



China-European Union relations: Expectations for 2024 and beyond

By Charles Parton

Even before the Covid-19 pandemic struck, the mood in the European Union (EU) towards the People's Republic of China (PRC) had changed. Unlike the United Kingdom (UK) in 2016, the EU had never declared a 'Golden Era', but nevertheless EU relations with the PRC before and during the early years of Xi Jinping's rule as General Secretary of the Chinese Communist Party (CCP) were cordial and suffused with optimism. That has changed to an outlook based on a more realistic assessment of CCP intentions and actions.

In March 2019, the EU declared the PRC to be a 'partner for cooperation, an economic competitor and a systemic rival.'¹ Even before March the last element had been underlined by a report from the Federation of German Industries, a noticeable development from a country with the largest trade and investment relationship with the PRC.² That change in the EU attitude owed much to a lack of reciprocity and a level playing field in business; to fears over Chinese control of critical infrastructure; to the CCP's political assertiveness and interference; to

¹ 'EU-China Relations factsheet', External Action Service (European Union), 07/12/2023, <https://www.eeas.europa.eu/> (checked: 23/06/2024).

² 'Partner and Systemic Competitor – How Do We Deal with China's State-Controlled Economy?', Federation of German Industries, 10/01/2019, <https://www.wita.org/> (checked: 19/06/2024).



growing evidence of a disregard for international law and norms; and to systemic human rights abuses. Subsequent CCP behaviour over Covid-19 and support for Russia in its war against Ukraine added to disquiet. The European Parliament, some of whose representatives have been sanctioned by Beijing, and the general public have also turned against the PRC, something Brussels and national governments have to take into account. The emphasis in the three-part description has shifted to 'systemic rival'. The recent mutual imposition of tariffs may require an even stronger description in the future.

For the CCP, the picture is also mixed. EU markets are important, not least since the Chinese economy and employment has turned sluggish. It wishes to preserve access to European science and technology. Geopolitically, the CCP would like to prevent European alignment with the United States (US).

While 'de-risking' (and not 'decoupling') has become a watchword for the EU in its relations with the PRC, there are limits on how far distancing can go.

Economic interdependencies run deep – to decouple from Russia and the PRC simultaneously would be highly damaging; the EU does not want to be seen to be merely an ally of the (unreliable) US; and unity of purpose between 27 member states and the EU Commission is never a given.

Indeed, that last point is worth emphasising. The abbreviation 'EU' is ambiguous, often used for both the European Commission and the collective 27 member states. The Commission has competence for trade: it sets the rules and can insist that member states abide by them. But it does not have competence in foreign affairs, economic security and other areas. There it can provide guidance, but it is up to member states to set their own policies. Differences in national interests and approaches are susceptible to exploitation by the CCP, never slow to spot opportunities for 'divide and rule'.

While the CCP would like to weaken European alignment with the US, it is unlikely to overlook EU moves to protect itself from Chinese policies. It will always display confrontational and aggressive behaviour where it perceives its economic and core interests to be threatened. The underlying shift in relations is towards a gloomier outlook with increased tensions, of which, among other things, recent EU anti-subsidy investigations are a harbinger. Both sides have reasons to avoid big disagreements, but for the EU wariness has replaced openness as the main characteristic of the relationship.

And plenty of other potholes lie in the road ahead: Taiwan, United Front interference, espionage, Tibet after the death of the Dalai Lama, and more. There are also, in words favoured by the CCP, black swans and grey rhinos. The outcome of the US presidential elections and of Russia's war against Ukraine figure highly in that raucous menagerie. In sum, the difference between 'political de-risking' and 'decoupling' will become increasingly fine.



What does China want from the EU?

Before looking at the extent of the transition to a more cautious EU approach to the PRC and the underlying reasons, it is worth considering what both sides aim to get out of relations.

The EU's importance to the PRC starts with trade. The EU is a developed market of nearly 450 million people which imported €626 billion (£534 billion) of goods in 2022, while exporting €230 billion (£196 billion), respectively 20.8% and 9% of the EU's total trade.³ For the PRC, exports to the EU made up 14.8% of total exports in 2023.⁴ The overwhelming majority of imports are concentrated in the sectors of machinery and vehicles, chemicals and manufactured goods. In terms of the four largest categories, telecommunications equipment, automatic data processing machines, electrical machinery and apparatus, and electronic tubes/valves predominate. For the EU, automobiles and parts, electronic articles, medicaments, machinery and instruments form the largest categories.⁵ The contribution to employment and prosperity in the PRC is indispensable, particularly as current policy seems set to continue to rely on exports to prop up an otherwise flagging economic performance.

The second element of importance of the EU to the PRC is scientific and technological know-how. The CCP has put science and technology and innovation at the centre of its push to achieve superpower status. To supplement its own efforts and abilities, since the 1950s it has had detailed plans for obtaining foreign intellectual property, both through open and legal channels,

³ 'China-EU - international trade in goods statistics', Eurostat, 02/2024, <https://ec.europa.eu/> (checked: 19/06/2024).

⁴ 'China's Total Export and Import Values by Country/Region, December 2023', General Administration of Customs (PRC), 12/01/2024, <http://english.customs.gov.cn/> (checked: 19/06/2024).

⁵ 'China-EU - international trade in goods statistics', Eurostat, 02/2024, <https://ec.europa.eu/> (checked: 19/06/2024).



and through clandestine and covert means.⁶ The open and acceptable paths have centred on three methods:

1. **Insistence that foreign companies wishing to access the large Chinese market do so through establishing joint ventures in the PRC**, which require a transfer of technology; this also enables Chinese partners to master modern management practices.
2. **Investment in, or buying of, hi-tech European companies.** Chinese investment in Europe underwent a noticeable change in around 2016–2017. Thereafter it became far more tightly focused on hi-tech sectors which could advance the CCP aim of dominating new industry sectors. The lion's share of investment has always been in the UK, Germany and France, where many of the technologies the PRC seeks are advanced.
3. **Working with European universities.** Chinese PhD and post-doctoral students have been noticeably present in science and technological areas which benefit the PRC. At the same time, universities have been funded to carry out specific research on behalf of Chinese entities, many connected to the PLA.

Thirdly, the CCP has been keen to promote abroad its new industry 'champions'. Prominent examples have been in the telecommunications, power generation, port and surveillance (e.g., CCTV) sectors. The EU, with its philosophy of openness, has been a key area. This aim is about more than just expanding market share. It involves the setting of industrial standards, the obtaining of data ('the new oil'), and control of other countries' critical national infrastructure. These, and other factors, will give power to CCP geopolitical aims.

⁶ See: William Hannas and Didi Kirsten Tatlow (eds.), *China's Quest for Foreign Technology: Beyond Espionage* (Abingdon: Routledge, 2020). To understand the differences between covert and clandestine operations, see: 'Department of Defence Dictionary of Military and Associated Terms', Department of Defence (United States), 12/04/2001, <https://dml.armywarcollege.edu/> (checked: 19/06/2024). Clandestine operations aim to conceal the whole operation from detection, and are used in intelligence gathering, surveillance and certain types of reconnaissance. For example, clandestine acquisition of intellectual property has been facilitated through industrial espionage, where proxies of the Chinese government have gathered technological secrets from research institutions. See: 'Industrial espionage: How China sneaks out America's technology secrets', BBC, 16/01/2023, <https://www.bbc.co.uk/> (checked: 19/06/2024). Covert operations focus on hiding the identity of the sponsor behind the operation, where acts including sabotage, political destabilisation and assassinations emphasise plausible deniability and mask the origin of the operation. Covert acquisition of intellectual property has occurred through cyberattacks, where hackers have infiltrated foreign networks without revealing the involvement of the Chinese government. See: 'China cyber-attacks explained: who is behind the hacking operation against the US and UK?', *The Guardian*, 26/03/2024, <https://www.theguardian.com/> (checked: 19/06/2024).



A fourth aim of the CCP is to try to align the EU's global outlook, its approach to global governance, and its values so that they better mesh with the CCP's own 'discourse' – and thereby with CCP interests and values. The CCP would like EU support, or at least neutrality or tolerance, for what it calls its 'core interests', basically, non-interference in issues which it regards as 'internal' (Xinjiang, Hong Kong, Taiwan, the South China Sea), as well as the PRC's economic development and political system.

Finally, and linked to the above, the CCP wishes to drive a wedge between the EU and the US. The foundation stone of all CCP foreign policy is a 'struggle' with the US. Moves in the last year to be more accommodating to the EU, such as the sending of leaders and envoys to EU capitals, should be primarily seen in this light. As Xi said in his April meeting with Emmanuel Macron, President of France:

China will keep its Europe policy stable in the long run, continue to see Europe as an independent force in a multi-polar world, and stay committed to a China-Europe relationship that is not targeted at, subjugated to, or controlled by any third party.⁷

This is in line with the CCP's united front strategy, a bedrock of its behaviour domestically and internationally (the essence of the strategy is to divide others into the enemy, the neutral and the friendly; to seek to isolate the main enemy – in international terms the US; and to move potentially hostile entities to a neutral position, and neutral players to the friendly camp).

What does the EU want from China?

Just as for the PRC, so for the EU, trade is the major priority. EU countries would like better access to the Chinese market and a smaller trade deficit, which was nearly €400 billion (£341 billion) in 2022 (it is worth noting that part of the problem is the PRC's economic model, which has long suppressed domestic consumption and thereby demand for imports). The list of sectors closed to European companies remains a bone of contention, as does the unfair competition underwritten by the CCP's industrial policies. The EU makes constant demands for a level-playing field.

Secondly, the EU would like to see increased investment in both directions, but not in sensitive areas. But the definition of 'sensitive' is

⁷ 'President Xi Jinping Holds Talks with French President Emmanuel Macron', Ministry of Foreign Affairs (PRC), 06/04/2023, <https://www.mfa.gov.cn/> (checked: 19/06/2024).



broadening as the distinction between military/surveillance and civilian technology erodes. As with trade, there is an imbalance of openness, with many areas closed to foreign companies in the PRC, while those same areas are open to Chinese companies in Europe.

The EU would like to see the PRC acting as a responsible power in global governance, working within existing structures, which the EU accepts need some modification to accommodate the PRC's rise and concerns. As a strong believer in the importance of the rule of law, domestically and internationally, the EU would like a PRC which not only signs up to international conventions and norms, but also abides by their terms.

Cooperation on climate change, biodiversity, health and other global problems is vital for the planet's future prosperity. The PRC's size and importance means that there can be no meaningful progress in these areas unless the CCP moves beyond rhetoric into concerted and quicker action. As with many countries' politicians, the CCP continues to prioritise short-term goals over the less immediate, but far greater threats, from climate change or future pandemics.

The EU has long strived to persuade Beijing to give greater recognition to the EU as a geopolitical power. Hitherto, to the extent that the CCP considers the EU to be a geopolitical force, it has put emphasis on cooperation with individual countries, particularly Germany and France, rather than on the EU as a whole.

The EU does of course harbour many negative wishes, not least a cessation of Chinese support for Russia's war against Ukraine – and preferably pressure to make peace; a reduction in subsidies to Chinese exporters; and an end to interference in European internal affairs, including a stop to incessant espionage and cyber attacks. These and other negative aspects are considered later.

The evolution of EU policy and thinking on China

In March 2019, the EU famously produced a new description of its relations with the PRC. The definition was reaffirmed – but not strengthened – by the European Council in its 30th June 2023 conclusions on the PRC:

The European Council continued its strategic discussion on the EU's relations with China and reaffirmed the EU's multifaceted policy approach towards China, where it is simultaneously a [negotiating] partner, a [economic] competitor and a systemic rival.⁸

⁸ 'European Council conclusions on China, 30 June 2023', European Council, 30/06/2023, <https://www.consilium.europa.eu/> (checked: 19/06/2024).



Nevertheless, despite a declaration that the EU ‘does not intend to decouple or to turn inwards’, the Council conclusions clearly reflected an attitude towards the PRC which was much more wary than in March 2019:

In line with the Versailles agenda, the European Union will continue to reduce critical dependencies and vulnerabilities, including in its supply chains, and **will de-risk and diversify where necessary and appropriate.**⁹

Thus, while the tripartite definition remains, the EU is increasingly concerned about the need to protect itself against CCP predatory behaviour, against Chinese acquisition of its data and critical national infrastructure, against inappropriate use of European science and technology, against over-dependencies in supply chains, against the CCP’s geopolitical stance, against its disrespect for international law, and more.

The EU Commission has taken a stronger line than many member states. In a speech at the Berlin think tank MERICS in March this year, Ursula von der Leyen, President of the European Commission, emphasised that the PRC had changed in three ways:

...China has now turned the page on the era of ‘reform and opening’ and is moving into a new era of security and control...

...[for the CCP] the imperative for security and control now trumps the logic of free markets and open trade...

...the Chinese Communist Party’s clear goal is a systemic change of the international order with China at its centre.¹⁰

In her analysis, the EU-China relationship was now ‘unbalanced and increasingly affected by distortions created by China’s state capitalist system.’¹¹ It must be rebalanced ‘on the basis of transparency, predictability and reciprocity’.¹² In the tripartite definition, ‘partner’ and ‘competitor’ were losing ground to ‘systemic rival’. De-risking became the phrase of the present and future. This, in von der Leyen’s analysis, is based upon four pillars:

1. **Making the EU economy and industry more competitive and resilient;**

⁹ Ibid.

¹⁰ Ursula von der Leyen, Speech: ‘EU-China relations’, Mercator Institute for China Studies and the European Policy Centre, 30/03/2023, <https://ec.europa.eu/> (checked: 19/06/2024).

¹¹ Ibid.

¹² Ibid.



2. **Using more assertively existing and new trade instruments** to enhance the security of 5G telecommunications, foreign direct investment, export controls and to counter economic distortions and coercion;
3. **Developing new defensive tools for critical and sensitive sectors**, such as microelectronics, quantum computing, robotics, artificial intelligence and biotech. EU companies' capital, expertise and intellectual property must not be used to enhance the military or repressive capabilities of 'systemic rivals' (i.e., the PRC); and,
4. **Aligning with other free and open countries.**¹³

It needs to be stressed that the EU Commission's line, articulated by von der Leyen, goes beyond the position of many member states. And it is for member states to decide what specific measures each will take in areas outside trade.

Why have relations clouded over?

The underlying reason why the EU has shifted to a less open, more wary approach lies in a clearer awareness of the nature, aims and ambitions of the CCP regime. One might say that Xi has ill served the PRC's interests, by departing too early from Deng Xiaoping's famous strategy of 'hide and bide'. By switching to an openly assertive stance in international relations, Xi has made the EU look more closely at the security, geopolitical, long-term economic and values costs of a permissive policy of cooperation with the CCP. Disillusion with the PRC and a tendency to see the party more as a threat have increased as Xi's intentions and aspirations have become clearer.

A major factor has been the CCP's unwavering support for Russia in its war against Ukraine. Few are fooled by declarations of neutrality, when set against repeated meetings and declarations of 'comprehensive friendship' between the PRC and Russia. The CCP either fails to see – or does not care – that, in the words of von der Leyen, 'How China continues to interact with Putin's war will be a determining factor for EU-China relations going forward.'¹⁴ Amongst others, Joseph Borrell, High Representative of the European Union for Foreign

¹³ Ibid.

¹⁴ Ibid.



Affairs and Security Policy, and Vera Jourova, Vice President of the European Commission for Values and Transparency, have made similar statements.¹⁵

Also heavily influencing a more negative view of the PRC has been what might be termed economic ‘promise fatigue’. Chinese investment in the EU has disappointed. Unsurprisingly, since 2016 it has been targeted at either critical national infrastructure or at the technologies which the CCP needs to supplement its own, in order to promote innovation and to dominate new industries. In 2022, Chinese greenfield investments in the EU fell to 3.9% of all such investment, down from 5.9% in 2021. The percentage of acquisitions was even lower.¹⁶

In Central and Eastern Europe, the ‘14+1’ initiative (currently nine EU members and five non-EU members) has brought neither the investment nor the political exposure which they had hoped.¹⁷ All three Baltic states have withdrawn from what was before ‘17+1’ and the mechanism lacks vitality.

Europeans also see the trade imbalance as indicative of the failure of the CCP to level the playing field and introduce more reciprocity into the economic relationship. As Valdis Dombrovskis, European Commissioner for Trade, said in a speech in Beijing in September:

We recognise that the world needs China, but China also needs to see that the lack of reciprocity and a level playing field from China, coupled with wider geopolitical shifts, has forced Europe to become more assertive.¹⁸

Restrictions still apply on European goods in many sectors. Europe’s open markets are not matched by the PRC’s – by a large margin. Exports to the PRC have flatlined in the last two years, while the trade deficit has ballooned.¹⁹ The CCP watchword for its economic policy has been ‘self-reliance’, as it implements its strategies of ‘Made in China 2025’ and ‘dual circulation’ (in essence, domestic wherever possible, foreign if necessary). These policies militate against more open trade and investment.

Rising friction is evident from a greater EU readiness to take action, particularly through anti-subsidy investigations. The EU was scarred by the

¹⁵ See: Alice Tidey, ‘Quality of EU-China relations to be determined by Beijing’s support for Russia, Borrell says’, *Euronews*, 04/04/2023, <https://www.euronews.com/> (checked: 19/06/2024) and Clothilde Goujard, ‘EU warns China on Ukraine disinformation and cyberattacks’, *Politico*, 18/09/2023, <https://www.politico.eu/> (checked: 19/06/2024).

¹⁶ ‘Third Annual Report on the screening of foreign direct investments into the Union’, Directorate-General for Trade (European Commission), 19/10/2023, <https://ec.europa.eu/> (checked: 19/06/2024).

¹⁷ Patrick Triglavcanin, ‘The People’s Republic of China: Political perceptions in Central Europe’, Council on Geostrategy, 12/06/2023, <https://www.geostrategy.org.uk/> (checked: 19/06/2024).

¹⁸ Kinling Lo, ‘China’s “unfairness” warrants a more assertive EU approach, warns trade chief Valdis Dombrovskis’, *South China Morning Post*, 25/09/2023, <https://www.scmp.com/> (checked: 19/06/2024).

¹⁹ ‘China-EU – international trade in goods statistics’, Eurostat, 02/2024, <https://ec.europa.eu/> (checked: 19/06/2024).



experience of having its solar panel industry hollowed out by the PRC. It has now launched a number of anti-subsidy investigations to combat what it perceives as the PRC's unfair trade practices. This will certainly lead to more retaliation and tension between the EU and the PRC, as evidenced by Beijing's imposition of tariffs on EU pork exports.²⁰

Beyond economic friction, the EU is also awakening to the threat of CCP intentions of the PRC's intention to dominate the new sciences and technologies, and their industrial applications. Three issues are at stake here. Two are more commonly spoken of: the eroding distinction between military and civilian uses of technology and helping to arm a potentially hostile power; and the use of technology in surveillance and repressive systems. Less spoken of, but clearly in mind, is the danger to Europe's long-term economic future if the PRC dominates the new industries, in particular the automotive industry. The EU Commission has laid out guidelines for reporting/monitoring mechanisms.

More broadly, the CCP's global behaviour has worried EU policy makers. Of concern has been the marked hostility to liberal-democratic values; a push to align the 'middle ground' – non-aligned countries – against the US and its allies; United Front Work Department interference in the EU and member states; espionage and transnational repression; and a disregard for international law and standards (exemplified not least by aggressive behaviour in the South China Sea, trampling on Hong Kong's freedoms and crimes against humanity in Xinjiang).

US pressure has also contributed to wariness of the CCP. Pressure against Huawei's involvement in 5G telecommunications is the clearest example; another is the Netherlands acceding to requests on limiting the export of semiconductor production equipment and technology. Russia's war against Ukraine has reinforced within Europe a realisation that, no matter the various quarrels with the US, the need to stand together in a changing world is important.

Finally, European governments (ministers and high-level civil servants) are reacting to an increasing discontent with the PRC on the part of EU citizens, the press and members of the EU and national parliaments. This is reflected in polls about the PRC. The most recent Pew poll shows that, of eleven European countries surveyed, with the exception of Italy, unfavourable opinions of the PRC have peaked in the period of 2020 to 2022 (the range is 50–83%), although, unlike in the US, Canada, Japan, Australia and South Korea, a majority in those

²⁰ 'China Starts Anti-Dumping Probe on Imports of EU Pork', *Bloomberg*, 17/06/2024, <https://www.bloomberg.com/> (checked: 19/06/2024).



European countries, with the exception of Sweden, think that their country's relations with the PRC are good.²¹

A major reason for popular unease over the PRC stems from human rights concerns linked to Xinjiang in particular, but also Hong Kong and Tibet (the Pew poll shows human rights described consistently as 'a very serious problem'). But CCP behaviour over the Covid-19 pandemic, in particular its downplaying of the severity of the outbreak in its early stages, its gloating propaganda comparing its performance to that of free and open countries, and its failure to cooperate in the search for the origins of the virus, have also been major contributory factors. The sanctioning of ten members of the European Parliament (MEPs) and European Commission officials by the PRC in March 2021 not only derailed ratification of the Comprehensive Agreement on Investment, but has also been another wake-up call for CCP aggressive foreign policy.²²

Why have relations clouded over?

The innate difficulty of reform will not be helped by 2024 being the 75th anniversary of the founding of the PRC. There will doubtless be an enormous parade on 1st October, as part of other extensive celebrations (a reason why the Third Plenum might be put back to November). Clearly nothing can be allowed to spoil the party's party. Yet reform is destabilising at the best of times; and economically, these are not the best of times. Even if they announce reforms at a plenum in late 2024, the likelihood is that the CCP will postpone serious attempts at reform until 2025.

Factors limiting deterioration in the short term

Despite increasing European wariness of the CCP and strengthening of measures to blunt threats, the deterioration in relations will be limited by several factors.

The European Commission does not have competence for economic security. The Commission under von der Leyen is more assertive – if not at times antagonistic – than member states. It can, and has, put forward guidelines and instruments, but it is for individual states to implement them as they see fit.

²¹ Laura Silver, Christine Huang, and Laura Clancy, 'Negative Views of China Tied to Critical Views of Its Policies on Human Rights', *Pew Research Centre*, 29/06/2022, <https://www.pewresearch.org/> (checked: 19/06/2024).

²² 'Chinese counter-sanctions on EU targets', *European Parliamentary Research Service*, 05/2021, <https://www.europarl.europa.eu/> (checked: 19/06/2024).



There is no unity of determination. Some member states – Hungary is the obvious example – are politically not inclined to be seen to be taking measures aimed at the PRC. Germany is nervous about guarding the profits which its car and chemical industries made in the PRC. Few countries – certainly those with larger trade and investment volumes – wish to be seen to be ahead of the pack in taking measures likely to displease the CCP and give rise to retaliation. Absorbing the economic costs of decoupling from Russia has been bad enough; simultaneously risking the Chinese market is perceived as too dangerous.

The meaning of ‘de-risking’ is hazy and likely to remain so. Again, there is a lack of unity: the Commission and many smaller countries (mostly those who have experienced communism in the Soviet-era) do not see eye to eye with those with greater economic dependencies on the PRC or with lingering hopes of attracting Chinese investment. It is difficult to implement ‘de-risking’ in the absence of a clear notion of its contents. Nevertheless, the withdrawal of Italy from the Belt and Road Initiative is indicative of the general direction.

Another factor is an EU desire not to encourage the formation of blocs, such as the PRC versus the US. This is tinged with a lingering distrust of the US, particularly evident in Macron’s statements about maintaining a distance from the PRC and the US over Taiwan made around his April 2023 visit to Beijing.²³

The position of Germany and France is crucial

In Germany, attitudes have certainly changed. As early as January 2019, a report by the Federation of German Industry (BDI),²⁴ thitherto an enthusiastic supporter of engagement with the PRC, sounded the alarm. But Olaf Scholz, Chancellor of Germany, despite opposition from his coalition partners, has largely continued his predecessor’s accommodating policies towards Beijing. Germany has been noticeably slow in addressing Chinese participation in critical national infrastructure, ports and telecommunications. During his April 2024 visit to the PRC, Scholz seemed to prioritise fears of retaliation against German business interests over support for EU positions.²⁵ Detractors might say that this is short termism: unless measures are taken against unfair Chinese practices, German companies will lose their existing markets and be kept out of future ones. Apart from minor concessions, on apples and beef exports, it is not clear

²³ Jamil Anderlini and Clea Caulcutt, ‘Europe must resist pressure to become “America’s followers”’, says Macron’, *Politico*, 09/04/2023, <https://www.politico.eu/> (checked: 19/06/2024).

²⁴ ‘Partner and Systemic Competitor – How Do We Deal with China’s State-Controlled Economy?’, 01/2019, <https://www.wita.org/> (checked: 19/06/2024).

²⁵ For a bleak account, see: Noah Barkin, ‘Watching China in Europe-May 2024’, German Marshall Fund of the United States, 02/05/2024, <https://www.gmfus.org/> (checked: 19/06/2024).



what Scholz achieved other than to underline division and undermine solidarity within the EU.

In France, Macron has also sent out mixed signals. His April 2023 geopolitical flirtation with Xi did not impress many Europeans, including some French politicians and officials. Meanwhile France has been noticeably more enthusiastic about the recently launched anti-subsidy investigation into electrical vehicle imports from the PRC. Cordial relations with Beijing are becoming harder by the day, as Macron grasps that Xi is not going to relax his support for the Kremlin over Ukraine nor will he change economic policies which result in overcapacity in Chinese industries being exported to Europe.

Nevertheless, the mixed messages coming out of Germany and France are hardly conducive to ensuring greater unity amongst member states, which too often pursue divergent lines on the PRC. Yet, without greater unity, the EU will be handicapped in meeting the challenge.

Gathering clouds

Xi's geopolitical ambitions are clear: to change global governance in ways which realign the current system more in the PRC's favour; to dominate new technologies through means fair or foul – at a time when the distinction between military/repressive/surveillance usage and civil usage is being eroded; and to use the PRC's different economic model and control of critical resources to promote CCP economic and geopolitical interests, while undermining those of the US and its allies.

On the (justified) assumption that Xi remains in power, those ambitions will lead to increased strain in the EU's relations with the PRC. Signs of this are becoming evident:

1. **More EU anti-subsidy investigations and greater use of various instruments and laws.** Recent actions have included subsidy investigations into electric vehicles, Nucotech (supplier of scanning and other equipment, whose offices were raided), and wind farms. The EU has launched its first investigation under the Procurement Act, into medical devices, and the EU is also investigating TikTok, Shein and Ali Express.²⁶ The Anti-Coercion Instrument came into force at the end of 2023 and can be deployed if the PRC seeks to injure EU trade interests through pressure. The CCP may also see the Critical Raw Materials Act (March 2024) as inimical to its interests. Chinese retaliation is likely to be only a matter of time.

²⁶ Finbarr Bermingham, 'EU turns up the heat on China as Xi Jinping readies for 3-nation tour, with fiery Paris talks on the cards', *South China Morning Post*, 03/05/2024, <https://www.scmp.com/> (checked: 19/06/2024).



2. **Russia/Ukraine.** There is no sign that the CCP is listening to European disquiet in relation to its support for Russia. To use CCP jargon, this is a 'core interest' for the EU. In February the EU sanctioned four Chinese/Hong Kong companies for breaking EU sanctions on Russia.²⁷ More are expected to be announced shortly.²⁸
3. **Taiwan, a major European interest.** Trade in goods and services in 2021 was €42 billion (£36 billion), while the EU's investment stock was €28.1 billion (£24 billion).²⁹ But as for all countries, the greatest importance of Taiwan lies in its industry-leading semiconductor foundry Taiwan Semiconductor Manufacturing Company (TSMC), which supplies over 90% of the world's most advanced and around 50% of all semiconductors. As Borrell made clear in October 2023, EU policy on Taiwan is based on based on six principles:

No recognition of Taiwan as an independent state; no to intimidation, coercion and provocation from any side; no to use of force; yes to bilateral ties with Taiwan, which do not imply any kind of political recognition as an independent country; yes to resolving tensions through meaningful and open dialogue; yes to keeping channels of communication open to prevent misunderstandings and to de-escalate tensions.³⁰

Foreign policy is not an EU competence and some countries (some in the Baltic, and Czechia for example) pursue a more forward leaning stance. Given the CCP's unyielding position that Taiwan is a 'core interest' and foreign countries must obey its diktats in dealings with Taipei, there is plenty of scope for falling out, particularly if the CCP ratchets up measures against Taiwan, whether military or otherwise. There is a strong likelihood that EU companies will come under CCP pressure over their business in Taiwan; some may even be forced to choose between having a presence in the mainland and Taiwanese markets. A CCP invasion or full blockade of Taiwan (most unlikely in the coming decade) would lead to gigantic economic disruption even without EU sanctions – although sanctions would almost certainly be applied.

²⁷ Jorge Liboreiro, 'EU agrees new sanctions on Russia, blacklisting companies in mainland China for the first time', *Euronews*, 21/02/2024, <https://www.euronews.com/> (checked: 19/06/2024).

²⁸ Ibid.

²⁹ 'EU trade relations with Taiwan', European Commission, 2024, <https://policy.trade.ec.europa.eu/> (checked: 19/06/2024).

³⁰ Finbarr Bermingham, 'EU top diplomat Borrell talks Russia, Taiwan and de-risking', *South China Morning Post*, 12/10/2023, <https://www.scmp.com/> (checked: 19/06/2024).



4. **Europe's strong interest in upholding international law and human rights.** The CCP backs international law only where it suits its interests. This leaves room for clashes. The right of free passage for military ships, which the French, Germans, Dutch, Italians have underlined by sailing through the South China Sea and the Taiwan Strait, is an area which could affect relations. The recent dangerous actions against a Dutch naval vessel on UN duty is the more recent example.³¹ Tensions may also arise over Hong Kong. The European Parliament's 'Resolution of 25 April 2024 on the new security law in Hong Kong and the cases of Andy Li and Joseph John' will not be the last of its kind.³² Further into the future, the CCP may want to align Hong Kong's legal system with its own, as the promise of 'fifty years without change' expires in 2047 (given long leases in Hong Kong – usually around 15 years – change may start as early as 2030 to 2032. This could affect European companies. EU companies are also increasingly likely to be squeezed between the EU's anti-forced labour legislation and CCP intolerance of measures taken by foreign companies to distance themselves from Xinjiang.
5. **Tibet, the death of the Dalai Lama, and CCP control of the search for his reincarnation.** The Dalai Lama is 88 years old, but his 'soft power' shows no sign of diminishing. He has become a rallying point against CCP abuse of human rights at a time when Europeans are becoming less tolerant of such CCP abuse.

Conclusion

Overall, neither side wishes to upset the current balance in relations. For both, trade remains vital to their economic well-being and employment. Global challenges require cooperation. The PRC still needs EU investment, not least for its science and technology, but also to help mitigate its unemployment problem through exports. And as long as the US continues to be the main enemy, Beijing cannot afford to be too nasty to the EU, given the CCP's main geopolitical goal of dividing the US from its allies and partners.

³¹ Seong Hyeon Choi, 'China warns against Dutch naval "intrusion", disputes East China Sea encounter', *South China Morning Post*, 11/06/2024, <https://www.scmp.com/news/> (checked: 19/06/2024).

³² 'Resolution on the new security law in Hong Kong and the cases of Andy Li and Joseph John', European Parliament, 25/04/2024, <https://www.europarl.europa.eu/> (checked: 19/06/2024).



Nevertheless, an age of greater realism has dawned. The EU increasingly sees through CCP rhetoric ('win-win', 'shared future for humanity', 'neutrality over Ukraine', etc.). Although some European national politicians remain in denial or pursue their own narrow interests, refusing to recognise the EU Commission's stance on the PRC, and while many companies remain naïve about Chinese companies' 'rip off and replace' investment trap (in essence, set up a joint venture in the PRC, share technology, make initial profits, see a rival copy and replace the foreign joint venture in the Chinese market, and then internationally), EU-PRC relations have entered a time of minimising dependencies, of continued cooperation but with circumspection. While neither side wants a trade war, it is hard to see how the EU can stand aside and watch subsidised Chinese exports destroy its manufacturing base and employment. That is not economics, or even geopolitics: it is EU, national or local politics, an altogether more potent matter.

And hovering over all considerations is the 'D word', whether that is 'de-risking', 'decoupling', 'divergence', 'de-depending', or any other ungainly coinage.



About the author

Charles Parton is Chief Advisor to the China Observatory and a Distinguished Fellow at the Council on Geostrategy.

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Address: 14 Old Queen Street, Westminster, London, SW1H 9HP

Phone: 020 3915 5625

Email: info@geostrategy.org.uk

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