Executive Summary
Strategic Studies Institute and US Army Press War College Press

China, Europe, and the Pandemic Recession

Beijing's Investments and Transatlantic Security

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The coronavirus disease 2019 pandemic has unleashed an immense shock to the global economy. In Europe, gross domestic product has fallen, and unemployment has risen. China might take advantage of the crisis—just as it did in the wake of the global financial crisis a decade ago. As part of its broader national security strategy, China might again use its sovereign wealth fund, government-affiliated companies, and nominally private Chinese firms to provide necessary liquidity in Europe. In doing so, Beijing could take advantage of Europe's economic difficulties to obtain sensitive technologies, build soft power, and acquire militarily significant infrastructure.

A yearlong examination of this subject by an interdisciplinary team of experts from the US Army War College, private think tanks, and academia has revealed several reasons for serious concern about predatory Chinese economic statecraft in Europe today, despite the clear differences with the situation a decade ago. First, Beijing's strategy remains exploiting economic ties with Europe for its national security objectives. Through investment in Europe and complementary policies—public diplomacy, cyber operations, trade, cultural exchanges, and media operations—China aims to expand the economic benefits it derives from Europe, acquire European technology for both economic and military purposes, and increase China's influence in Europe. Second, the increased European skepticism toward China has not been uniform across the continent. Some Europeans appear less concerned with Beijing's influence and have been more open to Chinese investment, allowing China to leverage the EU's open market.

Third, the regulatory, legal, and policy responses to Chinese investment vary widely in terms of the kinds of investments screened, the sectors deemed worthy of protecting, and the design of the screening procedures. Several EU countries lack foreign direct investment screening mechanisms, and efforts to strengthen existing tools remain somewhat flawed, leaving Europe vulnerable to Chinese economic statecraft. Finally, the most recent data indicate Chinese investment in Europe is rebounding from the downturn of 2020 and becoming increasingly sophisticated.

Given these risks, the United States and Europe should aggressively parry Beijing's efforts to acquire control over or access to sensitive, dual-use technologies and militarily relevant infrastructure in Europe and strengthen Chinese influence in capitals across the continent. The risks to European and, hence, US security are most acute in European countries that are leaders in dual-use technology, home to infrastructure relevant to US and allied military operations and training, or likely to play leading or otherwise important roles vis-à-vis national security in partnership with Washington.

To achieve these goals and safeguard American and allied security vis-à-vis predatory Chinese investment, American and European policymakers can tighten investment screening requirements, make investment screening retroactive, apply a national security lens to advanced technology, ensure contingency access to infrastructure, offer liquidity alternatives, complicate NATO exercises with infrastructure related hurdles, provide alternatives and promote more domestic innovation, screen some investments, regardless of national origin, leverage NATO, magnify China's shortcomings through public diplomacy, mandate transparency, increase staffing at US embassies in Europe, enhance shared transatlantic understanding, and routinize coordination and cooperation between the EU and the United States.

Although not necessarily foolproof, implementing these policies could help to ensure Europe is better able to defend itself from predatory Chinese investment activity as the pandemic recession unfolds.