and-trust\\_en](https://ec.europa.eu/info/publications/white-paper-artificial-intelligence-european-approach-excellence-and-trust_en)

<sup>9</sup> EU Directive 2016/1148 of 19/7/2018

infrastructures. Together with the ongoing work on cybersecurity as part of the EU Security Union, this will boost the EU's overall cybersecurity.

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The EU strategy pushed Europe to be involved in international digital cooperation and it was the foundation of the European "digital diplomacy" especially towards other industrialized countries and the BRICs (mainly China and India).

The COVID-19 pandemic and its consequences on the European economy have highlighted the importance of digitisation across all areas of the EU economy and society. In the long run, this is likely to trigger permanent and structural changes in societal and economic life, inducing more teleworking, e-learning, e-commerce, and e-government. This highlights the importance and potential of developing a universal e-ID 'public electronic identity' to allow for simple, trusted and secure access to cross-border digital public services. 5G will become one of the crucial backbones to implement this digital economy and society.

## **2. The EU Recovery Plan 2021-25**

More opportunities for EU - China digital cooperation can be seized in the framework of the EU recovery plan for 2021-25<sup>14</sup> worth EUR 750 billion which has just been adopted by the Commission. This recovery plan 2021-25<sup>15</sup> will promote and support the recovery, job creation and resilience of the European economy through "green" and digital investments and jobs. Market-based private financial resources and investments, as well as EIB loans and EU budgetary guarantees will be mobilized. The EU strategy is based upon four pillars:

Firstly, the EU will need to invest more in digital connectivity, leading to a rapid deployment of 5G that will have spill-over effects across the entire digital society. This will also increase Europe's strategic autonomy.

Secondly, there will be a need for a stronger EU industrial and technological presence in strategic segments of the digital supply chain. The investment guidelines for the new Solvency Support Instrument also reflect the need to prioritise digital investments.

Thirdly, the EU must build a real data economy as an engine for innovation and job creation. Later in 2020, the European Commission will present a new legislation (a "Data Act") to help put in place the right governance to handle data-sharing across Member

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<sup>10</sup> EU COMM (2020)67 final of 19/2/2020

<sup>11</sup> <https://ec.europa.eu/digital-single-market/en/eu-cybersecurity-act>

<sup>12</sup> <https://ec.europa.eu/digital-single-market/en/policies/building-european-data-economy>

<sup>13</sup> [https://ec.europa.eu/info/publications/white-paper-artificial-intelligence-european-approach-excellence-and-trust\\_en](https://ec.europa.eu/info/publications/white-paper-artificial-intelligence-european-approach-excellence-and-trust_en)

<sup>14</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_940](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940)

<sup>15</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_940](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940)

States and sectors, tackle barriers to digital trade and make Europe fit and able to compete in the 21st global economy.

Finally, there is a need for a fairer and easier digital business environment in the EU. To address this, a new "Digital Services Act" will be adopted by the European Commission in 2020. Last April, the European Parliament expressed its recommendations<sup>16</sup>. The Act is expected to improve the legal framework for digital services, with clear rules for on-line platforms. The purpose is to offer greater security for consumers online, prevent the abuse of market dominance by platforms and ensure a fair market place with equal opportunities for smaller businesses.

In fact, one of the issues concerns the online environment currently dominated by a number of large platforms, the majority of them being from the US or China. Their oligopolistic position and greater access to key data resources has a sizeable impact on the ability of smaller European companies to enter the market, scale- up or make the most of the Single Market. Europe must facilitate the creation of new competitive platforms.

### **3. The EU-China Digital Dialogue**

The bilateral EU-China high-tech dialogue started in 2009 focusing on Information Technology, Telecommunications and the use of Internet. In 2013 a new "EU-China 2020 Strategic Agenda for Cooperation" was agreed with the initial focus on Internet and the information society.

In 2015 a Joint EU-China Declaration on strategic cooperation on 5G mobile networks was signed in Beijing as a major outcome of the EU-China High-Level Economic and Trade Dialogue. Under this Declaration, the EU and China were also committed to reach a global understanding on the concept, basic functionalities, key technologies and time plan for 5G. It was also agreed to ensure reciprocity and openness in terms of access to 5G networks' research funding, market access as well as in membership of Chinese and EU to 5G associations, and to explore possibilities to cooperate and implement joint research actions in the area of 5G and facilitate bilateral participation of enterprises in 5G research projects in China and the EU.

Some bilateral Working Groups and Round Tables were established, such as the China-EU Digital Economy and Cybersecurity Expert Group, and the China-EU digital cooperation Round Table. Also the relationship between China and some EU Member States was strengthened with the establishment of the China-UK Internet Round Table and the China-Germany Internet Industry Round Table (which focuses on digital economy, internet, and 5G technology).

At the same time, starting from mid 2018, the EU position towards a strengthening of European digital dialogue with China became more cautious.

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<sup>16</sup> European Parliament, [Draft report with recommendations to the Commission on a Digital Services Act](#) (2020/2018(INL)), 2020.

The European Commission's Communication of 12 March 2019 on "EU-China - A strategic outlook"<sup>17</sup>, designates China as "an economic competitor in the pursuit of technological leadership". Most of the 10 actions proposed by the Commission are indeed linked to digital connectivity. The EU suggests measures aimed at protecting the "EU industrial competitiveness and strategic autonomy". Overall, digital connectivity arguably is an area of both cooperation and competition in relations between the European Union and China. A balance needs to be stricken between competition and advantages of a more synergetic relationship.

The EU's principles in the bilateral digital dialogue with China "to promote principles of market access and a level playing field, as well as [...] international standards within initiatives on connectivity" were at the core of the Joint Statement of the 2019 EU-China Summit.

In January 2020 the Commission adopted to address growing EU concerns a Recommendation<sup>18</sup> - under the form of a Toolbox - for a common EU approach to security risks related to the installation of 5G networks by non-EU technology providers.

China is aware of the importance of an effective and concrete digital dialogue with Europe on 5G technologies, cyber-security, data-sharing, IoT and AI/ automation, as China also needs to find alternative partners in Europe, thus minimizing the negative impact of deteriorating US-China political and trade relations.

In its 2018 Policy Paper on cooperation with Europe, China strongly reaffirmed its commitment to developing digital connectivity with the EU in the framework of the BRI initiative. They also recognized the merits and advantages of closer cooperation between "Digital China" and the EU Digital Single Market with particular reference to information technology, telecommunications and informatisation.

On the occasion of the EU-China Summit in July 2018 in, a joint EU-China co-Investment Fund (CECIF) was established to support SMEs and mid caps' investments and joint initiatives in the framework of cooperation between the European Fund for Strategic Investments (EFSI) facility and the BRI. Both the European Investment Fund (EIF/EIB) and the Silk Road Fund equally contributed with EUR 250 million. CECIF invests in private equity and venture capital funds and this investment is directed towards EU enterprises willing to invest in China.

The EU-China Summit held in April 2019 was important to the extent that the Chinese made "last minute" concessions to meet EU demands on forced transfer of technology trade barriers and WTO reform. As regards high-tech dialogue, at the margins of the Summit the 4<sup>th</sup> EU -China Innovation cooperation dialogue was organized in Brussels. On that occasion a joint roadmap was adopted to enhance cooperation in research and innovation. Furthermore, a joint financial facility worth EUR 200 million was renewed for further 5 years (until 2024) to finance joint flagship initiatives. In January 2020 the 23<sup>rd</sup> meeting of the EU-China WG on IP took place in Beijing and progress was made on EU-China IP dialogue.

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<sup>17</sup> Join COMM(2019)5 final of 12/3/2019

<sup>18</sup> <https://ec.europa.eu/digital-single-market/en/news/secure-5g-deployment-eu-implementing-eu-toolbox-communication-commission>

#### 4. Conclusion

The EU digital strategies and recovery plan shows a strong ambition for the EU to become one of the most advanced digitalized economies in the next 10-15 years by creating European digital “champions” and setting international standards and certification.

Key technologies, such as IoT, 5G, cloud, and AI, are a constant theme in the EU digital strategies, the EU recovery plan, and ongoing EU-China digital dialogue. Therefore, the EU and China should aim at creating synergies and strong complementarities in enabling conditions for a new EU-China digital dialogue and agreement. This should lead to a constructive cooperation in creating the necessary trust mechanisms. Harmonization of technical standards, certification and other international cyber norms will be crucial in order to achieve legal certainty, transparency and inter-operability of technical equipment.

This dialogue of mutual interest could support a more balanced trade and investment pattern, while it could also contribute to broaden the scope of the BRI to include digital services and technologies.

For the EU and China, their main objective should be to jointly accelerate transition towards a digital economy through sustained digital dialogue on policy and trust mechanisms for digital technologies in key industrial sectors such as transport, environment, aerospace, medical and health sector, bio-economy, and finance.

Over the next decade, in order to deliver a strong recovery from the COVID-19 crisis, European digital investment strategies<sup>19</sup> should enable synergies and complementarities with the “Made in China 2025” strategy. In this context, it is clear that 5G technologies and software for ultra-fast data transmission and elaboration are expected to play a key role.

As digitalization technologies and processes will have a dual-use, especially in a geopolitical context, EU security and other strategic considerations<sup>20</sup> need also to be taken into account in the overall selection and decision-making process.

On the other hand, it would be difficult to achieve a de-coupling of the European economy vis-à-vis the Chinese economy and its economic cycle, given consolidated and well-developed relations and partnerships in mutual interest in the field of trade, investment, manufacturing and regulatory matters.

As the transition to a digital economy is a strategic objective of both Europe and China, it is in the interest of both to put the emphasis on complementarities to establish an EU-China digital dialogue and advance agreement.

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<sup>19</sup> i.e. environment, climate, intelligent machinery, autonomous cars, batteries, sensors, etc. under Horizon Europe, InvestEU and other innovative programmes in the framework of the MFF 2021-27

<sup>20</sup> The ‘European Union Global Strategy’ of 28 June 2016, which replaces the ‘European Security Strategy’ of 2003

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