FOREIGN AND SECURITY POLICY 29.05.2023 | Herbert Wulf

No risk, no trade

The G7 has agreed on a new strategy towards China. Whether this will lead to a real change in the relationship with Asia's superpower is questionable

What should relations with China look like? The Western industrialised countries have been striving for a convincing strategy regarding the Middle Kingdom for quite some time. One result of the recent G7 summit in Hiroshima is the development of just such a common China strategy – at least in theory. According to the final communiqué, the seven economic powerhouses have agreed that it is not a matter of decoupling economically from China, but of avoiding risks and reducing dependencies. This strategy is now referred to by the catchy, Anglo-Saxon term 'de-risking', i.e. risk minimisation. So much for the theory. Whether and how this policy will be implemented in practice, however, remains to be seen. Despite the unanimous declarations of the G7 governments, it can be expected that each country – depending on its interests – will have a different understanding of 'de-risking'.

Rethinking relations with China

Two major events – the Covid-19 pandemic and Russia's war against Ukraine – have led to a reassessment of relations with China within the G7 and beyond. The pandemic has revealed the vulnerability of economic supply chains when it became apparent – especially in Europe – that there were insufficient supplies of urgently needed medical products. In an initial shock reaction, this led to a discussion about the possibility of becoming economically self-sufficient. But the debate was quickly put to rest, especially since the 'economists', above all the advocates of globalisation, were able to make it clear that complete self-sufficiency is not a realistic alternative given the high level of global economic interdependence today.

Russia's war against Ukraine then abruptly highlighted the dependence on Russian energy and raw material supplies. Since economic relations with China are even more extensive in all industrialised countries – which could prove problematic in the event of a crisis – the concept of diversifying sources of supply was propagated. In order not to end up in a situation of dependence on China, it is now necessary to broaden the sources of supply and to find a balance between national security and economic interests. To put it briefly: is national security threatened and is critical infrastructure controlled by China, if Chinese technology – especially in high-tech areas – is used on a large scale and if China continues to invest heavily globally? And how great is the economic damage if cooperation with China, the world's second-largest economic power, is deliberately restricted in order to increase one's own resilience?

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In recent years, 'de-coupling' has been the tough, unequivocal, bipartisan response in the US to competition with China. Originally, this policy was initiated by former President Donald Trump. Especially with regard to critical technologies, the US pursues a drastic isolationist policy and introduced far-reaching export controls to deny its global political adversary crucial high technology. Neither the EU nor Japan follow this hard line. The EU stuck to the formula it had been propagating for several years: that China is both a partner and a competitor but also a systemic rival. In this European conception, each Member State could then interpret for itself which of the three aspects should have the greatest significance. Thus, both the G7 group and the 27 EU members pursued a policy that could be called a convincing China strategy.

Apparently, the six remaining G7 members were now able to convince the US to abandon its hard line of 'de-coupling'. For the final communiqué of the meeting in Hiroshima literally states that the G7 is taking 'concrete steps' towards a common policy to strengthen economic resilience based on 'diversifying and deepening partnerships and de-risking, not de-coupling'. Hence, the objective in relation to China is risk reduction and not de-coupling. And elsewhere in the communiqué, it says even more explicitly:

'Our policy approaches are not designed to harm China nor do we seek to thwart China's economic progress and development. A growing China that plays by international rules would be of global interest. We are not decoupling or turning inwards. At the same time, we recognise that economic resilience requires de-risking and diversifying. We will take steps, individually and collectively, to invest in our own economic vibrancy. We will reduce excessive dependencies in our critical supply chains.'

The American and European positions are converging. Whether this will lead to concrete changes, however, remains to be seen.

The term 'de-risking', originally used in international finance, gained great popularity when EU Commission President Ursula von der Leyen made use of the term several times in a keynote speech before her trip to Beijing in March 2023: 'I believe it is neither viable – nor in Europe's interest – to decouple from China. Our relations are not black or white – and our response cannot be either. This is why we need to focus on de-risk – not de-couple.'

So, does the G7's 'de-risking' concept represent a substantially new strategy vis-à-vis China? In her speech, von der Leyen already explicitly mentioned the need to develop 'new defensive tools' for some critical sectors, especially in high-tech areas such as 'microelectronics, quantum computing, robotics, artificial intelligence and biotech'. Governments in the UK and Japan already adopted this policy, while the US is now also talking about 'de-risking'. In this way, the American and European positions are converging. Whether this will lead to concrete changes, however, remains to be seen.

China takes countermeasures

China reacted quickly to these statements. The government in Beijing accused the G7 and especially the US of 'economic coercion', defaming China and interfering in the country's internal affairs. Referring to a comment by British Prime Minister Rishi Sunak that China poses the greatest global threat, Beijing even said: 'The statements made by the British side in this regard are nothing more than parroting the words of others and constitute malicious slander that does not do justice to the facts.'

On the one hand, the Chinese government is signalling that it remains open to economic cooperation. On the other hand, it is moving to countermeasures. Immediately after the G7 summit, the Chinese government subjected the US company Micron Technology, which manufactures semiconductors in China, to a cyber security review. The aim of this measure: 'ensure the security of the information infrastructure supply chain.' In other words: Tit for tat, is the Chinese strategy.

So, what is new about the G7 policy of de-risking? The term perhaps carries fewer negative associations than de-coupling. It might sound more diplomatic than the hard call for disengagement or de-coupling. 'Who doesn't like reducing risk?' commented Bates Gill, China expert and former director of the Stockholm International Peace Research Institute SIPRI; 'It's just rhetorically a much smarter way of thinking about what needs to be done.' It is to be feared, however, that the disputes in economic relations between China and the G7 countries will hardly change as a result of this risk minimisation strategy. The positions are still hardened.

Herbert Wulf
Duisburg

Herbert Wulf was Director of the Bonn International Center for Conversion (BICC) from its foundation in 1994 until 2001. He is currently a Senior Fellow at BICC and an Adjunct Senior Researcher at the Institute for Development and Peace, University of Duisburg/Essen where he was previously a Deputy Director.

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