

[Olivia Gippner](#), Susanne Schmelcher and Johannes Gabriel

Three Scenarios for EU-China Relations 2025

**Article (Accepted version)
(Refereed)**

Original citation:

Gippner, Olivia, Schmelcher, Susanne and Gabriel, Johannes. (2017)
Three Scenarios for EU-China Relations 2025. ISSN 0016-3287

DOI: [10.1016/j.futures.2017.07.001](https://doi.org/10.1016/j.futures.2017.07.001)

Reuse of this item is permitted through licensing under the Creative Commons:

© 2017 The Author(s) © CC BY-NC-ND 3.0

This version available at: <http://eprints.lse.ac.uk/83721/>
Available in LSE Research Online: July 2017

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. You may freely distribute the URL (<http://eprints.lse.ac.uk>) of the LSE Research Online website.

Accepted Manuscript

Title: Three Scenarios for EU-China Relations 2025

Authors: Olivia Gippner, Susanne Schmelcher, Johannes Gabriel

PII: S0016-3287(17)30018-6

DOI: <http://dx.doi.org/doi:10.1016/j.futures.2017.07.001>

Reference: JFTR 2232



To appear in:

Received date: 27-1-2017

Accepted date: 1-7-2017

Please cite this article as: Olivia Gippner, Susanne Schmelcher, Johannes Gabriel, Three Scenarios for EU-China Relations 2025, Futures <http://dx.doi.org/10.1016/j.futures.2017.07.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Three Scenarios for EU-China Relations 2025

Authors:

Dr. Olivia Gippner, ¹London School of Economics and Political Science, Houghton Street, WC2A 2AE, London, UK, ogippner@gmail.com (corresponding author)

Susanne Schmelcher, ²susanne.schmelcher@gmail.com

Dr. Johannes Gabriel, ³Foresight Intelligence, Donaustr. 6, 12043 Berlin, Germany, johannes.gabriel@foresightintelligence.de

Highlights:

- *Scenarios can be used as a research methodology to explore histories of the future for highly complex China-EU bilateral relationships.*
- *An inclusive year-long scenario building process identified technological leadership in the green economy as an important driver.*
- *The EU's cohesion and foreign policy, China's global ambitions and importantly the United States determine future Sino-European relations.*
- *European policy makers should pragmatically adjust their assumptions to a level playing field for the EU and China.*

Abstract:

The year 2016 was a turning year for international relations. Under the global threat of terrorism and in the climate of 'postfactual' politics and large political changes, the trust in western political systems has severely been shaken. It is within this climate that deliberating the future of one of the most important international relationships, namely that between the European Union and the People's Republic of China, is urgently required. Using the methodology of several scenario workshops working from the identification of key drivers by international experts to developing several scenarios based on combinations of these drivers, this research ties into current future studies. Three scenarios were chosen and their 'histories of the future' reflect the outlook of an economically and politically strengthened China vis-à-vis the European Union, while differences remain on the benefits and losses implied for European countries depending on their ability to stay united within the European Union. The role of the US and the trilateral relationship emerges as an important determinant of the bilateral relationship as well. The driver of technological leadership, however, is the area in

which European policy is most able to influence and adapt to the changes implied by the three scenarios.

Keywords:

EU-China, foresight, geopolitics, technological innovation

1. INTRODUCTION

The year 2016 was a turning year for international relations. Under the global threat of terrorism and in the climate of ‘post factual’ politics and large political changes, the trust in western political systems was severely shaken. It is within this climate that this study deliberates the future of one of the most important international relationships, namely that between the European Union and the People’s Republic of China. While there are studies on the future of parts of EU-China relations (1), there are few holistic assessments and scenarios (2, 3). This paper describes three scenarios for EU-China relations until 2025. The scenarios were constructed by a group of China experts over the course of 2016 (4).

Scenarios do not have any claim to predict what will happen. However, they can illustrate the spectrum of possible developments. In that sense, scenarios are pictures and histories of the future – consistent and comprehensive descriptions of possible future *situations* as well as plausible *pathways* leading to these situations (5). The scenarios described below were created and used in a European context to advance the discourse on the future of the EU. It is worth considering that other groups would have constructed other scenarios for EU-China relations as any scenario depends on the ideas and concepts individuals put into that thought experiment. Take the building blocks the expert group defined in order to construct their scenarios (the so-called key drivers, more on that below) as an example. Although “Disputes in the South China Sea” or “Stability of the Korean Peninsula” have been discussed as potential key drivers for EU-China Relations, the group concluded that the relative impact and uncertainty of other drivers was higher. So although the choice of a specific set of key drivers is based on sound reasoning and can indeed be justified, any reduction of complexity has to remain contingent. While scenario techniques in general (6) aim at reducing biases in the construction of thought experiments making the construction process more reflective and structured, we cannot transcend our cognitive frames.

That said, why do we construct and publish the scenarios described below at all? Because scenarios illustrate divergent future developments and make these alternative developments imaginable and conceivable. Scenarios are no instruments to foresee but to foresight and foresight can help to shed some light on our own blind spots, to reflect on expectations and to anticipate surprise. The group created the scenarios presented here read the newspaper differently today because they learned something new about how the future of EU-China relations could unfold. We hope that the scenario descriptions might reveal some insights that stimulate the readers’ strategic thinking or advance the discourse (7). This article aims at providing future-oriented perspectives, of which some can hopefully surprise the readers. After all, it is better to be surprised by a scenario description than by fast emerging realities.

The paper proceeds as follow. In the next section, we summarize all key drivers and their respective projections, as these are the analytic building blocks of our pictures and histories of possible EU-China futures. Then, in section three, we describe the three scenarios that came out of our process: “China made it – made in China”, “Pragmatic Cooperation”, and “EU Model crumbles – China Model thrives”. Eventually, our reflections in last

section are rather short and do not contain any policy recommendations because we cannot derive implications for our readers. Instead, we encourage readers to draw their own implications from our scenarios.

2. KEY DRIVERS OF EU-CHINA RELATIONS UNTIL 2025:

Scenarios are products of a systematic construction process. In a workshop, a group of experts created a comprehensive collection of factors that drive the future of EU-China relations. Driving factors can be everything: trends, variables, risks, issues, and so on. The expert group assessed all driving factors and selected the ones that stand out in terms of impact and uncertainty because these drivers carry a higher potential for change. As these key drivers are not trends but uncertain with regard to their future development, experts also defined alternative projections by outlining a tentative worst case and best case outcomes in 2025 for each key driver. The experts have initially chosen four key drivers, which have a relatively high potential to affect the future development of EU-China relations and at the same time are relatively uncertain in their development until 2025:

1. EU cohesion
2. China's global reach and positioning
3. EU foreign and security policy
4. Energy technology innovation leadership

However, during the scenario construction process, the authors have identified the triangular relationship between China, the US and the EU as a potential fifth driver. The following paragraphs describe each of these key drivers and their potential outcomes in 2025.

Driver 1: EU cohesion

Europe's economic crisis, the refugee crises and the crisis of political legitimacy entailed by the Brexit are current challenges the EU cohesion is facing. Whereas the Euro currency crisis has at least temporarily been resolved, it remains to be seen if, and when, a bigger Eurozone member might require a bail out. Conflicting opinions on the best strategy for handling the steady influx of migrants have paralyzed European decision-making and further divided its unity. Anti-EU sentiments and political parties have gained in popularity in many member states. The rise of nationalism and an anti-austerity mood across the EU renders the implementation of substantive EU or Eurozone reforms even more difficult.

The worst case in 2025: unsuccessful cohesion policy: In the face of persisting economic and political challenges, the EU member states revert to pursuing unilateral policies, many of which do not align, pushing the European institutions increasingly to the sidelines. The implementation of substantive EU or Eurozone reforms are postponed indefinitely, which results in a further deterioration of the EU's political legitimacy in the eyes of the European public. Fully absorbed by the ineffective management of its crisis, the Union is engaged in constant self-contemplation and EU policy towards China is at best responsive in nature.

The best case in 2025: successful cohesion policy: With a view to strengthening the EU's economic and financial governance mechanisms, the Eurozone moves towards the establishment of a genuine economic and

fiscal union, in which the EU institutions have greater competence to react in the face of economic crisis. A core group of EU member states agrees on criteria for a fair sharing system of refugee arrivals. This core group gradually expands eventually to include all member states. The EU can reassign a considerable amount of the resources devoted to crisis management to the more active monitoring and shaping of international affairs, be it through contributions to the UN peacekeeping forces, humanitarian aid packages, or launch of new initiatives to combat communicable diseases.

Driver 2: China's global reach and positioning

As China has risen to be the second largest world economy, the country has grown in its awareness to make stronger global contributions. This led to the development of parallel institutional structures by China aiming at gaining weight in global development decisions. Regarding the economic arena, China put forward the "Belt and Road" initiative, representing a new form of international economic cooperation for the 21st century. Further, it promoted mechanisms such as the Asian Infrastructure Investment Bank (AIIB), complementing global financing and governance. Concerning military issues, China is not viewed historically as an aggressive actor, preferring instead to use other means to exercise power and dominate its neighbors. Currently, however, China is in the process of restructuring its military. Over the last several years, it has increased military spending considerably, though the sum is still only about one-fourth the size of the US budget. It also changed from its non-intervention policy regarding international conflicts to active participation in UN-led operations.

The worst case in 2025: development of parallel structures: China continues its strategy of building up a parallel institutional system competing with the traditional players (IMF, WB, regional development banks) not necessarily on a regional but on a global scale. This consequently leads to tensions not only involving China and the US, but also all other major global players. At the same time China moves back to its former principles of not taking over global responsibility, preferring instead to stick to its traditional policy of "non interference". It does not get involved in joint crisis and anti-terror operations, but rather strictly pursues its national interests in a narrow definition.

The best case in 2025: successful cooperation within the existing and new global institutions: Global major actors generally agree that there has been a power shift and therefore traditional global institutions need to be adapted. In addition, they concur that the traditional players cannot properly meet the enormous capital needs for many countries in Asia. As a result, the new systems initially set up by China as parallel structures have successfully been integrated within the traditional framework. China becomes an actor in the international crisis-solving mechanisms, and actively participates in international peacekeeping and peace enforcing operations, even outside the UN framework. China shares relevant secret information with other participating countries. China participates actively in the fight against terrorism, against IS and other Islamist terrorists. China employs troops on foreign soil, if needed.

Driver 3: EU foreign and security policy

The fact that the interests of the 28 member states only occasionally coincide is the key driver behind the current state of EU foreign and security policy. Therefore, instances where the EU can act from a position of genuine political strength, derived from a clear member state mandate, remain rare. The permanent presidency of the European Council and the EEAS has been unable to conduct “real” diplomacy and to create foreign policy outcomes. The latest version of the European Security Strategy dates back to 2008 and lacks clarity in many decisive areas. As a result, the EU’s strategy towards China is characterized by a lack of manageable common strategic priorities that could be pursued collectively. Instead, EU member states mainly pursue their own bilateral strategies.

The worst case in 2025: weak EU foreign and security policy: In classic diplomacy, EU member states remain divided on many issues, and the EU fails to pool and share military capabilities that would allow for a greater transatlantic burden sharing. The EEAS continues to look inward, brokering the lowest common denominator positions among member states rather than proactively developing genuine EU foreign and security policy positions. The envisaged publication of the revised version of the European Security Strategy becomes postponed until further notice. On most policy issues, EU member states continue to pursue their own bilateral strategies and competition among EU capitals for political clout with Beijing prevails or even increases. In areas where the Union has exclusive competence, such as trade matters, the EU institutions embrace a legalistic, lowest common denominator position in relation to China.

The best case in 2025: strong EU foreign and security policy: Member states initiate and shape EU initiatives across the whole spectrum of foreign and security policy, but the EEAS is ultimately responsible for implementing these initiatives. A fully revised and comprehensive EU foreign and security policy strategy provides a basis for the effective coordination between the member states. EU member states agree to pool and share their military capabilities in bilateral and multilateral formats with the aim of fulfilling their fair share of transatlantic burden sharing, thus increasing the EU’s credibility as an international actor. The EU’s development and neighborhood policies are put to the test and – where appropriate – undergo a full revision in light of the Chinese competition. Member States pursue their common EU strategic priorities vis-à-vis China collectively, and bilateral policies are also either supportive of these priorities or at least not contradictory. In areas where EU Member States fail to agree on a common position towards China they manage to abide by effective damage control mechanisms and communication strategies.

Driver 4: Energy Technology Innovation Leadership

To mitigate the effects of climate change and to adapt to its impacts the world is currently in search of clean energy technologies that can drastically reduce CO₂ emissions. As they belong to the group of major emitters, especially China and the Western industrialized countries need to find technological systems that would still guarantee for international economic competitiveness in regard to energy prices and security. Although energy generation systems operate differently nation wide and therefore have different future development patterns, a common strategy for clean technologies is defined beyond national borders. For example, leading the market

within the field of renewable energies, energy efficiency, storage technologies and demand side management systems would consequently result in national economic power.

The worst case in 2025: China leading the market: Patent pools¹, massive state investment in both R&D and higher education enable China to experiment with smart grids and renewable energies on a massive scale, which in turn result in lower prices for innovative products (This scenario is described as “Acceleration” in Wubbeke and Conrad’s 2015 study (1)). Europe is shopping in China; trade flows for energy technologies are reversed. Major European companies have a shareholder majority of China’s leading SOEs now and are producing in China and Vietnam. While China and the U.S. need to go beyond their differences and nurture the habit for cooperation, as they are increasingly aware that although they cannot solve all global problems on their own, without their collaboration, none can be solved successfully. Europe is looking to China for the latest technologies; it has also to deal with energy security issues. For instance, Eastern European states experience black outs and Russia’s gas supply is a gamble although the energy mix is more diverse than 15 years ago.

The best case in 2025: EU leading the market: More or less all state of the art technology is researched and developed in Europe – at least in the field of energy. Renewable energy generation technologies, efficiency technologies, and energy storage technologies, smart grid and smart meters are made in Europe. Accordingly, Europe is putting a European patent pool for key energy technologies in place as well. After introducing an effective emission trading system, the EU might even succeed with its plan to implement a carbon price mechanism in the coming years.

Driver 5: Triangular relationship between China, the US and the EU

The EU-China relationship can be described as a strategic cooperation/partnerships, mostly economic in nature. The two in parts competing economies are largely intertwined as both depend on each other’s exports and imports. Economic cooperation is not without confrontation as national interest varies and disputes over the appropriate role of government and the universal value system occur (human rights etc.). However no major border disputes or security conflicts exist between China and the EU and therefore the relationship is widely characterized by friendship rather than hostility.

The EU and the US are full-fledged military allies acting on a long-term partnership and bound together by similar value systems, moreover representing the western system. However, historically and traditionally it has not been an equal partnership. Rather, the US is the dominating actor in its role as a major global power. This “small brother - big brother” topic has caused tensions and fractions within a relationship otherwise regarded as special.

¹ Patent pools are agreements between two or more patent owners to license one or more of their patents to one another or to third parties. Often, patent pools are associated with complex technologies that require complementary patents in order to provide efficient technical solutions and frequently represent the basis for industry standards that supply firms with the necessary technologies to develop compatible products and services. (World Intellectual Property Organization (WIPO), 2014, http://www.wipo.int/export/sites/www/ip-competition/en/studies/patent_pools_report.pdf)

The China-US relation is probably the most complex, revealing the characteristics of a rising power and established power dynamics. The US feels threatened by China's growing influence and ambition, while China suspects the U.S. of pursuing a policy of containment. However China remains the largest foreign creditor of the US. The two economies depend heavily on each other as investment and trade link them. Major economic setbacks on one side would have negative effects on the other.

Outcome 1: China and US taking the lead: China and the US focus on their common interests and potential for cooperation, rather than on disputes and competition. This cooperation not only occurs within the global economic and military sphere, but also in general international security issues such as counter-terrorism, non-proliferation, anti-piracy, drug control and the nuclear programs of Iran and North Korea. In regard to international climate policy the dual alliance not only paves the way for the Paris Agreement but also further enhances the implementation of a global emission-trading scheme and a carbon tax system. The EU has been pushed to the sideline and is only engaged if either the US or China regards it as necessary. In order to retain a voice in the global arena, the EU needs to form alliances with new partners such as Russia.

Outcome 2: US containing China and engaging the EU: Both countries' foreign policies have been mainly driven by mistrust, competition and the inability to interact responsibly with each other. The US establishes a policy of containment driven by the fear of China becoming an economic superpower of great military and political strength. China continues to advance its regional power position by dominating its neighbors and by strengthening parallel institutional structures while ignoring traditional players. The territorial dispute in the South China Sea has not been resolved as China's sovereign rights come up against US national interests. Major global tensions occur and the US calls on its various allies. Especially the EU finds itself in a difficult situation, at the same time pressured by one of its major economic trading partners, namely China, to remain neutral in the global power game.

Outcome 3: Tripartite concert: The US realizes that China has opened a new chapter in its foreign policy. Rather than competing in the international arena, the US engages China in their global security strategy. At the same time, the US still regards its former allies, namely the EU, as an important strategic cooperation partner and therefore works on a tripartite concert. The countries realize that a stable and prosperous situation would benefit all of them, as their economic systems are heavily interlinked through investment and trade. Moreover, China is set to play an active part by taking on greater global responsibility leading to improved international burden sharing. This development builds on the past experience that the problems of global change could only be solved if the EU, China and the US work together. It is important for the three parties to work effectively within a multilateral framework, while the NATO and the UN undergo major structural changes to adapt to the new global agenda. As a result, Russia feels isolated as one of the last disintegrated global players and its foreign policy gets increasingly aggressive towards the newly formed tripartite concert.

Outcome 4: inward orientated US engaging neither China nor the EU: The US goes through a period of populist leadership focusing on domestic social and economic issues. Economic policies are driven rather by protectionism than by free trade principles. It removes active international engagement and strategic leadership

from its political agenda. As a result, its position as a global hegemon shrinks to a back up force. The EU becomes increasingly frustrated and is forced to seek economic and global security cooperation elsewhere. As the NATO is practically ineffective, new partners such as Russia and China emerge. The global power vacuum that is left by the US is filled by China. Its economic rise also boosts its confidence and makes it ready to replace the traditional players in the international problem-solving arena.

3. THE SCENARIOS

The scenarios described below are based on different scenario frameworks. A scenario framework is a combination of projections from different key drivers (see section two). The expert group used frameworks to ensure that the scenarios are fundamentally different so that they represent truly alternative developments. The plausible scenario frameworks were then fleshed out in a rather unstructured but reflective group process, in which the authors of this paper participated as well.

“China made it – Made in China”

Despite many predictions that the Chinese economy would collapse, in 2025 China is leading in a large number of technologies supported by a booming economy. The EU and China have swapped leadership positions in a lot of frontier technologies.

Table 1: Timeline of “China made it – Made in China”

Time	Milestones
2018	Economic crisis in China and global recession
2019/2020	UK leaves the EU, but stays integrated
2020	Pollution starts declining in Chinese cities
2022	The EU integrates Foreign and Security Policy under a European foreign minister
2025	China organizes capacity-building for European companies and policy-makers

After the US cancelled major global agreements and bargains for renegotiation, China found herself forced into a trade war. It lives through a major phase of “hard landing” and a global recession follows in 2018. In this context, the reduction of industrial overcapacities, the reallocation of capital, and the restructuring of state-owned enterprises are indispensable, as the government cannot counterfinance. An economic slowdown and social unrest occur as unemployment rises. Several top politicians have to resign, however a revolution is averted, as the Chinese population is tamed by the concept of the US as national enemy. It is the general opinion that, in times of crisis, a strong leadership is of advantage.

In the context of the trade war, many US communication companies, which not only depend on the Chinese supply chain but also on the rare earth resources from China for their products, struggle economically. In addition, large amounts of foreign investors in China sell production facilities and leave the country, as the investment climate turns increasingly hostile. Many skilled workers remain. The established national champions already serving the domestic market quickly fill this gap. As a result of the restructuring, the share of energy- and labor-intensive industries decreases. China effectively extends its funding to large-scale R&D programs. By 2020, the Chinese economy is driven by a communication industry that in turn develops a service sector. Major innovations in communication technology and software lead to the emergence of digital platforms that not only reinvent the mobility sector but also stimulate technology innovation via knowledge spillover in other sectors, such as renewable energies, on a massive scale.

Thanks to China's regained financial strength and centralized power, the country is able to address issues of pollution more effectively. Air pollution, one of the major problems up to 2020, declines due to technical mitigation measures in the energy generation and industrial production processes, but also through e-mobility². Despite the anti-US atmosphere by 2025, working in environmentally less polluted China becomes more attractive for European talents. "Brain drain" from the EU eaves noticeable gaps in key sections of its innovation industry.

In parallel, the EU-US relationship gets more complicated from 2017 onwards and is characterized by zero-sum self-interest rather than cooperation. The collective defence system of NATO is called into question and the global recession hits some of the EU member states the hardest. Isolated between an increasingly aggressive Russia and an unpredictable US, the EU is forced to reorganize its alliances. In this context, the EU starts to coordinate policies towards China and to put in place sustainable internal economic governance mechanisms. Nationalist and protectionist tendencies within member states and the parties that thrive on these tendencies are still strong, especially in the member states drifting into recession. Overall, however, the waves of nationalism and protectionism lose their popularity. The EU can reassign a considerable amount of the effort it normally devotes to crisis management to the more active monitoring and shaping of international affairs, but mainly it needs to invest more energy into building up an EU military defense system. The research and development activities of green technologies lack funding, since the maintenance of internal governance processes and the military fully absorb its financial resources. By 2025, the Eurozone moves towards the establishment of a genuine economic and fiscal union, in which the EU institutions have greater competence to react. A politically strong but economically weak European Union develops a coherent common policy, which is more centralized towards Brussels and gives less power to the individual state governments. However, having suffered from a debt burden and a long deflationary phase of zero growth, Europe loses its global stronghold as an economic powerhouse. In 2025, this is also felt in the area of environmental technologies, as Europe loses its leadership role as a first mover in setting the technology standards.

² E-mobility implies the development of electric-powered vehicles aimed to shift vehicle design away from the use of fossil fuels to electricity and hence to cleaner transportation with less carbon gas emissions.

By 2025, trade flows for innovative technologies between the EU and China are reversed. China sets its own standards for global export, making it even more difficult for European manufacturers to catch up. The most prominent example of this development is the Chinese automotive sector, which is largely digitalized and fueled by electricity. Many other strategically important industries benefit from this innovation, including the energy sector, finance, internet providers, the information and communication sector in general, and Chinese software developers, who form alliances during the setting-up process. Therefore China transforms into a society based on innovation and service orientation and the EU and China swap leadership positions in a lot of frontier technologies. Products “made in China” become market leaders.

Indicators

There are several indicators that can show us that we are moving into this scenario.

- The US and China embark on a trade war. The US president Donald Trump and his team talk about the necessity to launch a trade war with China, with the goal of increasing employment in the US. Should this “threat” be implemented into practice (i.a. in form of high import taxes), it will push China to restructure its own export sector as well as to proceed with the development of its own trade system, be it within the already existing and emerging institutional (AIIB, SOC, RCEP) and infrastructural (OBOR) framework. With its main trade partner (the US) gone, China might also attempt to redirect its export flows to other industrialized countries³.
- The number of Chinese domestic start-ups and innovation patents is growing. Entrepreneurship and innovation gained unprecedented popularity in China, with more than 1,000 organizations investing approximately \$56 billion in startup capital and 660,000 invention patents in 2015. As China transitions to a consumption economy after its critical infrastructure and fixed asset economic era, the startup sector presents a massive economic opportunity to create new jobs and to enhance consumer choices for the future.⁴
- More and more international scientist teams work for Chinese companies or research units – reversal of scientific flow (in terms of both human resources and technology advancements) from Europe to China. In recent years China has become increasingly appealing as a destination for foreign researchers. While research funding stagnates in the US, in China it is rapidly growing and Chinese research facilities attract foreign researchers by friendly international environment and special grant programs explicitly designed to help recruit scientists trained abroad.⁵ Due to this further brain drain of Western scientific communities, the EU and the US risk losing their leading positions in technology innovation.

³ https://www.nytimes.com/2017/01/30/business/economy/trumps-mexico-china-tariff-trade.html?_r=0

⁴ <https://www.forbes.com/sites/jlim/2016/02/24/thoughts-on-investing-in-chinese-start-ups-from-a-big-foreign-vc-fund/#4885745b6dff>

⁵ <http://www.sciencemag.org/careers/features/2016/11/foreign-born-scientists-find-home-china>

Pragmatic Cooperation

In 2025, the EU successfully overcomes its difficulties and the EU integration deepens. The impacts of climate change emerge prominently all over the world. Domestically, the Chinese government continues suppressing dissenting voices and fosters its governance capacity. Nevertheless, the EU adopts a pragmatic approach towards a very authoritarian China in order to deepen economic relations.

Table 2: Timeline of “Pragmatic Cooperation”

Time	Milestones
2019/2020	UK leaves the EU, but stays integrated
2020	Peace in Syria, sustainable refugee situation
2021	EU-China Sustainable Innovation Programme, European Climate Tax
2021	China adds 300 million USD per year to UN Green Climate Fund
2023	EU-China Patent Pool
2025	Negotiations for EU-China FTA

From 2017 to 2020, EU institutions and member state governments work hard to find lasting solutions to the current refugee crisis. Mechanisms for exchanging best practices for integrating the newcomers into society and the labour markets are established. Across the EU, registration centers are put up, in which the procedures for granting asylum move swiftly. While all member states agree that welcoming refugees is important, they negotiate the number of refugees to be sent to each country. Adopting a long-term perspective, the different agencies consider how best to tackle the underlying causes of migration. The ensuing coherence also unifies the European position in its foreign relations with China. In 2018, the EU succeeds in lobbying China to intervene indirectly in the Syrian conflict by convincing Putin (with economic incentives) to support the UN approach. The EU persuades China to intervene in this distant conflict by offering visa facilitation and economic privileges in the form of lowered trade barriers and more favorable conditions for Chinese business in Europe – just as it engaged Turkey in 2016.

In 2021, having received privileged access to the EU market, China decides to move forward with green finance⁶ and announces its new “Sustainable Innovation Programme”. The Ministry of Commerce financially supports private enterprises from China in setting up joint R&D centers on the European market. The European

⁶ The term Green finance refers to financial investments into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy.

Commission drafts a regulation that EU-based innovation projects should – regardless of their actual and legal location in the EU – pay a modest European Climate Tax instead of national company taxes.

In late 2021, China also announces an IMF initiative to add an additional 300 million dollars per year to the UN's Green Climate Fund in order to support mitigation research in the field of ultra-efficient batteries. The EU voices its support for the initiative and contributes additional funding, mostly coming from incomes generated by the European Climate Tax.

In 2023, realising that cooperation in developing technology is crucial, China and the EU establish a patent pool for innovation in climate change technologies. While the negotiations are lengthy, companies quickly realise the pool's potential and start setting up more and more of the joint R&D incubators with assets on both continents. The number of exchange students jumps and bilingual business schools are established.

China is politically stable. It has a strong interest in international cooperation. The country's government is convinced that the country has benefited greatly from the global (economic) order and continues to do so. It strives towards further integration via existing institutions, rules and frameworks, such as the WTO, the World Bank and the IMF, as well as the regional free trade agreements. The EU and China adopt a common stance towards fighting climate change. The two meet before COPs in order to align their interests. These dialogues frequently result in joint proposals, not only within the UNFCCC framework, but also in the form of joint initiatives to finance the international fight against climate change.

In 2025, a strengthened EU that has found a sustainable solution for the refugee crisis and a politically more stable China decide to take their relationship to a new level by starting negotiations for a free trade zone, building on a host of constructive common experiences, ranging from effective diplomatic cooperation in solving the Syrian conflict to collaboration in technology and cooperation on fighting climate change. Neither side ceases to emphasize the great symbolic meaning of these negotiations.

Indicators

- China is a reliable and active participant in international organisations, regimes and forums. It significantly increases its contributions to the UN peacekeeping operation⁷ and takes a leading role in the global fight against climate change⁸. The country complies with international laws, especially regarding maritime claims. It abides by the decisions of the International Supreme Court regarding the island disputes with Japan, Taiwan and the Philippines.
- A deepening of integration is visible. Eurosceptic parties therefore lose support. Most significantly, concrete proposals for EU military forces are now seriously discussed. This leads to the establishment a strong anti-terror defence unit, the founding of a unified command for joint European military

⁷ <http://www.telegraph.co.uk/sponsored/china-watch/politics/12210677/china-contributions-un-peacekeeping-budget.html>

⁸ <http://time.com/4800747/china-climate-change-paris-agreement-trump/>

operations following a deployment of EU battle groups and a common military investment budget for military hardware.

- China and the EU coordinate with each other and play an active and responsible role in the MENA region. As Chinese investments in regional businesses grow annually and countries of the MENA region become increasingly integrated in the Belt and Road initiative, China together with the EU uses economic leverage to ensure political stability in the region. Concerned about the recruitment of Chinese Muslims as foreign fighters for terrorist groups in the region, China initiates joint initiatives with the EU to combat terrorism.⁹

EU Model crumbles – China Model thrives

Weak governance within a fragmented European Union is among the core characteristics that shape Sino-European relationships in 2025. EU-sceptic voices are dominating public discourses in most EU member states, even if their parties are not represented in all national parliaments. Internationally even more assertive, strong and stable, China provides reliable economic growth and prosperity to its citizens. As a result, China focuses on bilateral relationships with individual European countries rather than dealing with the EU as a whole.

Table 3: Timeline of “EU Model crumbles – China Model thrives”

Time	Milestones
2018	The EU grants market economy status to China
2019/2020	UK exits the European Union, other countries start efforts for a partial exit
2020	50% of EU member states have ruling coalitions with right-wing parties
2021	Connection of Belt and Road initiative from China to Europe
2022	Suspension of the Schengen Agreement, Greece leaves Eurozone
2023	China leads its first peacekeeping operation
2025	US-China Free Trade Agreement

The Chinese political system demonstrates a flexible adaptation to domestic challenges. It is thus able to withstand the uncertainties it faces in 2015–2016, such as a slowdown of economic growth, labour protests, stock market crashes and environmental degradation. Between 2017 and 2025, China is able to secure stable economic growth rates of around five per cent annually. It slowly but successfully deals with industry overcapacity, avoiding increasing unemployment rates. By 2020, the Renminbi becomes one of the internationally accepted currencies and its share in the IMF Special Drawing Rights gradually increases. Domestically, demonstrations and protests against pollution persist. However, a widespread quest for political change is not in sight. Massive state-led investment in higher education and research and development allows

⁹ http://www.huffingtonpost.com/james-dorsey/middle-east-and-north-afr_b_7434422.html

for technological innovation. Sectors such as ultra-high-voltage electricity transmission and smart grids, public transport, digitalisation of social life and medical science, among others, make it easier for China to become a post-industrial superpower by 2049 – in time for the People’s Republic’s 100th anniversary. At the same time, sectors such as manufacturing and assembling technological equipment shift to other parts of the world. By 2025, Xi Jinping’s ambitious infrastructure project, the Belt and Road Initiative, spans its net across the world, binding countries in Central and South Asia, Africa and Europe more closely to China and catapulting the Middle Kingdom to the economic centre of the world.

On the other side of the Eurasian plate, the idea of an ever closer union of Europe is put on hold. The British withdrawal from the European Union triggers an inward focus. Following this example, other European governments face increasing pressure by populist parties pushing them to hold referenda on the question of remaining in the European Union and the Eurozone. In the course of 2017–2020, governments in Hungary, Poland, and Greece consider leaving the European Union. Political parties in other countries, such as Austria, France, the Netherlands and Germany, call for opt-out clauses.

The power of populist and strong anti-EU parties increases. They push for disintegration and a re-nationalisation of formerly common European policies, leading to a loss of joint decision-making abilities in many policy areas. By 2020, these developments open the discussion of a potential restructuring of the European Union’s core political architecture. Some member states suggest to scale down the unions responsibilities, curtail its powers and give more sovereignty back to the member states. In 2022, negotiations on the Eurozone remain the main issue and individual countries, such as Greece, leave the Eurozone. In the same year, Schengen is replaced by a “core Schengen”, limited to bilateral agreements on the free movement of people, between willing countries only. During the two elections for the European parliament until 2025, EU-opposing parties gain more seats than ever before.

Occupied by these internal political and societal disagreements, the EU is incapable of crafting a common policy approach towards China. Common European structures are no longer attractive for China and the idea of a multipolar world alongside a strong European Union becomes increasingly unrealistic. China deems other regions such as North America and Australia as well as South America and Africa more relevant. By 2025, the Chinese system of quick decision-making chains as part of its political structure, allowing for the fast realisation of infrastructure projects and development, becomes attractive for other developing countries. They regard China as an attractive role model because it offers fast support during crises, like epidemics, and is open for unconditional economic cooperation with non-democratic regimes. The EU member states’ conditionality and selective approaches towards development aid cannot keep up with China’s infrastructure built up around the world. Altogether, this triggers a process in which European countries are left behind in their foreign policy, limiting their diplomatic and trade networks.

Internal disputes in the European Union also play out in terms of international affairs. After years of negotiation, the EU grants China market economy status in 2018. Having been granted market economy status under only limited conditions, China increases its economic advantage; oversupply in a vast range of industries hurts

European companies that are excluded from special conditions, making it less likely for them to survive. European companies are cheap investment sources for Chinese global champions and small and medium-sized enterprises, which, further pushed by China's "go-global" strategy, take an ever more dominant position on the international market. China manages to ensure the survival of some European companies. However, this also renders Europe's economy more dependent on China's financial sources.

During meetings with Chinese delegations, European governments are increasingly confronted with the Belt and Road initiative. Lacking joint visions, the EU misses the opportunity to help shape this large infrastructure network. European leaders find themselves in a passive position, being only able to accept China's further development of the initiative during the course of the next ten years. By 2025, the initiative transforms into a strong international foreign policy strategy navigating China into the global centre of economic and security-related politics. China's international assertiveness further increases and it establishes itself in the global arena with the New Development Bank and the Asian Infrastructure Investment Bank. The prevalent threat of global terrorism forces China to step back from its narrative of military non-intervention. In order to protect Chinese citizens working in foreign investment projects under high risk conditions such as Nigeria or Pakistan, China builds up its international military presence. The Shanghai Cooperation Organisation turns into an influential regional security organisation by 2025.

Indicators

- EU unable to decide on Chinese market economy status in 2016. The EU fails to reach an agreement on the problem of steel overcapacity in the ongoing row about China's status before the World Trade Organization. This results in the inability of both parties to agree on a broad range of other issues, including free trade negotiations, climate change talks etc.¹⁰
- Increasing Chinese investments in infrastructure projects around the world, including investments in the infrastructure within the Belt and Road Initiative in South-East Asia, Central Asia and Central Europe, but also projects in Africa and Latin America.
- Absence of disruptive events within China, unforeseen incidents such as epidemics or large-scale natural disasters

4 Reflections

Although we cannot derive concrete implications or recommendations for the readers, we can offer some reflections from the scenario-building exercise that might help readers to make use of our scenarios for themselves in a meaningful way.

First, scenarios are plausible thought experiments about alternative futures and as such they can only depict a limited number of developments. Others scenario groups would have come up with another set of equally plausible but very different scenarios. Therefore, readers should neither think of scenarios as knowledge about the future, nor as a definite set of hypothesis about the future. We hope, however, the scenarios presented in this paper are hypothesis worth considering.

¹⁰ <http://www.dw.com/en/eu-china-fail-to-issue-joint-statement-due-to-trade-status-concerns/a-39099535>

Second, scenarios are thinking tools that the readers can use to learn about the bigger picture of EU-China relations. Although constructing scenarios is a more intense learning experience than reading through the end product, we hope that the readers gain new perspectives or discover a blind spot. For the group that constructed the scenarios this was indeed the case: They learnt that they face a blind spot in their forward-looking thinking in regard to the role of the US in the EU-China relationship. By adding an additional key driver, they advanced their thinking and actively broadened their scenario horizon.

Readers might also use the scenarios as a *strategic* thinking tool. The easiest way to do that is to reflect on the consequences various scenarios would pose. Some readers might discover more threats; others might see more opportunities when they imagine they (or the organizations they work for) face a future environment as illustrated by the scenario. In addition, the readers could use our scenarios as wind tunnels to test their respective ideas. Usually those ideas are any kind of long-term endeavors or projects that need to “fly” under various future conditions. Stress-testing these strategic options against a variety of scenarios can help to ensure long-term success in face of deep uncertainty. However, our scenarios might not work as wind tunnels for every readers’ “planes”, to stay in that metaphor, because scenarios are tailor-made thinking tools and the ones presented here were developed for the purpose to advance the discourse, not to create or test strategies of specific actors. Different foresight aims call for different foresight methodologies and different scenario construction techniques.

Third, we encourage readers to develop their own thought experiments. We recommend slightly changing the construction technique we used to get more insights out of the scenarios: The scenario group defined best-case and worst-case projections for each key driver. Although this technique helps to think in extreme alternatives, it also fosters black and white thinking and hinders to think about the more interesting (unseen, underrated, difficult-to-grasp) projections. Simply because the great value of foresight lies in the process itself.

Funding:

The research for this article carried out by Olivia Gippner was supported by the Dahrendorf Forum, a joint initiative by the Hertie School of Governance, LSE and Stiftung Mercator.

Acknowledgements:

We are grateful for the input received during two workshops organised by the Dahrendorf Forum at the Hertie School of Governance. The article benefited from input provided by expert workshop participants, Johannes von Einem, Wiebke Rabe, Rainer Stinner, Olivia Gippner and Monika Sus. We want to thank Maria Pastukhova for helping us finalizing this article.

References:

- (1) Wubbeke, J. & B. Conrad. "China's climate promises under economic pressures: Scenarios and implications." Merics China Policy Brief (2015).
- (2) Huotari, M. & M. Otero-Iglesias, J. Seaman, A. Ekman (eds.). "Mapping EU-China Relations: A Bottom-Up Approach." European Think Tank Network on China (ETNC) (2015).
- (3) Kuo, M. & A. Marble. "China in 2020: Bridging the Academic-Policy Gap with Scenario Planning." *Asia Policy* 4 (2007): 2-6.
- (4) Sus, M. & F. Pfeifer. *European Union in the World 2025. Scenarios for EU relations with its neighbours and strategic partners*, Berlin: Hertie School of Governance and LSE IDEAS, Dahrendorf Analysis (2016).
- (5) Gabriel, J. "A scientific enquiry into the future." *European Journal of Futures Research* 2.1 (2014): 1-9.
- (6) Bishop, P. et al. "The current state of scenario development: an overview of techniques." *Foresight* 9-1 (2007): 5-25.
- (7) Ramirez, R. et al. Scenarios as a scholarly methodology to produce "interesting research". *Futures* 71 (2015): 70-87.