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Research Report

First summit of the anti-China coalition: Cornwall G7 highlights BRICS weakness

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SWP Comment

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First Summit of the Anti-China Coalition

Cornwall G7 Highlights BRICS Weakness

Heribert Dieter

The 2021 G7 Summit of the heads of state and government of the seven leading industrial nations (Germany, France, Italy, Japan, Canada, United States, United Kingdom) will be held in Cornwall, UK, from 11 to 13 June. As host, British Prime Minister Boris Johnson has placed future relations with China at the top of the agenda. That prioritisation is reflected in the guest list: Australia, India, South Korea and South Africa. The Cornwall G7 has been set up to develop a broad alliance against an increasingly aggressive China. The German government tends to play up China's economic significance and risks slipping into an outsider role, enabling a totalitarian state for economic gain.

The Summit's motto "Build Back Better" sounds innocuous and constructive. As the Covid-19 pandemic becomes manageable, the leading industrial nations are thinking about the shape of the expected recovery and the question of tackling future pandemics. While these are undeniably important, the crucial question for the 2021 G7 is: How should the other six position themselves in the new Cold War between China and G7 member United States?

The question ensues from the massive transformation of China's foreign and external economic policy. President Xi Jinping's line of reducing China's dependency on the global economy has significant implications for the OECD countries. And the country's push for economic autonomy presages another transformation of the international division of labour and dispels

any illusion that it might be on the path to a market economy.

China is seeking a degree of self-isolation, and is simultaneously asserting its interests much more forcefully than during most of the first three decades after its economic opening at the end of the 1970s. This is more than noisy rhetoric: Beijing's actions contravene treaties and international law. It was the violation of the Sino-British Joint Declaration of 1984, which granted special status to the former British colony of Hong Kong, that led most of the G7 governments to reconsider their assessment of Beijing's reliability.



Johnson Channels Trump

This applies especially to the British government and Prime Minister Boris Johnson. So much has changed since 2015, when Xi was given a royal welcome in London and the rare honour of being invited to address both chambers of parliament. Queen Elizabeth and General Secretary Xi drove to Buckingham Palace in the Diamond Jubilee State Coach. The two governments spoke of a “golden era” in their bilateral relationship.

That all changed in 2019, with protests in Hong Kong followed by the imposition of a draconian new security law on 30 June 2020. As well as criticism of Beijing, London also altered its visa rules to offer all Hong Kong citizens eligible for the so-called “British National (Overseas)” passport a path to permanent settlement in the United Kingdom. This applies to about three million people, or about 40 percent of Hong Kong’s population today. That alone demonstrates the dismal state of the bilateral relationship.

This generous offer to take in so many Hong Kong citizens is all the more striking, given that control over immigration was one of the central motives of the Brexit debate. Resettling these Hong Kong citizens could become the biggest such migration since the expulsion of about 30,000 East African Asians from Uganda and Kenya in the late 1960s and early 1970s. This time, though, there is little objection to the plans, with British opinion polls showing two-thirds support.

Boris Johnson does not mind offending Beijing, which regards the visa question as interference in China’s internal affairs. Johnson’s stance appears to be driven not only by British ire over violations of the 1984 Treaty but also a belief that the geopolitical escalation compels London to take a stand.

Johnson’s invitation to Australia, India, South Africa and South Korea originates in a proposal made by President Donald Trump exactly a year ago. Trump called for the establishment of a G11, comprising the G7 plus Australia, India, South Korea and Russia. Johnson co-opted the idea of form-

ing a democratic counterweight to China, simply replacing Russia with South Africa.

The British prime minister’s decision to invite countries especially affected by Chinese aggression sends a message to Beijing: the Western industrial nations are not prepared to turn a blind eye to its aggression.

China’s support is on the wane across the world, nowhere more so than in the United States. There is now a broad public consensus — extending well beyond the Beltway — that it is time to “stand up to China”. China is increasingly seen as the central challenge not only for the United States but for the entire Western world.

China’s Popularity Slipping

Beijing is losing friends over its foreign policy. A survey in the G7 countries in autumn 2020 found clear majorities holding negative views on China, ranging from 62 percent in Italy to 86 percent in Japan. Growing mistrust towards China has become the central issue of international politics.

Responsibility for this decline in standing lies in the first place at the door of President Xi Jinping, who has abandoned the caution of his predecessors and encouraged a cult of personality not seen since the era of Mao Zedong. Xi takes a hard line domestically and internationally, provoking tensions that affect not only relations with the United States but also with two of the countries invited to Cornwall: Australia and India.

Diverging Economic Interests within the G7

Exports are often regarded as an indicator of economic performance, although export concentration can also make an economy highly vulnerable. The G7 nations and their guests in Cornwall differ in their degree of dependency on exports to China.

Australia, South Korea and Japan all depend on China for a significant share of their overall exports, while the United

Table 1

Merchandise exports to China in 2020, G7 members and guests, share of total exports (percent)

| <i>Country</i> | <i>Exports</i> |
|----------------|----------------|
| Australia | 39.7 |
| South Korea | 25.9 |
| Japan | 22.0 |
| South Africa | 11.5 |
| United States | 8.7 |
| Germany | 8.0 |
| India | 6.9 |
| Canada | 4.8 |
| United Kingdom | 4.7 |
| France | 4.1 |
| Italy | 3.0 |

Source: International Monetary Fund (IMF), Direction of Trade Statistics, own calculations.

States comes ahead of Germany. None of those countries, nor France or the United Kingdom show any reticence over conflict with China, as evidenced by their willingness to maintain a military presence in the Pacific.

A slightly different picture emerges in the absolute figures. Germany is Europe's biggest exporter to China, although only slightly ahead of Australia, which has less than one-third of Germany's population. Germany's large export volume is often cited as a justification for its soft line towards China, but this does not actually stand up to scrutiny. In fact in 2019 trade with Poland and Hungary was larger than trade with China.

So Germany is not in fact excessively dependent on China. Yet Beijing possesses no better advocate in Europe. This was seen very clearly at the end of 2020 during the German EU Council Presidency, when Berlin prioritised passage of the EU-China Comprehensive Agreement on Investment over Washington's objections.

The data in Tables 1 and 2 does suggest reasons why France and the United King-

Table 2

Merchandise exports to China in 2020 (US\$ billion)

| <i>Country</i> | <i>Exports</i> |
|----------------|----------------|
| Japan | 140.5 |
| South Korea | 132.6 |
| United States | 124.6 |
| Germany | 110.4 |
| Australia | 100.0 |
| France | 20.1 |
| India | 18.9 |
| Canada | 18.8 |
| United Kingdom | 18.6 |
| Italy | 14.8 |
| South Africa | 9.9 |

Source: International Monetary Fund (IMF), Direction of Trade Statistics, own calculations.

dom might feel free to pursue a more resolute line than Germany. But both the United States and Australia have a great deal to lose, without that deterring them from practicing a value-based foreign policy and responding firmly to violations of international law.

Test Case Australia

Australia is extremely dependent on exports to China and has experienced massive political intimidation. That puts a special edge to Canberra's invitation to Cornwall. In fact Beijing has worked to intimidate and blackmail many countries in recent years; South Korea and Sweden to name but two.

In November 2020 the Chinese embassy in Canberra demanded that the Australian government address a list of fourteen grievances. The complaints included funding supposedly "anti-China" research at the Australian Strategic Policy Institute; Australia's positions on Taiwan, Hong Kong and Xinjiang; its call for an independent investigation of the origins of the SARS-CoV-2 virus; the ban on Huawei technology

Table 3

German merchandise imports from and exports to Eastern Europe and China in 2019 (€ billion)

| <i>Country</i> | <i>Imports</i> | <i>Exports</i> | <i>Total</i> |
|--------------------------------------|----------------|----------------|--------------|
| China | 77.0 | 96.3 | 173.3 |
| Poland | 63.6 | 65.8 | 129.4 |
| Czech Republic | 52.7 | 44.5 | 97.2 |
| Hungary | 29.1 | 26.9 | 56.0 |
| Sum: Poland, Czech Republic, Hungary | 145.4 | 137.2 | 282.6 |

Source: Eurostat, own calculations.

in the Australian 5G network; and the blocking of more than ten Chinese investment projects as well as restrictions in fields such as infrastructure, agriculture and animal husbandry.

Prime Minister Scott Morrison enjoys strikingly strong support for his China policy, despite the enormous pressure applied by China and Australia's great dependency. In 2020 82 percent of Australians backed sanctions against Chinese officials implicated in human rights violations. So why are Australians not afraid to stand up to China?

Two factors are significant. Firstly, Australian society has been experiencing Chinese pressure for some years, and has discussed the issue in depth. For many Australians obeying Beijing's demands is simply unthinkable. And it helps that many Australians are well aware that China depends on Australian resource exports. Beijing can do without Australian wine and lobster – but not without Australian iron ore, currently priced around US\$180/tonne versus production costs of about US\$10/tonne. Doing without iron ore from Australia would have serious repercussions for China's manufacturing and construction sectors. No other supplier is in a position to replace Australia.

A Quad Meeting

In parallel to the G7 meeting, the heads of state and government of the Indo-Pacific Quadrilateral Security Dialogue will also meet in Cornwall. Australia, India, Japan and the United States held an initial virtual summit on 12 March 2021. While military cooperation between Australia, Japan and the United States is well established, Indian participation in the "Pacific NATO" is new and reflects growing tensions between New Delhi and Beijing. While Prime Minister Narendra Modi will remain in India on account of the prevailing coronavirus situation, the other three heads of government will meet in person in Cornwall.

At the March meeting it was already clear that Washington is determined to counter Chinese aggression in the Indo-Pacific and forging broad alliances to back this up. Within just a few months the Biden Administration has succeeded in mending the rifts left by President Trump and placing cooperation on a new footing.

France and the United Kingdom have been supporting the Quad with naval contingents, although France lays weight on operational independence; its nuclear attack submarine SNA *Emeraude* has been in the Indo-Pacific since September 2020. Concerted action by a large group of countries sends a clear message: China's violations of international law will not be accepted.

This spring London sent a strike group to the Pacific, led by the country's only aircraft carrier, HMS *Queen Elizabeth*. The fleet also includes a Dutch frigate and an American destroyer. On board the *Queen Elizabeth* are eighteen F-35B combat aircraft, ten from the US Marine Corps and eight from the British Royal Air Force. As well as demonstrating solidarity and interoperability, London, Washington and The Hague are also displaying military muscle in East Asia.

Germany's plans to send the frigate *Bayern* to the Indo-Pacific on a freedom of navigation mission appear unconvincing. Without embedding in a broader naval

formation, the deployment will remain symbolic.

The End of BRICS?

As well as the leaders of the G7 and Quad, two of the five BRICS countries — India and South Africa — will also be present at the meetings in Cornwall. Even if Prime Minister Modi will not attend in person, the significance of India's participation is enormous. For decades New Delhi pursued a policy of equivocation and led the non-aligned movement. No longer. After repeated spats with China, the Indian government has dropped its reservations and turned to the West.

While India's cooperation with the West is flourishing, cooperation among the emerging economies has ground to a standstill. When the BRICS group (Brazil, Russia, India, China, South Africa) first met in 2009 some observers saw it becoming a counterweight to the G7. That is certainly no longer the case.

The Indian-Chinese relationship is in tatters. Brazil's far right President Jair Bolsonaro has shown no interest in deepening cooperation. China and Russia are all that remains of BRICS. So it is hardly surprising that the 13th summit of the BRICS states, which India was supposed to host in 2021, has been postponed. In view of the depth of strife between its two largest members, the prospects for cooperation within the BRICS group are dim indeed.

Cornwall: A Turning Point in International Relations?

The preparations for the G7 Summit revealed that Germany stands apart. While the United States, France, Japan and the United Kingdom have responded to China's growing aggression, Germany continues to pursue a policy of close cooperation. Neither the illegal security law in Hong Kong nor the increasingly obvious human rights vio-

lations in Xinjiang have persuaded Chancellor Angela Merkel to change her fundamental position. This was seen very clearly at the end of 2020, when Germany pushed through the EU-China Comprehensive Agreement on Investment despite grave concerns among its European partners and Washington's request to delay signing.

Germany stresses the importance of remaining in dialogue with Beijing, for example to discuss climate change (with the world's largest CO₂ emitter). On the other hand, German export interests are cited as justification for conciliatory policy towards China.

Neither line of argument is convincing. In the past China has repeatedly failed to follow words with deeds. For example in trade policy, Beijing has repeatedly postponed the implementation of reforms associated with its accession to the World Trade Organisation in 2001.

Beijing's position on climate change is also equivocal. Its construction of coal-fired power stations in Belt and Road partner is hard to reconcile with its Paris climate obligations. The Paris Climate Agreement of 2015 provides for the CO₂ emissions of foreign investment to be taken consideration, but there is no sign of this in China's Belt and Road Initiative.

Beijing is naturally aware of the increasingly hostile mood. It is certainly no coincidence that just ten days before the Cornwall Summit President Xi "told senior Communist Party officials it was important to present an image of a 'credible, loveable and respectable China'". But there is no sign of Beijing deviating from its policy of self-isolation or abandoning the idea of "dual circulation".

The G7 Summit marks a watershed in twenty-first-century international relations. The G7 nations — first and foremost the United States and United Kingdom — have recognised the challenge posed by China and are developing new forms of cooperation. If Germany continues to insist on conciliation it risks getting left behind.

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