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EU–China relations at a crossroads, Vol. III: *Business unusual*

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About the project

The context of EU–China relations has dramatically changed over the past years. The many opportunities that cooperation with China presents are only one side of the coin. Mounting challenges and diverging perceptions on and approaches to global and domestic affairs risk undermining the effectiveness of the bilateral dialogue. It is crucial to minimise all misperceptions and overcome any lack of understanding in the EU–China bilateral relationship, now more than ever.

The **EU & China Think-Tank Exchanges** project, coordinated by the European Policy Centre (EPC) with the cooperation of EGMONT–The Royal Institute for International Relations, the China Institute of International Studies (CIIS) and the Center for China and Globalization (CCG), aims to strengthen and stimulate a dialogue between think tanks and research institutes across the EU and China.

Over a period of three years, the EPC and its think tank partners encourage experts, analysts and policymakers from Europe and China to discuss issues of common interest, such as post-COVID-19 cooperation, climate action and the environment, the global economy, digitalisation and connectivity, human rights and peace, or security in international affairs.

Through a series of structured exchanges between intellectuals and strategic thinkers, the project promotes EU–China dialogue and supports mutual understanding and joint action across several relevant and cross-cutting policy areas and issues of mutual concern.

About the partners

The **European Policy Centre** (EPC) is an independent, not-for-profit think tank dedicated to fostering European integration through analysis and debate, supporting and challenging European decision-makers at all levels to make informed decisions based on evidence and analysis, and providing a platform for engaging partners, stakeholders and citizens in EU policymaking and in the debate about the future of Europe.

The Europe in the World (EiW) programme scrutinises the impacts of a changing international system on Europe and probes how the EU and its member states can leverage their untapped potential to advance their interests and values on a regional and global level. It thus examines the evolution of EU relations with major powers, such as the US, China and Russia, and how Europe can contribute to a rules-based global order. Second, the programme focuses on the role of the EU in fostering reforms, resilience and stability in neighbouring regions. It looks closely at the developments in Turkey and Ukraine. Third, the programme examines how the EU can strengthen its security in the face of terrorism, jihadist radicalisation or hybrid and cyber threats. It also seeks to advance the debate on Europe's defence policy.

EGMONT – The Royal Institute for International Relations is an independent think tank based in Brussels. Its interdisciplinary research is conducted in a spirit of total academic freedom. Drawing on the expertise of its own research fellows, as well as that of external specialists, both Belgian and foreign, it provides analysis and policy options that are meant to be as operational as possible.

Benefiting from the role of Brussels in the global arena and from the prestigious setting of the Egmont Palace, the Institute offers an ideal forum to visiting heads of states and government, representatives of international organisations, foreign ministers and other political figures. Conferences, colloquia and seminars nurture the work of the research fellows. They also give participants the opportunity to exchange views with other specialists and with a well-informed public made up of representatives of the political, economic and academic spheres, the media and civil society.

Along with research and meetings, the Institute has also developed specialised training activities, both in Brussels and abroad. It can, on request, offer specific programmes for visiting and resident diplomats and foreign professionals. Close cooperation with other research centres, both in Belgium, in Europe and beyond, has resulted in a growing number of joint conferences and in more structured cooperations on research and publications. This has proved to be mutually beneficial and enriching.

The **Center for China and Globalization** (CCG) is a leading Chinese non-government think tank based in Beijing. It is dedicated to the study of Chinese public policy and globalization. Boasting a strong research team, it enjoys an impressive record of publications and events with broad public policy impact. CCG's research agenda centres on China's growing role in the world, drawing from issues of global governance, global trade and investment, global migration, international relations, and other topics pertaining to regional and global development.

The CCG was founded in 2008. Today, nearly 100 in-house researchers and staff serve this thinking hub with subsidiaries and divisions spanning across China, including Shanghai, Shenzhen, Guangzhou, Qingdao and Hong Kong.

CCG is a not-for-profit and non-governmental organization, independently funded by research grants and donations from private and corporate donors. The think tank is supported by a business advisory council that consists of over 150 Chinese private entrepreneurs. Many prominent Chinese private business leaders, such as Cao Dewang, Ronnie Chan, Wang Shi, Wang Junfeng, Robin Li, Jiang Xipei and others currently serve on the executive committee of the CCG advisory council. For years, CCG has been ranked by the Think Tank and Civil Society Program (TTCSP) at the University of Pennsylvania as one of the world's top 50 independent think tanks.

The **China Institute of International Studies** (CIIS) is the think tank of China's Ministry of Foreign Affairs. It conducts research and analysis primarily on medium- and long-term policy issues of strategic importance, particularly those concerning international politics and the world economy. It also carries out studies and offers policy recommendations on major events and pressing issues.

The staff of CIIS consists of nearly one hundred researchers and other professionals. Among them are senior diplomats, leading area-study specialists, and pre-eminent experts in major fields of foreign affairs. Young scholars at the CIIS all have advanced university degrees in international relations or related disciplines.

CIIS has its own professional library, which is home to over 260,000 books. The collection on international affairs is among the best in the country. *International Studies* is the bimonthly journal of CIIS, which provides an influential forum for the discussion of important international issues. Its contributors include CIIS researchers and outside foreign affairs experts. The English-language journal *China International Studies*, which is another leading journal of CIIS, is the first English academic publication in China on diplomacy and international politics for formal circulation.

Foreword

The third volume of the compendium marks the conclusion of the EU & China Think Tank Exchanges project. It comes at a particularly challenging time for the bilateral relationship—one when the global geopolitical environment has become more precarious, and questions of fair trade and competitiveness are increasingly central.

This compendium is a testament to the complexity of the issues confronting the relationship, from economic security and trade to the impact of Russia's full-scale invasion of Ukraine on a number of policies affecting the EU and China both at a bilateral and global level. Nevertheless, these pages also prove the many avenues for cooperation and partnership that can continue to underpin and ground this crucial relationship. Global challenges, from climate change to global health or food security, will continue to call for a constructive and resilient EU-China relationship.

To explore these avenues and find viable solutions to shared problems, people-to-people exchanges—frequent, open, and long-lasting—and a mutual restoration of trust will be paramount. The EU & China Think Tank Exchanges project, which started during global isolation under COVID-19, has taken valuable steps in that direction. It has seen the return to in-person exchanges and the formation of an organic, lively network of civil society and experts across the EU and China.

As we read and assess the challenges outlined in this compendium candidly, let us also reflect on its policy recommendations, and hope that they will contribute to better mutual understanding and be the basis for further discussions.

Jorge Toledo Albiñana
EU Ambassador to China
Beijing, June 2024

Preface

The first volume of this compendium series, which gathers papers from prominent scholars, was entitled "Looking for a new *modus vivendi*." Three years on, we are still searching for a clear roadmap for the future of EU-China bilateral relations.

The EU & China Think Tank Exchanges, the name of this EU-funded project, began amid the tit-for-tat sanctions between Brussels and Beijing, a global pandemic, which caused vast human suffering and draconian restrictions, and Russia's full-scale invasion of Ukraine. All this occurred against a backdrop of deteriorating US-China geostrategic competition and strained EU-China relations, global security and economy.

Despite these challenging circumstances, exchanges between think tanks across Europe and China continued. More than 700 participants from 150 organisations joined our events, with 35 input papers on a wide range of topics delivered by scholars from both regions. The project marked the resumption of in-person events in Brussels and Beijing.

This third volume, entitled 'Business unusual', is the culmination of a multiyear collaborative effort of think tankers addressing the most important issues in EU-China relations – but not only. Besides these interactions, advancing our understanding of bilateral relations, have also provided a rare opportunity for genuine dialogue. We did not always bring solutions to the table, but we identified problems and voiced our concerns at a time when dialogue between the EU and China was often referred to as a "dialogue of the deaf."

It has not always been easy. Geopolitical frictions remain a significant barrier to academic and think tank exchanges, as exemplified by the standing Chinese sanctions on some European researchers and think tankers. In this complex climate, the EU & China Think Tank Exchanges have persevered on the belief that increased dialogue fosters a deeper mutual understanding of one another's policies and societies and that, when relations deteriorate, dialogue becomes even more imperative. Thus, while these exchanges are no panacea for the disagreements piling on the bilateral relation, they provide crucial insights into the nuances of the most pressing issues and policy dynamics, at a time when our views grow more ideological.

This endeavour would not have been possible without the support of the partner think tanks, namely the Center for China and Globalization (CCG), China Institute of International Studies (CIIS), EGMONT – The Royal Institute for International Relations, and all the participants who contributed to the events. Similarly, a thank you goes to all the work behind the scenes from the colleagues of the European Policy Centre. This last compendium stands as a testament to their unwavering dedication.

This publication comprises 12 input papers that provide the views of European and Chinese experts on specific policy issues in 2024. Particularly as we enter a new institutional cycle in the EU, the compendium offers an opportunity to reflect on how the EU-China relationship has developed over the past few months as well as its future outlook.

Some have described the state of the relationship as the "witnessing of the last gasps of the Nixon era." It is undeniable that there is a sense of nostalgia that pervades these exchanges, as if they are the fading vestiges of a bygone era. Yet, as long as we continue to gather, debate, and challenge each other's convictions, there will always still be another opportunity for dialogue.

Ivano di Carlo
Senior Policy Analyst, European Policy Centre

List of acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BYD	Build Your Dream
CAI	Comprehensive Agreement on Investment
CBAM	Carbon Border Adjustment Mechanism
CCG	Center for China and Globalization
CCPIT	China Council for the Promotion of International Trade
CGEPDI	China General Electric Power Planning and Design Institute
CIIS	China Institute of International Studies
COP	Conference of the Parties
CPC	Communist Party of China
CRM	Critical Raw Material
CRMA	Critical Raw Materials Act
DG GROW	Directorate-General for Internal Market, Industry Entrepreneurship and SMES
DPA	Deutsche Presse-Agentur
ECFR	European Council on Foreign Relations
EiW	Europe in the World
EU	European Union
EUCCC	EU Chamber of Commerce in China
EV	Electric Vehicle
FDI	Foreign Direct Investment
FSR	Foreign Subsidy Regulation
G7	Group of Seven
G20	Group of Twenty
GG	Global Gateway
GGI	Global Gateway Initiative

HECD	High-level Environment and Climate Dialogue
HED	High-Level Economic and Trade Dialogue
IEA	International Energy Agency
IMEC	India-Middle East-Europe Corridor
IPI	International Procurement Instrument
IPR	Intellectual Property Right
JICA	Japan International Cooperation Agency
MERICS	Mercator Institute for China Studies
MIIT	Chinese Ministry of Industry and Information Technology
MPAC	Master Plan on ASEAN connectivity
NATO	North Atlantic Treaty Organisation
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
PGII	Partnership for Global Infrastructure and Investment
PV	Photovoltaics
REE	Rare Earth Element
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SRM	Strategic Raw Material
TDI	Trade Defence Instrument
TFEU	Treaty on the Functioning of the European Union
TTCSP	Think Tank and Civil Society Programme
UAE	United Arab Emirates
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
VHCN	Very High Capacity Networks
WTO	World Trade Organization

De-risking and beyond: What outlook for EU-China relations in 2024?

1

How is the EU's de-risking strategy defined, and what are its various interpretations? What are the implications of the EU's de-risking strategy for its relations with China? How is the EU's de-risking strategy perceived in Beijing?

EU-China relations in 2024: Frankness and caution

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06 December 2023

Introduction

When China and the European Union (EU) established the mechanism of political dialogue and consultation in 1994, a period of EU economic China optimism followed. China has made enormous strides to liberalise its trade regime and open its economy to the world over the last few years. Tariffs have come down, trading rights have been granted to firms on a wider basis, the dual exchange rate has been unified, foreign investment has been attracted on a large scale, and the basic framework for an effective judicial structure to handle property rights has been established.[1] Thirty years later, the landscape of Sino-European dialogues is primarily an arena for hard conversations, not optimistic expectations. However, the European Parliament elections could mark a pivotal moment in the evolving dynamic between the two powers, as we witness continuing security challenges and a retreat from global neoliberal norms. The outcome of the US presidential election, albeit mitigated by the existing cross-party consensus on China, will impact the EU-China bilateral relationship.

Both sides acknowledge the issues, but the EU, navigating through its principles of unity, autonomy, plurality, and commitment to democratic values, is looking at these challenges differently than China – a nation that has emerged not only as an economic superpower but also as an increasingly key player in international diplomacy and technological innovation. This input paper aims to approach cooperation, competition, and strategic caution that defines the current paradigm through the lens of several keywords: confidence, de-risking, strategic autonomy, trust, values, and, perhaps in another topic league altogether, Ukraine.

Even though the conversation has picked up after the isolation of the COVID-19 years, unlike in the previous decades, the fundamental disagreements over values, norms, and the international order outweigh any calls for pragmatic cooperation. In 2024, the potential for cooperation will be narrow and issue-centred, and the days when "comprehensive" was a buzzword in EU-China exchanges will be forgotten for the time being. Still, there is a positive side to the realist ad-hoc framing of the relationship, as it acknowledges the urgency and allows for crisis management, as long as both sides will "continue to take each other seriously."[2]

Key issues

CLIMATE

Humanity's central challenge, ecology and climate, remains a rare, uncontested issue of positive agenda in EU-China relations. Even though this topic could be affected by instability in 2024, here is a push towards pairing the climate agenda with economic and trade issues on China's side. The argument that China makes and will continue to make into the next year is: given the immediate and increasing climate challenge, the EU should abstain from its anti-subsidy investigation on imported electric vehicles (EVs) from China and allow China produced EVs to reach European consumers.[3]

It is understandable that a state would use all fora available to advocate its champions. It is public knowledge that European governments have practised such a 'finger on the scale' tactic, too. But one must factor in that hijacking the urgent conversation on how mitigating climate change for the benefit of Chinese car producers may lead to a stalemate on this issue of general agreement between China and the EU. Additionally, there is no way of guaranteeing that China's aggressive state-led tactics in supporting its car manufacturers would be in the companies' interest in the long run, either. Experience has shown that businesses struggle to thrive in an overregulated domestic environment,[4] even if the regulation was initially adopted to help them.

One can only hope both sides will make strides to broaden the conversation on climate and let it cover all aspects of the challenge. Cooperation between China and the EU can be achieved on several topics, including preserving biodiversity and countering invasive species – a space where the EU is innovative and proactive with its biodiversity strategy 2030, improving human climate security, and implementing innovative agriculture solutions.

CONFIDENCE

China's cultural self-confidence and vitality are the nation's right and a pathway towards societal buy-in and solidarity. A similar pursuit has produced positive outcomes of European small nations' self-determination in the early 20th century. Still, many countries also grapple with the negative and even tragic effects of their quest for self-confidence.

But the question to be answered in 2024 is a practical, not an ideological one – what does the wider framework of "Confidence in the Road, Theory, System and Culture of Socialism with Chinese Characteristics"[5] mean for China's international role? Will the framework assist or hinder candid conversations between China and its international partners, including the EU?

Furthermore, 2023 has brought about a European brand of self-confidence in its China communication. President von der Leyen, in her speech at the European Council on Foreign Relations (ECFR) and the Mercator Institute for China Studies (MERICS) European China Conference 2023 referenced Europe's interests, including global interests, and stated that Europe must be frank in this regard. The EU now puts its interests at the foundation of a constructive relationship with China.[6]

As the EU asserts itself in the China relationship, 2024 will become a year of confidence demonstration, hopefully at least to some degree evened out by confidence building. China and the EU are expected to be straightforward and, at times, harsh towards each other. But communicating challenges should not be confused with playing for the attention of the public.

DE-RISKING

The European Commission and the High Representative published a Joint Communication on a European Economic Security Strategy in June 2023, laying "the groundwork for a discussion with a view to creating a common framework to de-risk and protect the Union's economic security."[7] Even though the discussion is still underway, it is evident that the message Europe has been trying to send China by introducing the "de-risking" approach has not been received.

As several colleagues from Europe and China mentioned in Beijing in October 2023,[8] a clear – perhaps unintentional, gap in understanding has emerged over the issue.

Europe is trying to project that the approach is not confrontational, and that its motivation is to insulate its value chains from shocks that emanate from the intrinsic instability of the global markets and third-party economic coercion, which is not unlike the double circulation policy in China. Furthermore, since Russia's invasion of Ukraine demonstrated the EU's vulnerability in the face of disruptive attacks on the existing international order, Europe has woken up to the urgency of resilience-building, which has also played an important role in the formulation of "de-risking" and economic security strategy.[9] De-risking, as European colleagues express time and again, is not a containment of China.

China, in turn, is worried about 'de-risking' being just another label for strategic rivalry. As the European Commission proposes "to identify and assess, collectively with EU member states and with inputs from private stakeholders, risks to the EU's economic security that threaten its key interests within clearly defined parameters, taking into account the evolving geopolitical context and, where appropriate, stakeholders' views,"[10] Chinese counterparts note that the reference to geopolitics is proof that the process goes beyond simple economic interest protection. Unlike the previous formula, this one does not start with partnership, but dives into the economic issues head on: "First, defence of our legitimate economic interests. Second, dialogue to address our differences. And third, diversification with our partners."[11] It is fairly certain that China will label these three pillars of de-risking as protectionism, disengagement, and friend-shoring. However, one thing is clear, that unlike the vague cooperation partner, competitor, and systemic rival trifecta, for better or for worse, the 'de-risking' approach introduces a new level of European ambition.

STRATEGIC AUTONOMY

China's view on the EU's pursuit of strategic autonomy has generally been favourable. Chinese officials and media often portray the EU's steps towards greater autonomy as a chance for a more balanced and mutually beneficial China-Europe relationship. Chinese President Xi Jinping has repeatedly expressed this stance to top EU officials, including the President of the European Council Charles Michel in their December 2022 meeting.[12]

Yet, the EU and China see European strategic autonomy differently. Europe's broad consensus revolves around choosing dependencies to enhance long-term economic security. Without going into detail about what that might entail for the EU's complex security, finding a compromise among the 27 will be exceptionally challenging.

In contrast, China's interpretation focuses on advocating for the EU to distance itself geopolitically from the United States (US), as evidenced by comments suggesting the need for an independent European defence force due to long-term US unreliability. From China's perspective, while an entirely autonomous EU may not currently be feasible, such a development could act as a counterweight to US global dominance, leading to a new type of multipolarity that would be more accommodating vis-à-vis China's vision.

Currently, China continues to publicly support the EU's strategic autonomy, motivated by the desire to reduce US influence and hoping for a Europe that reverts to a more pragmatic, trade-oriented, and interdependent stance. The disconnect creates a task for the EU to communicate its end goal more clearly, which is to balance its autonomy and the realities of its existing alliances.

TRUST

Where will China and the EU be on the mutual trust scale in 2024 remains unknown. There have been positive developments after the COVID-19-caused limitations have ended. China is making an effort to rebuild trust, as Track 1 and 1.5 exchanges have taken up pace – the recent dialogue in Beijing in October 2023 is a testament to that. Even though the scholarly debate on the importance of trust in bilateral relations continues,[13] with dissenting voices claiming trust to be secondary, one might make the point that building trust cannot possibly hurt.

As the developments in Beijing have shown, reciprocal trust-building efforts can remain restrained by mutual sanctions. Case in point, an essential European stakeholder with a major capacity to influence EU's policies on China, the executive director of MERICS Mikko Huotari, was unsuccessful in obtaining a Chinese visa and was therefore noticeably absent from the EU & China Think-Tank Exchanges in Beijing.

The relationship between China and the EU in 2024 will develop under low-trust conditions and will look more like problem management than partnership. Still, the outcome of the recent meeting between US President Joe Biden and Xi Jinping during the Asia-Pacific Economic Cooperation (APEC) Summit in California has shown that even in a low-trust instance communication is possible, as long as both sides see that the management of the relationship is necessary.

UKRAINE

The European side raises the issue of Russia's full-scale invasion against Ukraine during every high-level meeting with its Chinese counterparts. In those conversations, especially the ones off the record, the Chinese side tends to push back on the notion of Chinese support to Russia. The communication subtly distances China from Russia, conveys apprehension about the conflict, underscores that China has not recognised Russia's annexation of Ukrainian territories, and highlights China's beneficial influence, e.g. in nuclear deterrence against Russia, food security negotiations, as well as limiting the conflict to its current territory.[14] As pointed out by many voices, the international community would certainly welcome China's practical actions on issues China could engage in line with its stance and interests, including the ones mentioned above, as well as the facilitation of returning kidnapped Ukrainian children from Russia and providing humanitarian aid.[15]

What is worrisome, however, is that this framing is specifically intended for EU audiences to soften the view of China's stance on Russia. This EU-tailored approach coexists alongside narratives directed at Russia and, to some degree, the so-called 'Global South', which adopt an anti-Western tone and endorse Russia's viewpoint that NATO and US dominance are the fundamental reasons for the conflict. The disconnect between China's messages for the West, EU included, and the rest will continue to impede the sides from having a real conversation on Russia.

VALUES

Both China and the EU routinely reaffirm their commitment to the UN norms and voice that no other alternative is possible for global consultation and action. UN SDGs have informed policies in China, the EU, as well as its member states. Beyond this agreement, however, challenges persist. The concerted effort at diluting the essence of universal and unalienable human rights led by China within the UN has the risk to undermine the very principles the EU is built on, and to make the world safer for cannibalistic political regimes.

As a mighty power, China understandably is lobbying for an international system that accommodates its realities and interests. There are fundamental issues, however, that exist beyond government interests and are not relative. Pushing back on those issues is in accord with Europe's pluralist stance. As Sir Isaiah Berlin put it: "If pluralism is a valid view, and respect between systems of values which are not necessarily hostile to each other is possible, then toleration and liberal consequences follow, as they do not either from monism (only one set of values is true, all the others are false) or from relativism (my values are mine, yours are yours, and if we clash, too bad, neither of us can claim to be right)."[16] It is fair to expect Europe to remain faithful to pluralism, especially knowing that pressure tends to produce monist tendencies.

This is a struggle that Europeans, are fighting within their own borders as well, being oftentimes subjected to the well know 'liberty vs security' dilemma. Plurality is the argument we project when we stand with European Chinese civil society communities and shield them from far-right fearmongering. Plurality is also the argument for why the EU is so engaged with the UN framework. To debate human rights "applying the principle of universality of human rights in the context of the national conditions"[17] is, in the European understanding, to be relativist.

Main challenges and opportunities

The 2024 US elections. Currently, China and the US are undergoing a period of stabilisation of the strategic rivalry. Although in the US Congress, there is a cross-party consensus in China. The EU's proximity to US President Joe Biden's approach will be either be a challenge or an opportunity for the EU-China exchanges.

Economy. With China's economy encountering issues, it presents an opportunity to find common ground. China will continue to critique the EU's trade approaches, while exploring what economic models can still be operable.

Developments in Taiwan. The Europeans are starting to understand that, in contrast to French President Emmanuel Macron's remarks about avoiding ending up in a crisis "that is not ours,"[18] the escalation around Taiwan is part of the same problem that is behind Russia's war against Ukraine – the deterioration of the balance between global security stakeholders and the resulting attempts at regional redrawing. Taiwan will continue to be an issue of disagreement between the EU and China.

Recommendations and conclusions

Brace for a polycrisis setting. It is clear now that 2024 will not be smooth sailing for EU-China relations. Impacted by domestic challenges such as the economy and global issues, including Russia's war in Ukraine, the Israel-Hamas war and its regional spillover, territorial disputes in the South China Sea, climate change and humanitarian disasters that it causes, and the looming uncertainty of the US presidential elections, both parties will find themselves on opposite sides of the line, not just on legacy contested issues such as values and human rights, but also in the domain of day- to-day crises.

Expect disagreement management, not trust. The EU will not be stepping away from de-risking in favour of obscure and non-threatening formulas. It is important to keep in mind that disagreement has always been part of the relationship. The 2014 China Policy Paper on the EU entitled "Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation"[19] reminds us that the relationship management approach goes back at least a decade: "Given the differences in history, cultural tradition, political system and stage of economic development as well as the increasing competition between China and the EU in some sectors in recent years, the two sides have disagreements and frictions on issues of value such as human rights as well as economic and trade issues."[20] The positive news, however, is that both sides finally operate with clarity over their vision and preferred outcomes not seen before.

Keep climate issues layered. In tackling the existential challenge of climate change, cooperation between China and the EU should be multi-level, with multifaceted policy issues such as emissions and human climate security side by side with expert exchanges on specific topics, such as preserving biodiversity and countering invasive species, waste reduction, as well as pioneering innovative agriculture solutions.

Champion small state security and development. Having set the expectations for a "geopolitical commission",[21] the outgoing European Commission may have under-delivered on producing more geopolitical influence for Europe. However, the geopolitical reckoning within the bloc has certainly increased during its tenure, and will be here to stay past 2024. The EU should use the momentum and its newly found united voice to strengthen the exchange with the so-called 'Global South', specifically by arguing joint interest in the stability of the existing international order and its indispensability for all small states. In 2024, China is expected to increasingly argue that the current rules-based order is unjust or hypocritical. Hence, it is essential to present convincing counter arguments to this approach. The experience of the EU's smaller, newer member states will prove indispensable for this endeavour.

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China-EU relations in 2024: In pursuit of stability

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06 December 2023

Introduction

The China-EU relations reset in 2023. Affected by the pandemic and the Ukraine crisis, the bilateral relations are in the process of in-depth adjustment. However, both sides still intend to maintain engagement and dialogue to consolidate the foundation of cooperation, expand consensus and bridge differences. In 2024, China-EU cooperation will remain a priority as decoupling is not in line with the wishes of both sides, and common interests will continue to guide bilateral relations in a constructive direction.

Key issues

To explore China-EU relations in 2024, we first need to review bilateral relations in 2023. China-EU relations in 2023 have three outstanding features. Firstly, it is a restart of offline exchanges. There are very frequent bilateral visits and exchanges at the top leadership level. A series of China-EU dialogue mechanisms have been restarted, including high-level dialogue in environment and climate, digital, economic and trade, and strategic fields. Other important dialogues, such as human rights dialogue and energy dialogue have also been held offline. Bilateral governmental exchanges between China and EU member states like Germany, France, and Italy, have also been re-initiated. In addition, China and the EU have had relatively intensive high-level consultations on many international and multilateral occasions, such as at the Davos World Economic Forum, the Munich Security Conference and the G20. All of these are helpful in keeping engagement, expanding consensus, and dispelling misperceptions.

The second prominent feature is the growing complexity of the EU's China policy. Since 2019, the EU has defined its relations with China in terms of "partner, competitor and systemic rival." The strategy is to make a clear distinction among the areas in which to cooperate, compete or to rival with China. It seems that the triple definition of EU-China relations has created a kind of consensus among EU member states, which generates a lot of confusion in China-EU relations since China is still committed to the China-EU strategic partnership position and does not believe in the triple definition is workable in practice. The other factor contributing to the complexity of China-EU relations is the EU-led de-risking strategy, which increases the risks of politicisation and securitisation of China-EU economic cooperation.

Thirdly, the trade deficit issue came back as an irritant in China-EU relations. The EU highlighted its €400 billion trade deficit in 2022 as evidence that the EU is over-dependent on China and demanded rebalancing of China-EU economic and trade relations. However, under the impact of the Ukraine crisis in 2022, the high trade deficit of Europe is an exceptional case. Data for the first three quarters of 2023 suggests that the trend is gradually moving towards a more balanced direction. In the first three quarters of 2023, the bilateral trade volume of China and the EU was $594.2 billion, down by 7.7%. Among them, China's exports to Europe reached $382.2 billion, down by 10.6%, imports from Europe reached $212 billion, down by 2.1%, and China's trade surplus with Europe stood at $170.2 billion dollars, down by 19.6%.[1] From the perspective of import and export structure, China's surplus balance with Europe has fallen faster than the general trade and has moved in a direction that favours European exports. What is more important is the EU should see the irritant from a broader and longer perspective such as the EU and China's distinctive role in the global value chain, the EU's increased ban on exports to China and its surplus in service sector that will definitely increase with coming further opening up of China's service market.

Main challenges and opportunities

Looking ahead to 2024, we are concerned about four factors that will affect China-EU relations. The first is how the EU's de-risking strategy will evolve, since the policy has a strong dimension to de-risking from China. From China's perspective, de-risking is the biggest risk for China-EU cooperation. China always sees dependence as mutual rather than unilateral, mutual dependence is the natural result of cooperation in a globalised world. Economically speaking, de-risking has its own rationality, but it should be within the hands of business. But it seems the de-risking strategy, as a top-down strategy driven by EU, has a strong ideological dimension when the EU keeps talking about cooperating with so called like-minded partners to implement its de-risking strategy. At the same time, China is also highly concerned about the change in the EU's mindset behind the de-risking. That is, to view cooperation from a negative and zero-sum game perspective, rather than from a positive and win-win thinking. Although the de-risking strategy is still in its evolving process, it has had a negative impact on China-EU cooperation since it sends a kind of uncertain signal to business community. The European Commission is about to take new steps to enrich its de-risking strategy, which seems moving towards a more assertive position in dealing with China economically. In a word, to what extent the de-risking strategy to de-risk from China will fundamentally reshape China-EU relations in 2024.

The second aspect is the impact of the EU's geopolitical transformation globally. In recent years, the EU has released its 'Indo-Pacific Strategy' to expand its presence in the region, and the strategic focus has gradually shifted from the economic to the political and security fields. Since the year before the launch of the strategy, the EU has hosted two foreign ministers' meetings in the Indo-Pacific region, with the exclusion of China. Commission President von der Leyen, speaking in Manila in July 2023, said that the EU will continue to expand its presence in the Indo-Pacific region to offset China's influence in this area.[2] In addition, the EU has increased its engagement with Taiwan, which is China's core interest. As the regional situation becomes more complicated after the Taiwan election, the EU's position on the Taiwan issue is bound to become more sensitive, whether the EU could strictly follow the one-China policy will be a key factor in watching China-EU relations in the new year.

At the same time, how the EU sees its relations with China while dealing with the Global South will determine how strategic and wide China-EU relations will develop. The Ukraine crisis has reminded the EU of the rise of the Global South and how it has lost its influence there. The majority of the developing countries, for the sake of their own interests, have shown different views on the Ukraine conflict compared with the West, and the recent Israeli-Palestinian conflict has further demonstrated this trend.

Driven by the pressure, Europe has also begun to make a series of arrangements in response to the loss of influence, including strengthening relations with key emerging countries in different regions, placing more effort into implementing the 'Global Gateway' programme and proposing new initiatives in line with G7 countries like the US and Japan. Almost all of these measures regard China as a competitor rather than a partner, especially in the case of the Global Gateway (GG), which is known as hedging against China's Belt and Road Initiative (BRI), driving the EU into taking action in Central Asia, Latin America and Africa. China welcomes the EU's engagement with wider developing countries and wants to cooperate with the EU in helping developing countries deal with common challenges like achieving SDGs and climate change which requires the EU to have a more cooperative mindset.

The third aspect are the uncertainties from the European Parliament and US elections. The European Parliament election will show if the EU will drift further right, which reflects to what extent EU will still keep open. At present, we have seen the rapid rise of right-wing parties across Europe. The rise of populist parties reflects how deeply the EU has moved from an open space towards a 'fortress EU'. This will reshape the way the EU deals with the world, economically, politically and culturally, especially how to deal with China in all dimensions. The impact of the US election will also definitely have impacts on EU-China relations. The 1st Trump era has ever pushed EU and China to cooperate on a lot of multilateral issues such as jointly defending the Iran nuclear deal, the Paris climate change deal and cooperation on the World Trade Organisation (WTO) arbitrary tribunal. Different scenarios of the US election will have different impacts on EU-China relations. If there is a second Trump administration, there will be more worries from Europe including its position on the Ukraine crisis, tariffs, climate change issues and more, which will likely lead the EU to take a more prudent approach to deal with China.

Last but not least, how the Ukraine crisis will evolve will also have a significant impact on China-EU bilateral relations. In the past two years, the crisis has heavily burdened China-EU relations since the EU always sees EU-China relations through the lens of the Ukraine crisis, which seriously undermined the mutual strategic trust. China and the EU have strengthened dialogue on this issue and by seeking cooperation on de-escalation and political solution to the war. But standing from a different perspective, China and the EU still hold different views, especially with the development of relations with Russia. China sees its relationship with Moscow not directed against any third party, thus should not be pressured or coerced by others. But the EU tends to see China-Russia cooperation as against its interests. So as long as the crisis continues, it will impact the EU-China bilateral relationship.

Recommendations and conclusions

The first is to keep strategic dialogue and stabilise the relationship. The upcoming EU and US elections in 2024 will bring uncertainties and even shocks to China-EU relations, so both sides need working hard to stabilize the bilateral relationship. This includes maintaining effective communication channels open, properly managing differences and avoiding major shocks in China-EU relations.

Second, to strengthen the ties of economic and trade cooperation. China perceives that China-EU consensus outweighs differences, and cooperation outweighs competition. Economic and trade cooperations continue to play an important role as the anchor of stability for the bilateral relations. China and the EU should continue to seek to consolidate and expand areas of practical cooperation, resolve differences through cooperative dialogue rather than confrontation, hold active consultations on issues such as trade tensions, and expand cooperation in clean energy, digital, transportation, agriculture and other fields.

Third, to carry out active consultations on security issues. China is ready to play a positive and constructive role on Ukraine and the Middle East. It is hoped that the EU can understand China's unique and positive role, and explore the possibility of dialogue and cooperation in peace talks, humanitarian assistance and international mediation, and avoid black-and-white mindset.

Fourth, to actively plan for the future cooperation framework. Both sides can take the opportunity of the 20th anniversary of the establishment of China-EU Strategic Partnership, advancing the dialogue on the future of China-EU cooperation and explore the possibility of cooperation while seeking common ground, so as to avoid a 'selective decoupling' vision and the trend towards a new "Cold War".

2023 was a year in which China-EU relations sought stability amid change. The China-EU Summit at the end of the year set a stable and constructive tone for China- EU relations in 2024. But turning a vision into reality still requires overcoming several challenges. For example, Europe should not see China as a rival rather than a partner just because we have different systems, and should not reduce cooperation just because we have competition. From China's perspective, cooperation far outweighs competition in China-EU relations. China still sees the EU as an important partner in economic and trade cooperation, a priority partner in scientific and technological cooperation, and a trusted partner in industrial and supply chain cooperation. Therefore, both sides should pay more attention to mutual benefits and ensure that the momentum of bilateral relations continues on the path of steady, sustainable and healthy development.

1 Sun Yongfu, Speech on the China-EU think tank exchange, Beijing, 24 October 2023.

2 European Commission (2023), "Keynote speech by President von der Leyen at the Philippines Business Forum", Manila.

The EU's concept of de-risking hovers around economic diversification rather than national security

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06 December 2023

Introduction

The EU has long been a convinced supporter of open markets and the global trading system, so it seems hard to believe that it introduced the concept of de-risking from China even before the US administration did. To better understand how we got here, there is a need to contextualise the situation of the EU and its relations with China.

The EU saw China's entry into the WTO as an opportunity to enlarge the global trading system while continuing to liberalise trade and investment. It was one of the tools within the more general Western engagement policy with China. On the economic front, engagement included companies in China but the scope was smaller than originally expected. Foreign direct investment in manufacturing was welcome only in those sectors that China decided to open and, in most cases, in exchange for technological transfer. Many sectors, especially in services, remained closed and state-owned enterprises were not privatised or subsidies eliminated. In essence, China never became a market economy and continued to use industrial policy to move up the ladder, while accumulating large trade surpluses, through repressed consumption and limiting market access to foreign competition.

This situation did not get any better since President Xi came to power in 2013. On the contrary, Chinese companies acquired enough size to compete abroad, helped by large acquisitions overseas but without yet opening their own market. The result of an increasingly unfavourable situation, from the EU perspective, led to a Copernican turn in its position towards China in March 2019. While recognising that cooperation was needed in certain areas- especially climate - competition but also systemic rivalry were introduced as key traits of EU-China relations.

Since 2019, two major shocks have led to the worsening of EU-China relations. The first was COVID-19, with China perceived as uncooperative, but also the realisation of the enormous dependence that Europe had developed on China for critically necessary products during a pandemic. The second was Russia's invasion of Ukraine and China's support for Russia, against the EU's interests, which came as a surprise to many.

Both the pandemic and the invasion of Ukraine brought Europe to the full realisation of the need to develop strategic autonomy and economic security, which included reducing critical dependencies on China, especially when economic and national security are at stake. The EU's second awakening on strategic dependences, namely on Russian gas, only accelerated the EU's search for a policy solution to such a situation. Still, by doing so, a new critical dependence – and again on China – became crystal clear, namely the sheer share of renewables imported into the EU from China.

Key issues

Pinpointing the exact launch date of 'de-risking from China' as a conceptual framework is tricky as it evolved gradually, fuelled by multiple factors over time. Many argue that China started its path to de-risking before the West did as a way to reduce dependencies from the West, mostly on the technological side. In fact, the concepts of self-reliance but also that of dual circulation are sometimes considered euphemisms for de-risking.

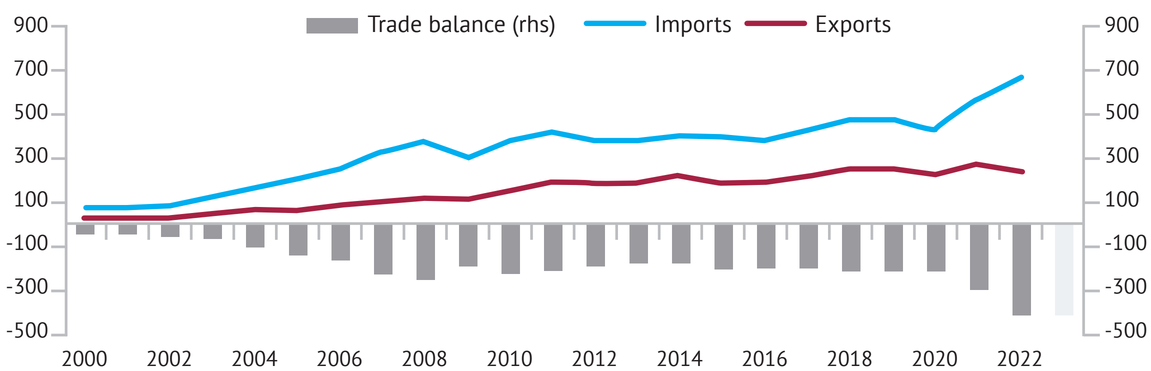
From the Western side, the Trump-led trade war against China brought to light the concept of de-coupling, especially on the technological front, but it proved to be unachievable, and certainly undesirable, because of the massive interdependences of the American and Chinese economies. The so-called Phase I deal signed right before the COVID-19 pandemic, was meant to be the first phase of normalisation of US-China relations, based on the premise that China would redress the large bilateral trade surplus with the US. The COVID-19 pandemic amplified supply chain disruptions, highlighting risks associated with concentrated production in China, which also meant that, contrary to what many analysts thought at the time, the Biden administration, which came to power in 2021, continued to limit the US dependences on China by keeping the import tariffs imposed by Trump but also adding more constraints to tech transfer, in particular of export controls on high-end semiconductor components, a tightening of inbound investment screening and many others.

This relentless push from the US to control its dependence on China was accompanied by an increasingly difficult situation in the EU as regards China. Since COVID-19, the EU has started to move to import much larger amounts of goods from China without the country reciprocating, which has led to a large trade deficit. By the end of 2023, the EU's trade deficit with China had reached €400 billion. This process paved the way for the EU's Commission President von der Leyen's first public speech in March 2023, before her official trip to China, in which she introduced the concept of de-risking, while making it very clear that it is different from decoupling.[1] This marked a significant turning point, bringing the concept into mainstream discourse. In subsequent months, major economies like the US and Japan quickly adopted the 'de-risking' language, reflecting a broader shift in strategy towards mitigating dependence on China while maintaining a certain level of engagement.

It is important to note that von der Leyen's concept of de-risking was never intended to be a synonym for decoupling. She explicitly argued against doing so. Her definition of de-risking, which has now entered the European Commission's toolbox for economic security, is linked to diversifying from excessive dependence on goods/components that are considered strategic. The idea of national security is clearly much less present in the European concept of de-risking than in the US one, introduced by Jack Sullivan announced in his speech at Brookings in April 2023.[2] One of the key issues hovering around national security is the risk of an invasion, or a military conflict, in Taiwan, which is pushed much more by the US concept of de-risking than in the European one.

More specifically, the EU's approach to de-risking, has been operationalised by a number of targets to reduce critical dependences and vulnerabilities in new legislation, such as the Critical Raw Material Act and the Net-Zero Industry Act, which set out targets to improve access to critical raw materials and to manufacture a minimum stock of clean teach. Yet, China's dominance in key strategic sectors and products is so overwhelming that such targets will be very hard to achieve. In fact, despite all the buzz, Europe's dependence on China has grown rather than decreased. The dependency on rare earths is 98%, antibiotics 79% and 90% of our solar panels come from China.[3]

EU TRADE BALANCE WITH CHINA (USDbn)

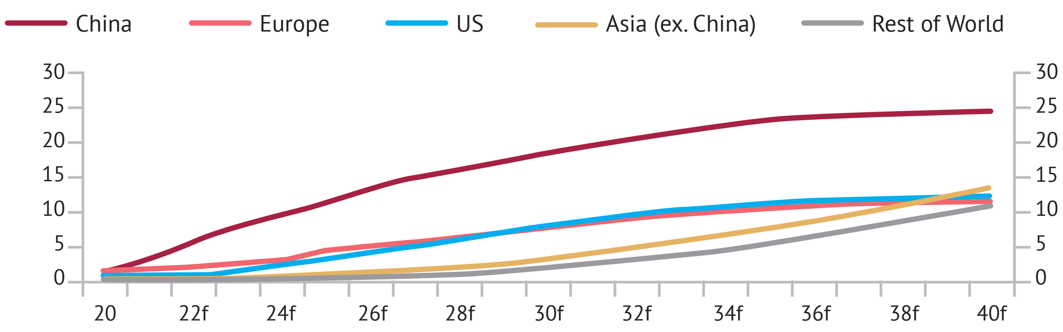


Note: 2023 trade balance based on linear projection of the first 7 months. Source: Natixis, Comtrade

Main challenges and opportunities

The question to ask ourselves is why de-risking is not happening if the risks of excessive dependence have been clearly identified. The answer boils down to private/individual interests versus social interests. Companies have an interest in continuing to source from China and/or have access to the Chinese economy, the world's second-largest market. Many companies continue to localise their production in China and to transfer technology for the sake of the market, downplaying the risk of an abrupt decoupling related to a national security shock (whether a military conflict in the Taiwan Strait or any other). Beyond abrupt decoupling, other risks relate to China's ability to leverage strategic dependences by retaliating. Since China introduced the 'Export Control Law' in 2020, it has passed legislation to impose export restrictions on products containing key technologies or key raw materials. China has already demonstrated this power by introducing export controls on gallium and germanium, which are essential materials for the production of green tech, as a response to the trilateral agreement between the US, Japan and the Netherlands to introduce export bans on high-end semiconductors. The fact that the US has enough reserves of gallium and germanium while the EU does not, show how difficult the situation is for the EU when implementing de-risking measures. On the social cost of excessive dependence on China (as exemplified during the pandemic), we cannot forget that the reliance on China's green tech for our decarbonisation is reducing the costs of this endeavour, as solar panels or electric vehicles imported from China are cheaper.

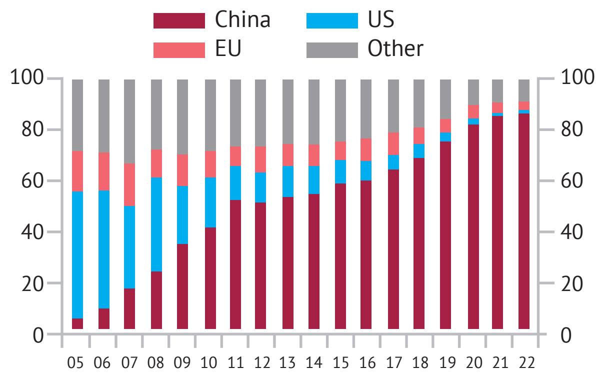
GLOBAL ELECTRIC VEHICLE SALES BY REGION (MILLION UNITS)



N.B. Included both BEV and PHEV. Source: Natixis, MarkLines, BNEF

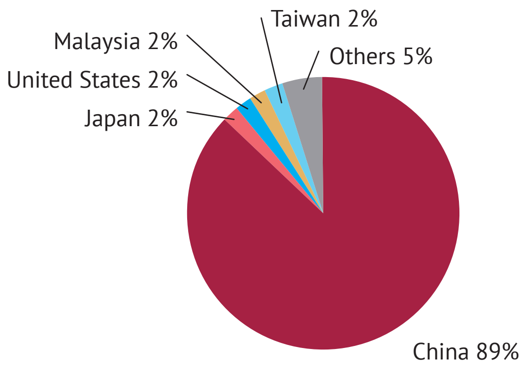
In other words, even at the aggregate level – and forgetting for a moment companies' interest, there is a trade-off between costs and security. How societies decide between the two might not be straight forward, making it hard to move fast on the de-risking strategy. This is even more complicated if we consider that security, in the EU context, is mostly a national prerogative. EU member states have different relations from China, with some having benefitted more than others. The case of Hungary's outright refusal of the EU de-risking strategy contrasts with Lithuania having suffered direct retaliation from China and having to rely on the EU for protection.[4]

SHARE IN SOLAR PANELS ALL COMPONENTS MANUFACTURING (%)



Source: Natixis, BNEF

EXTRA-EU IMPORTS OF SOLAR PANELS, 2021 (%)

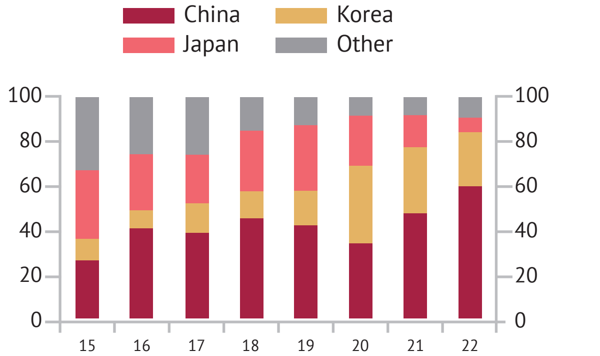


Source: Natixis, Eurostat (Comext DS-645593)

In order to align corporate and social interests, but also reach a consensus among different positions by member states, there should be fewer sticks and more carrots. In other words, while important, defensive measures cannot be the only ones on which the EU can rely. Offensive measures are needed, which act as carrots. The most obvious one is the possibility to bringing back business to European companies for sectors dominated by China.

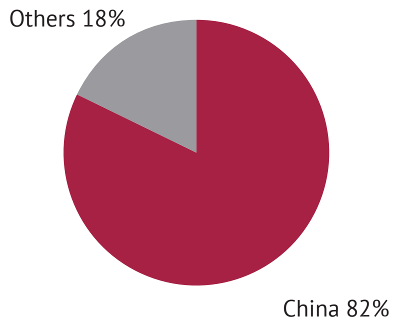
The problem with this idea is that we could end on the slippery road of reshoring and massive subsidisation of European production of green tech or any other product with critical dependences on China. This solution is neither efficient (EU costs are too high in many cases) nor feasible (since China still has chokepoints, we cannot avoid such as the control of critical raw materials).

MARKET SHARE OF LITHIUM-ION BATTERY FOR ELECTRIC VEHICLES BY COUNTRY (%)



N.B. Included top 10 players for each year.
Source: Natixis, SNE Research

EXTRA-EU IMPORTS OF LITHIUM ION BATTERIES, 2021 (%)



Source: Eurostat

The solution must come from a combination of reshoring to build some critical stocks but, most importantly, forging partnerships with other countries with lower costs and economies of scale to create complementary ecosystems to the now China-centric supply chain of a large number of goods, including green tech. Building a supplementary value chain should not be read as an action directed to contain China but rather to increase diversification of supply to avoid potential chokepoints and other risks related to relying on a single point of entry to critical goods. The opportunity, though, lies in the fact that so many other economies are in the same situation as the EU, including the US but also many emerging economies, whose energy transition depends on China. This means that coordinated action should be possible, making the costs of de-risking smaller. So far, the US reaction has been of providing the incentives to reshore production into the US but penalising Chinese entities trying to benefit from such subsidies. This solution is too costly for the rest of the world, in term of the side of subsidies needed, and possibly also for the US down the road. A green tech partnership where more countries are involved for the provision and refining of critical materials, but also manufacturing, seems much more sustainable over time. This proposal is explored further in a policy brief by Alicia García Herrero, Heather Grabbe, and Axel Källenius written in 2023.[5]

Recommendations and conclusions

The European Commission should continue with its goal of de-risking from the Chinese economy, understood as reducing its critical dependences but also ensuring economic security. This means increasing the diversification of sourcing whenever possible and working for a solution whenever not immediately possible. It also implies having contingency plans in the event of a major geopolitical event, whether in the Taiwan Strait or elsewhere.Still, the EU's de-risking approach, as opposed to the US one, needs to focus on diversification and enhancing the resilience of the EU's supply chain. This cannot be obtained by reshoring production only, for a number of reasons. Firstly, the costs are huge; secondly, China has created many chokepoints in the supply chain which the EU, alone, cannot mitigate. For this reason, relying on a network of incentive-aligned partners is the solution going forward. It goes without saying that creating such a partnership is easier said than done and will require leadership.

This is all the more so since an alliance of developed countries will not be enough to shape an effective and resilient partnership. Emerging and developing countries with enough critical raw materials but also the economies of scale to produce green tech will be needed. Beyond green tech, the model of creating a partnership with incentive-aligned countries which have different comparative advantages can be applied to other cases of excessive reliance on a single country. Pandemic-related protective gear and pharmaceuticals are another good example. The hardest risk to find protection from is surely the geopolitical one, especially in the case of a potential conflict in the Taiwan Strait but, even in this case, a partnership which agrees to pool stocks of semiconductors and other critical goods whose supply could be affected could be envisaged. A country-level solution, even an EU-level solution, will always be less efficient and more costly than one in a larger partnership.

[1] European Commission (2023), "Speech by President von der Leyen at the European Parliament plenary on the conclusions of the European Council Meeting of 23-24 March 2023", Brussels.

[2] The White House (2023), "Remarks by National Security Advisor Jake Sullivan on renewing American economic leadership at the Brookings Institution".

[3] European Commission (2021), "Updating the 2020 Industrial Strategy: towards a stronger Single Market for Europe's recovery", Brussels.

[4] Garcia Herrero, Alicia, (2023), "China-EU roller-coaster relations: Where do we stand and what to do? U.S.-China Economic And Security Review Commission", [US Congress hearing on "Europe, the United States, and Relations with China: Convergence or Divergence?].

[5] García-Herrero, Alicia., Heather Grabbe and Axel Kaellenius, (2023), "De-risking and Decarbonising: A green tech partnership to reduce reliance on China", Bruegel.

What de-risking means for China

Center for China and Globalization

06 December 2023

Introduction

2023 marks the twentieth anniversary of the EU-China Strategic Partnership. This year has brought a revival of bilateral engagement, culminating in the EU-China Summit, which will be held on 7-8 December in Beijing. European Commission President Ursula von der Leyen, European Council President Charles Michel, the High Representative of the European Union for Foreign Affairs and Security Policy Josep Borrell and other senior European officials will join the Summit.

The bilateral partnership in 2023 should be defined by the buzzword de-risking, a term delivered by Ursula von der Leyen in her speech at the European Policy Centre and MERICS on 30 March 2023, just before she visited China with French President Emmanuel Macron. "It is neither viable – nor in Europe's interest – to decouple from China. This is why we need to focus on de-risk – not decouple."[1] The speech marked the rise of de-risking as the new symbolic concept guiding the EU's relations with China, which has been recognised by major European capitals, and later by Washington when President Biden said at the G7 summit in Hiroshima: "We are not looking to decouple from China. We're looking to de-risk and diversify our relationship with China."[2]

Key issues

1. THE CHINESE REACTION TO DE-RISKING IS LARGELY NEGATIVE

The Chinese Foreign Ministry's Director-General for European Affairs, Wang Lutong tweeted shortly after von der Leyen's speech: "If there's any risk, it is the risk of linking trade and ideology and national security and creating block confrontation."[3] Following the adoption of the concept of de-risking at the G7 Summit in May, the Chinese Premier Li Qiang consistently criticised the de-risking notion, now coalesced into a Western perspective, on multiple occasions during his visit to Berlin in June. This marked the first time that the Chinese Premier explicitly expressed a stance on de-risking. According to a report by Deutsche Presse-Agentur (DPA), Li Qiang's visit to Germany was characterised as an effort "to implement discriminatory measures in the name of de-risking to restrict or exclude other countries, which violates market principles, principles of fair competition, and the rules of the WTO." At the closing ceremony of the China-Germany Economic Cooperation Forum, Li Qiang opposed using de-risking as a pretext for implementing discriminatory measures and emphasised the rejection of "decoupling and breaking ties" under the guise of risk mitigation.[4]

China's state news outlet Xinhua Agency published four editorials in a row from 16-19 July, criticising the essence (*benzhi*) of 'de-risking' as the West's aim to contain and isolate China; "China believes that there is no substantive difference between de-risking and decoupling." The rationale is de-risking is used as a means of confrontation that aims to eliminate opportunities, cooperation, stability, and development, and is bound to create significant long-term burdens and risks for the global economy. The motivation behind de-risking is rooted in the US' anxiety about its position of global hegemony, with Washington viewing China as an imagined enemy challenging its dominance. Therefore, in essence, de-risking is really a strategy to 'de-China' or push China out of the global trade and economic order.[5] A spokesperson for the Chinese Foreign Ministry, Wang Wenbin, further pushed back against this notion, emphasising that China and the EU should work together to uphold an open, rules-based international economic order, rather than resorting to protectionism and politicisation that drives de-risking efforts.[6]

2. DE-RISKING PERCEIVED IN CHINA AS REPACKAGED "DECOUPLING"

► **De-risking rationale is untenable.**

The Chinese question the validity of identifying China as a 'risk'. The Europeans have often accused Beijing of being geopolitically motivated to divide Europe. Wu Hailong dismissed the claim by saying: "There is categorically no trace of geostrategic competition between China and Europe, nor are there fundamental conflicts of interest between them. China has not at all attempted to influence the European system with its own, nor has it exported its ideologies and values to Europe. Where then, does geopolitical motivation stem from?" He then moved to the issue of 'incompatibility of values' or 'different social systems' by asking "Why wasn't China regarded as an adversary in the past due to human rights issues, but is seen as one now?" He also addressed the trade imbalance issue that's been repeatedly invoked by the Europeans by citing the EU's measures restricting Chinese investments.[7]

► **De-risking is political and hostile.**

As the Chinese understood it, de-risking is fundamentally political and emblematic of the West's distrust. In a veiled criticism of HR/VP Josep Borrell's speech at Peking University, Wu Hailong said, "If de-risking is adopted as a national policy in dealing with a country and is explicitly directed at a particular country, it transcends being merely a commercial or economic common-sense issue, and becomes a political issue; moreover, it becomes a national policy characterized by unfriendliness and distrust towards that country."[8] To many Chinese analysts, there is no substantial difference between de-risking and decoupling, with 'de-risking' arguably being a repackaged strategy to exclude China from the global trade and economic system. A scholar from the Chinese Academy of Social Sciences went even as far as tying de-risking to 'yellow peril' and 'red scare', alluding to the animosity as "deeply rooted in colonial/imperial history and modern racism."[9]

► **De-risking is not only harmful to China but to the world.**

Lastly, the Chinese view of de-risking as an extension of 'decoupling' led by the West and its consequences are harmful not only to China but also to the EU itself and the health of the world economy. According to a recent report by the Chinese Chamber of Commerce in the EU, most Chinese companies surveyed report that given the highly connected industrial chains and the close collaboration on digital economy and green sectors between the two sides, de-risking from China will curb the growth of strategic emerging industries of the EU, derail global economic growth, and compromise globalisation.[10]

► **Some positive aspects of de-risking**

Amid the overwhelming negative responses among the Chinese multi-stakeholders, there are some positive elements associated with de-risking. For example, some Chinese scholars recognised that 'de-risking' may reflect Europe's intention not to cut off its economic, social, and political ties with China and its need to avoid over-simplification in handling relations with China. Ursula von der Leyen's observation that "our relations are not black or white" has been largely perceived as conducive to moving the bilateral relationship forward.[11]

Another positive aspect is the persistent emphasis on bilateral cooperation in the context of increasing calls from the EU to de-risk from China. "Failure to cooperate is the biggest risk," as the Chinese Premier emphatically proclaimed, the European obsession with risk reduction; should not be interpreted as reducing cooperation. The Chinese officials' and experts' statements and texts have been abundantly calling for Brussels to focus on areas of cooperation, even to the point that triangular cooperation involving Beijing, Brussels, and Washington is entirely possible, especially on global governance issues such as climate change and artificial intelligence.

3. DE-RISKING HURTS EUROPE'S GREEN AND DIGITAL TRANSITIONS.

► **De-risking harms the interests of European companies.**

In a close-knit economic interdependent relationship, the European concern over the trade deficit does not square with the fact that a significant share of the Chinese trade surplus goes to Europe with over a third of European exports to China making their way back to Europe, including the auto parts used by Chinese electric car makers.[12] In the telecom industry, the EU enjoys a positive balance with China as EU firms accounted for more 5G base stations in China than Chinese firms in the EU from 2019 to 2022, according to a report from the Dell'Oro Group. Under unitary 5G standards, selling intellectual property rights (IPR) in China generated close to €1 billion for European companies. If it had not been for Chinese 5G smartphone manufacturers, European firms would have lost nearly 40% of their global IPR revenue.[13]

► **De-risking will impede the EU's green agenda and digital transition.**

Political intervention in the market, while aimed at mitigating risks, contravenes the principles of non-discrimination, free trade, freedom of establishment, and freedom to provide services, as stipulated in the Treaty on the Functioning of the European Union (TFEU). Such interventions not only heighten business uncertainty but also undermine the investment confidence of both Chinese and European companies, leading to disrupted global supply chains and escalated costs for European firms.

The exclusion of Chinese companies from market competition in the EU could have long-term detrimental effects, potentially resulting in diminished innovation and productivity. This, in turn, undermines Europe's industrial leadership and its ability to maintain a competitive edge in the global market. The repercussions of these 'de-risking' measures are already evident in two significant sectors: renewable energy, particularly solar power, and the digital infrastructure, notably 5G technology.

In the renewable energy sector, the 2013 Solar PV Anti-dumping case significantly reduced the EU's solar capacity to 4GW, a level last seen in 2007.[14] Although the European sanctions on Chinese solar panels were lifted in 2018, the EU initiated a new round of solar trade defense measures in 2023. A joint statement by SolarPower Europe and 433 European PV makers has highlighted the potential damage to the EU's solar industry due to these actions, which could severely hinder the transition to renewable energy at a critical moment. The measures also pose a risk to nearly 400,000 European jobs in the solar sector, which accounts for half of the current EU workforce.[15] Additionally, the EU's anti-subsidy probe into electric vehicle imports from China has raised concerns among European businesses, further illustrating the negative impact of de-risking on the green agenda.

The digital transition is similarly affected, as evidenced by the 2023 report on the state of the Digital Decade, which reveals a significant gap in infrastructure development, such as 5G and Very High Capacity Networks (VHCN), in most EU countries compared to the Digital Decade targets.[16] Preemptive bans on Huawei in five countries—Sweden, Romania, Belgium, Estonia, and Latvia—have led to these countries ranking fifth from the bottom in '5G population coverage' among the 27 EU countries.[17] The exclusion of Huawei has resulted in significant investment losses for these countries and has impeded a smooth transition from 4G to 5G technology.

Main challenges and opportunities

CHALLENGES IN EU-CHINA RELATIONS 2024

China will persist in opposing the European term 'systemic rival.'

This year has seen increased high-level engagements between the EU and China, but the potential for conflict arising from divergent security perspectives is likely to endure. The 2023 buzzword of 'de-risking' will need to be revisited in 2024. For one thing, the Chinese have consistently rejected the European definition of China as simultaneously "partner, competitor, and systemic rival." The triptych, conceived by the Chinese as "contradictory, illogical, and incohesive", has been metaphorically likened to a "peculiar 'three-positioning' traffic light" by the special representative of the Chinese government on European Affairs Wu Hongbo at CCG's 9th China and Globalization Forum, who stated that if all three [red, yellow, green] lights light up simultaneously, I believe no driver would dare to move forward. Similarly, if the "three-positioning" traffic lights light up at the same time in China-EU cooperation, it not only confuses China but also leaves European politicians, the business community, and the public confused and uncertain."[18]

EU's anti-subsidy probe on Chinese EVs will continue to strain the economic relationship.

In 2023, Europe introduced a variety of policies, including the European Economic Security Strategy, Foreign Direct Investment Screenings Regulation, the Anti-Coercion Instrument, the European Chips Act, the Critical Raw Materials Act, and the European Sovereignty Fund, all with substantial implications for China. On September 13, European Commission President von der Leyen said in the European Parliament's State of the Union address that the European Commission will launch a countervailing investigation into electric vehicles imported from China. The EV industry in China, however, is upheld as not only reshaping the industry ecosystem but also providing a model for envisioning a high-quality, sustainable economic and social development with high technology, high value-added, and green aspects.

A spokesperson for the Chinese Ministry of Industry and Information Technology said: "The probe will seriously disrupt and distort global automotive industrial and supply chains, including those in the EU, and it will damage the interests of European consumers." Furthermore, the investigation proposed by the EU is not in line with the international trade rules of the WTO, nor is it supported by sufficient evidence. It is a practice of protecting its industry in the name of 'fair competition', which will seriously disrupt and distort global automotive industrial and supply chains, and damage the interests of European consumers.[19]

UNDERLYING FORCES BEHIND DE-RISKING MAY PROVIDE IMPETUS FOR COOPERATION

De-risking is not achievable.

Through a realist lens, the Chinese could reach an easy conclusion that decoupling is simply not achievable given the economic realities of the two countries. The voice for decoupling has been loud in recent years yet the economic and trade ties are hard to sever. According to the Chinese Ministry of Commerce, in 2022, trade with Europe reached $847.3 billion and European investment in China increased by 70% to $12.1 billion. The two are each other's second-largest trading partners. One of the significant challenges lies in the complex dynamics of the transatlantic economic relationship, de-risking adds an additional layer of challenge to the European economic landscape. For the EU to manage these challenges, the ability to adapt and adjust is essential.[20]

Recommendations and conclusions

Increase the intensity of bilateral dialogue and engagement at multi-level, with recognition of the role of Track 2 actors, especially think tanks.

The EU-China Summit and other high-level engagements like the EU-China High Level Economic and Trade Dialogue (HED) are highly beneficial for practical bilateral cooperation and strengthening mutual trust. Track-two actors such as trade groups, businesses, non-profits, and think tanks can play an important role as well. As the events held this October - CCG 8th China Global Think Tank Innovation Forum and the EU-China Think Tank Exchanges show, think tanks have the primary edge in convening diverse stakeholders from across nations, sectors, and professional backgrounds and aggregating their concerns and proposals. With the rise of medium-sized powers, listening to their voices is even more important, providing a space for counterbalancing in major power relations, and avoiding falling into the 'Thucydides Trap' with excessive reactions. Secondly, think tanks still need to construct new global narrative theories from a broad perspective, and propose valuable action initiatives to interpret, guide, and drive consensus formation among various parties.[21]

Focus on collective action initiatives, especially infrastructure.

The prevailing theme at the recent 8th China Global Think Tank Innovation Forum in Beijing, followed immediately by the EU-funded EU & China Think Tank Exchanges project, was the imperative for cooperation. CCG President, who hosted the events, proposed a framework for cooperation including climate, conflict, infrastructure, digital, public health, institutions, North-South cooperation, finance and trade, people-to-people exchanges, and international agreements.[22] All of the action initiatives can apply to the China-EU cooperation. Since infrastructure connectivity is the main common denominator, the BRI could work together with other frameworks, too, such as the already mentioned Global Gateway. BRI could probably participate more in the reconstruction of Ukraine.

People-to-people exchanges can be promoted via a broadened open-border policy.

In November, the Chinese Foreign Ministry announced a new entry policy allowing individuals from France, Germany, Italy, the Netherlands, Spain, and Malaysia to enter China without a visa. This visa-free policy was welcomed across Europe. The German ambassador to China Patricia Flor tweeted: "This decision will facilitate travel to China for many German citizens to an unprecedented extent. A joyful occasion for relatives and friends of people living in China, for business, tourism, German-Chinese associations, and other bilateral projects."[23] French Foreign Minister Jean-Yves Le Drian also commented: "Excellent news announced during my visit by my counterpart Wang Yi!"[24] According to the Associated Press, the European Union Chamber of Commerce in China stated that this move would help boost business confidence. "The China-EU Chamber of Commerce also expressed hope that more European countries would soon enjoy the same visa-free treatment. In a statement, the association described this move as a "practical improvement that will enhance business confidence."[25]

Strengthen multilateral institutions and EU-China common interests with the Global South.

International institutions such as the World Bank, IMF, WTO, and the UN have significantly promoted peace, prosperity, and development worldwide. However, the world has since undergone significant changes, moving towards a more multipolar landscape with the rise of developing economies, particularly the BRICS countries, as well as the growing influence of Asia, Africa, and South America. This shift in the global power dynamics necessitates a renewed system of global governance. In this context, Europe and China can play a crucial and constructive role in shaping a new global order. The first system was largely built by the US, and the World now sees the need for another path that is not dominated by a single great power. This path should aim to build common interests and partnerships with the Global South, fostering a more inclusive and equitable global economic and governance system.[26]

In conclusion, Chinese perceptions of the European notion of de-risking have mainly been associated with the earlier term 'decoupling' and understood as internecine and harmful on a broad scale. Despite the rising de-risking call from Europe and the challenges in the bilateral relationship, old and new, China nonetheless believes that common interests between Beijing and Brussels far exceed the differences and remains considerable room for the world's number two and number three largest economies to cooperate.

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EU-China relations: Navigating uncertainty

2

How is the current geopolitical context reshaping EU-China relations? What ramifications does Russia's invasion of Ukraine have for EU-China relations? What opportunities exist for China and the EU to address pressing global issues?

Navigating the EU-China critical mineral conundrum

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Introduction

Minerals are essential building blocks for clean energy technologies. Nonetheless, from the point of view of Europe, the risk of becoming more dependent on a handful of mineral-rich states remains. Over the past decades, China has manifested itself within critical raw materials supply chains – from mining over processing, all the way to manufacturing.

This dynamic has contributed to a situation where critical raw materials (CRMs) have become a key point of contention and a geopolitical weapon for great power competition. In the latest EU CRM Act, the EU tries to move away from dependencies on third countries. Resource-rich countries should not consider this to be a frontal attack, rather as an opportunity to diversify global supply of CRMs, thereby making the supply chain more resilient to shocks, ease the risk of weaponisation, as well allowing countries in the Global South to move up the supply chain.

Key issues

INCREASED DEMAND

As the renewable energy industry grows, demand for minerals will increase accordingly. A 2020 World Bank Report found that the production of minerals would need to increase fivefold by 2050 to meet the growing demand for clean energy technologies. Especially the anticipated growth of mineral-intensive electric vehicles will be a driver for demand. Supply of lithium, an essential mineral in the production of EV batteries, will need to increase a dazzling 57 times by 2050 to meet the projected increase in demand. Moreover, green energy has a strong geoeconomic dimension for the EU; offering a way out of overdependence from fossil fuel-rich states.

Although renewables are increasing the demand for CRMs, they are not the only, or the primary end use for CRMs. Not all minerals will end up in EVs or wind turbines. For example, the overwhelming volume of graphite and nickel will not end up in EVs or wind turbines, but rather in steel factories given their refractory qualities.

CONCENTRATION

Efforts to diversify the supply of minerals will be necessary to increase the EU's resilience, however, since critical raw materials are characterised by a high geographic concentration (higher than for fossil fuels), diversification will often meet its limits. Moreover, analysis by the International Energy Agency (IEA) has projected that with the exception of copper, most of the output growth for cobalt, lithium and nickel will continue to come from today's major producers. This concentration of market power on the supply side implies corresponding policy decisions by resource-rich countries.[1]

Certain resource-rich countries are reviewing their role within mineral supply chains, charting a course away from merely supplying raw materials into higher-value activities. This way, they seek to boost growth and create well-paid job opportunities within their own borders. Indonesia is a case in point for this.

Estimated to account for 37% of the global production and 22% of the global reserves of nickel, the government tries to lure FDI in the Indonesian Nickel processing industry.[2] Former Indonesian President Joko "Jokowi" Widodo pioneered an export ban on raw nickel ore in an effort to draw in investment to local nickel processing and electric vehicle battery manufacturing. In response to this, the EU has filed a complaint with the WTO to dispute these protectionist measures by Indonesia.[3] By the end of 2022, the WTO ruled in favour of the EU, prompting Indonesia to appeal.[4] Instead of backtracking, Indonesia is doubling down, as it is now also exploring possibilities to establish an OPEC-like cartel for Nickel and key battery metals.[5] Current President Prabowo Subianto is set to be continuing on this path.

In June 2023, Chilean President Gabriel Boric announced plans for its National Lithium Strategy. Currently, the second largest producer of lithium worldwide, accounting for a quarter of all raw lithium, the strategy implements a set of public-private partnerships to increase local capacities in mining, processing and manufacturing of said mineral.[6] Complementary, a regional initiative seems to be on their way as Argentina, Chile, Bolivia and Brazil are planning to coordinate policies that would propel them further down the EV supply chain.[7]

These are not isolated cases. Over the past decade, there has been a five-fold increase in export restrictions on raw materials. According to an OECD study, Over the period 2009-2020, China has increased its restrictions on CRM exports by a factor of 9 in that period, accounting for one fifth of the global increase. This has made China the greatest offender in restricting the supply of materials needed for the green transition.[8]

When it comes to extraction, we see a recurring – and unavoidable – geographic concentration, but still some substitutes and diversification options with untapped reserves. The main issue here is time: it takes over 16 years to develop mining projects from discovery to production.

EU CRM ACT

In response to the risk of overdependency on third countries, the European Commission proposed its 'Critical Raw Materials Act'in the spring of 2023; to pave a path towards resilience and strategic autonomy. In the meantime, the 'Critical Raw Materials Act Regulation' has come into effect on the 23rd May.[9]

The CRM Act distinguishes two "types" of materials: "critical raw materials" (CRMs) and "strategic raw materials" (SRMs). "Criticality" is based on the economic importance of the raw material, its supply risk, potential for substitution, import reliance and the so-called "Herfindahl-Hirschman Index", which is a measure to determine market competitiveness. Next to the list of critical raw materials (CRMs), which has expanded to include 34 CRMs, the Commission came up with the term "Strategic Raw Materials". SRMs are determined by their relevance to the green and digital transition, as well as for defence and aerospace purposes.

To decrease the EU's dependence on foreign sourced minerals, the Act establishes three benchmarks to increase the local supply as a portion of annual consumption of raw materials by 2030:

- 10% of total consumption of strategic raw materials needs to come from local extraction capacities in the EU;
- 40% of total consumption of strategic raw materials need to be processed in the EU;
- 25% of total consumption of strategic raw materials needs to come from the recycling in the EU.

Acknowledging that the EU does not hold reserves of all SRMs, the Act sets out the goal that by 2030 the EU will not be dependent on a single country for more than 65% of any SRM – at any stage of processing.

In order to increase the EU capacity to extract, process and recycle SRMs, as well as diversify EU supplies away from overly dominant third countries; the Commission has designated "strategic projects". Projects under this banner will receive facilitation to finance and permitting. The Commission considers strategic projects of public interest due to their importance in ensuring the security of the supply of strategic raw materials and safeguarding the functioning of the internal market.[10] According to the CRM Act, strategic projects will receive their permits within a maximum period of 27 months, while recycling and processing projects should receive their permits within 15 months, with limited exceptions aimed at ensuring a meaningful engagement with the local communities affected by the projects and a proper environmental impact assessment in complex cases.

Whereas never mentioned in the actual regulation, supply dependency for CRMs on China is front and centre of the ongoing debate in Brussels. Currently, the EU imports 100% of its rare earth elements (REEs) – hence it can be argued that here lies the biggest bottleneck. China dominates this space in extraction (60%), but mostly in processing: where China controls 87% of global supply.

CHINA'S DOMINANCE

China's recognition of the strategic value of minerals dates back to the '7th National Five-Year Plan for Rare Earth Industry' (1986-1990), highlighting the need for research and production of advanced rare earth applications and new materials. This early focus inspired Deng Xiaoping to cite the prophetic words: "The Middle East has oil, China has rare earths."[11] A combination of rich natural endowments, cheap labour, low production costs, and low environmental and labour standards, set the stage for rapid growth in REE extraction and processing.[12] This resulted in the fact that up to this day, China accounts for the majority of the global production of REEs.[13] However, in order to grapple China's dominance in CRMs, one needs to have a closer look at its processing and refining capacities: China controls a strong presence across the board. China's share of global refining is at 35% for Nickel,[14] 65% for Cobalt, and 58% for Lithium. Given its high REE mining capacity, China's processing share in global value chains is 87%.[15]

China's raw materials approach is not limited within its own borders. As of 2020, 15 of the 19 Cobalt producing mines in Congo were owned or financed by Chinese companies.[16] Furthermore, following the Indonesian raw nickel export ban, recent foreign direct investments in nickel processing and battery manufacturing capacities in Indonesia have been coming virtually all from Chinese companies, namely Tsingshan Holding Group, CATL, and lately Beyond Your Dreams (BYD).[17]

On the European continent, Chinese mining and EV battery manufacturing companies are expanding their footprint. Exemplary for this has been mining company Zijin opening a major new copper and gold mine in Serbia in 2021.[18] In Hungary China's battery powerhouse CATL is building a USD 7.6 billion battery plant in Hungary.[19] In terms of EV manufacturing investments, Chinese BYD will be building an EUR 501 million EV plant in Hungary.[20]

Main challenges and opportunities

WEAPONISATION

In response to the widened US export controls on high-tech semiconductor machinery; the Chinese Ministry of Commerce and the General Administration of Customs announced export controls on gallium and germanium in July 2023. These are said to be aimed at protecting national security and interest. These controls require exporters to seek permission to ship gallium and germanium products, which are metals widely used in the semiconductor industry starting from August 2023.[21]

Although neither gallium nor germanium are particularly rare, processing costs are generally high. As China has exported them relatively cheaply for so long there are only limited processing facilities across the rest of the world.

Two months later, following up on the gallium and germanium restrictions, Chinese authorities announced another set of export restrictions on graphite, implying that as of December 2023; Chinese exporters would be required to apply for permits to ship synthetic as well as natural graphite.

Diversification efforts away from China are difficult for graphite, as more than half (57%) of the EU's supply of Natural Graphite comes from China. Not a single country currently produces a double figure percentage of the global supply.

Furthermore, Chinese companies are expanding their footprint in graphite mining in Africa, namely Mozambique – which is holding untapped reserves – thereby increasing Chinese dominance over the global graphite supply chain.[22]

ALTERNATIVES

Finding alternative sourcing for gallium and germanium is a troublesome matter, as excluding China, the biggest suppliers are Russia and Ukraine who produce germanium as a byproduct from alumina. South Korea and Japan on the other hand produce it as a byproduct of zinc. In the Democratic Republic of Congo, there are some mining projects that contain higher concentrations of germanium.

In may 2024, Belgian materials technology company Umicore announced that it had signed a partnership with STL (Lubumbashi Slag Treatment Company) – a subsidiary of Congolese state-owned mining company Gécamines (La Générale des Carrières et des Mines) – wherein it will support to valorise germanium from mining residues (i.e. waste) in the Big Hill tailing site in Lubumbashi (Eastern Congo). Through refining and recycling, Umicore and STL are expected to deliver their first volumes of germanium by end of 2024.[23]

No REEs are currently being mined in Europe. However, in January 2023 at the eve of the CRM Act communication, Swedish mining company LKAB (Luossavaara-Kiirunavaara Aktiebolag) announced that it had identified significant deposits of rare earth elements in Kiruna (North Sweden), containing more than 1 million tonnes of REEs.[24] Still, there is a long way to go for Kiruna to be operational as LKAB stated that it would be at least a decade before the deposits will be effectively mined and shipped to market.

European companies have decided to invest more in local nickel processing and manufacturing in Indonesia. Early 2023, German BASF SE and French Eramet SA indicated that they would spend USD 2.6 billion building a nickel-cobalt refinery in Indonesia. In a project named 'Sonic Bay' on the island of Halmahera, the companies will produce around 67000 tons of nickel and 7500 tons of cobalt a year.[25]

SCOPE FOR EU-CHINA COOPERATION?

Although China has been a major topic in the debate on CRMs in Europe, Brussels is not out to stir a trade war on CRMs with China. On several occasions senior European Commission officials denied that the CRMA targets China, stating that it is aimed "simply [at] diversifying sources of supply," stating that "is not an 'antagonising China' question" […] "We just like to not depend 99% on rare earths [from China], like we won't want to depend at 71% for South African platinum or at 90% on boron from Turkey (sic)."[26]

The EU and China are still on speaking terms on the matter of Critical Raw Materials. Exemplary for this has been the China-EU 'Industrial Dialogue and Consultation

Mechanism' meeting that took place in February 2024, where a working group on CRMs was present. At this meeting, the Chinese Ministry of Industry and Information Technology (MIIT) and their European counterpart, the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) jointly agreed on an Early Warning System for supply risks for a set of CRMs, as well as committed to share more information on supply disruptions.[27]

The Critical Raw Materials Act was also mentioned in the closing statement by Commission President Von der Leyen after the trilateral meeting with French President Macron and Chinese President Xi Jinping.[28] The fact that this issue is being mentioned in diplomatic exchanges, can be considered a positive sign, indicating that CRMs are still openly discussed between two parties.

Recommendations and conclusions

The increasing demand for minerals, especially with the growth of clean energy technologies, underscores the necessity for mitigating dependencies on a few mineral-rich states. While the EU's Critical Raw Materials Act aims to enhance resilience and strategic autonomy, it seeks not to antagonise China but rather to foster global diversification. Challenges such as China's dominance in processing and refining capacities and its weaponisation of mineral exports necessitate proactive measures and collaborative initiatives. Alternatives such as sourcing from third countries and investing in local processing facilities provide avenues for reducing reliance on single suppliers, yet will often reach their limits. The ongoing dialogue between the EU and China on CRMs, as evidenced by diplomatic exchanges and joint commitments, suggests a potential for constructive cooperation. By embracing diversification, enhancing resilience, and fostering collaboration; Beijing and Brussels can navigate the complexities of their trade relationship and promote stability in the global supply chain of Critical Raw Materials.

Based on the above analysis, six policy recommendations for the EU can be put forward:

Increase EU funding: While the CRMA sets out benchmarks for developing own CRM-capacities by 2030, it does not complement these with additional financial resources. Dedicating financial means for SRM mining, processing, and recycling capacities necessary for renewables – within as well as outside the EU27 – would be most welcome.

Shorten permitting time: If all benchmarks are to be reached by 2030, the major critical resource the EU will be running out of soonest, will be time itself. Therefore, EU member states should commit to shortening permitting time for new mines and processing plants significantly without losing sight of environmental and social considerations.

Diversification: China's dominant position is not only due to rich natural endowments, rather that Chinese extraction and processing is significantly cheaper than in the rest of the world. Producing SRMs cheaply within EU borders will remain significantly more difficult than outside the EU.

Substitution through innovation: Diversification efforts will prove to be difficult for certain SRMs because of a lack of alternative sources, the EU should pursue a strategy of "substitution through innovation". Ever since companies shifted Li-ion batteries towards lower cobalt compositions, cobalt prices dropped significantly. There is scope for the EU to incentivise R&D into exploring a diversity of chemistries for batteries.

Cool down weaponisation threats: Effective in achieving a limited, short-term goal, the threat of weaponisation in CRM-markets creates an environment of deepened diplomatic rift. In the case of SRMs that are used in renewable technologies, the imposition of erratic export restrictions not only decreases diplomatic goodwill, it impedes the global race to net-zero carbon emissions.

Stockpiling: Some EU member states already pursue stockpiling of SRMs, the current CRMA only puts forward increased cooperation efforts with member states on stocking. Having a common European inventory stock of SRMs could cushion the risk of weaponisation towards single countries, as well as improve overall resilience of supply.

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Unusual times do not allow for business as usual but will instead require new Chinese-European modus operandi

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Introduction

When it comes to the European Commission's perception of China and the Chinese-European relationship, there is a pre and post Midea's takeover of the German robotics crown jewel Kuka in 2016.[1] The sudden rise in Chinese investments and take-overs of the continent's top-notch industrial players would become the harbinger of a new era, in which China does not only prove to be a tough competitor in the low-end parts of the value-chain, but also challenges the West's leading position in high-end production. Alarmed by this prospect and by its disappointing track record of keeping China in line with the international trade rules; the European Commission modified the methodologies used within its existing trade defence toolbox and prepared itself for a more thorough modernisation of this toolbox in 2017.[2] While these policy decisions can largely be brought back to the aim of shielding the EU against foreign unfair trade practices, the COVID-19 pandemic, the invasion of Ukraine by Russia, and the China-US scramble for technological supremacy have intensified the security dimension of trade flow management.

China's record trade surplus with the EU, its domestic overcapacities as well as the accelerated European concerns about being overly dependent on China and hence vulnerable against economic coercion, have led the European Commission to apply some of its brand-new trade defence tools for the first time. This has triggered political and economic backlash from the Chinese leadership, depicting virtually every trade action by the European Commission as inherent protectionism and as complicit within an overarching American plot to contain China's development process. Moreover, China downplays some of the enduring, but also justified, and unanswered European concerns about unequal market access and the persistently imbalanced Chinese-European trade relationship. This rhetoric reveals the extent to which the EU continues to fall short in being taken serious by China as a credible international player acting according to its own interests, ambitions, and strategies.

Apart from superficial short-term charm offensives and highly staged bilateral state visits, mutual distrust currently sets the tone within the Chinese-European trade relationship. Representatives of the private sector, notably large company representatives with vested interests in the Chinese market, are hoping for a return to business as usual. While this is understandable, the geopolitical context as well as the current Chinese industrial solutions for its economic slowing-down, are increasingly putting pressure on the maintenance of the European liberal tradition of openness and make such a return unlikely. This does not necessarily have to be detrimental. On the premise that it can maintain a unified voice, a tougher EU with more effective instruments could also lever China to take its concerns more seriously. Some of these concerns, such as the issue of Chinese over-production and under-consumption, might lead to disagreement but should not necessarily create division. Rather than getting into the spiral of a tit-for-tat trade war, both China and the EU should be transparent about their ambitions, interpreting each other's trade actions for what they are, and identifying the areas in which cooperation is possible, while also recognising mutually that reducing foreign dependencies in critical sectors as well as seeking to maintain a competitive edge is inherent to statecraft in the current international landscape.

Key issues

OVERCAPACITY

Chinese production overcapacity does not have to be an issue per se. However, in combination with persistently high domestic consumer savings and non-consumption, continued governmental supply-side industrial policies, a lack of reciprocity on the Chinese market and American trade walls, it turns the Chinese-European trade relationship very volatile.[3]

Chinese export-oriented growth, based on intense governmental support to the industries which the Chinese state selects as flagship sectors, and financed by a consistent level of excess domestic consumer savings, has caused European headaches since China's accession to the WTO in 2001.[4] These concerns were again expressed during German Chancellor Scholz' visit to Beijing April 2024 and, to a more assertive extent, in the conversations between Xi Jinping, Emmanuel Macron and Ursula von der Leyen beginning of May this year. The Chinese leadership contradicts the European worries. Xi Jinping defended overcapacity as a conducive way to ease global inflation and to spur the green transition.[5] Chinese premier Li Qiang confirmed this logic by stating that "moderate production exceeding demand is conducive to full competition and survival of the fittest."[6]

These counterarguments make sense to a certain extent. Excess production figures do not necessarily have to be damaging to foreign markets and the pressure they put on price makes these products – of which currently many are vital in the fight against climate change – more affordable for consumers all over the world.[7] But two aspects add to the situation's complexity.

Firstly, one can ask to what extent some of the current Chinese overcapacities can still be depicted as moderate. In the solar panel industry for example, Chinese producers of solar wafers, cells, and modules, have an output that severely outweighs domestic and global demand. It is estimated that in each of these stages, the production stocks as they stand in 2024 would suffice to cover world demand until 2032.[8] In the electric vehicle industry similar utilisation rates are to be expected. For BYD to be able to sell its current production domestically, the demand would have to be double.[9] Whereas the global demand for 2025 is estimated to be around 17 million cars, China's production capacity for next year is expected to be 36 million vehicles.[10] These clean-tech examples are symptoms of a larger phenomenon. Overall, with less than 75%, China's industrial capacity utilisation rate of last year reached its lowest level since 2016.[11]

Secondly, apart from some announced fiscal and monetary measures to encourage Chinese domestic demand, the concern in Europe is that the efforts of the Chinese government to mobilise its internal consumer market in function of more balanced economic growth remains insufficient. As the US, and to an increasing extent countries from the Global South, are putting up tariff walls, European fears of becoming the dominant outlet for the excess of Chinese goods accelerate.[12] The inflow of cheap goods on the European market might be good news for the European consumer on the short term. However, it also is a double-edged sword - less visible - but equally important to consider are the costs of international dumping in terms of European insolvencies and job losses.[13] Moreover, for the Chinese market overcapacity has also negative consequences in terms of pressured price margins and discouragement of domestic industrial investments.[14] Rather than referring to Chinese industrial overcapacity as a marketing boost that is being securitised by the West; it should be recognised as a shared economic problem. Reducing it would be in fact better for the EU and China as well as for their trade prospects.

ECONOMIC COERCION AND THE EXPANDING EUROPEAN TRADE TOOLBOX

China is an adept user of economic coercion. Bilateral economic repercussions targeting individual European member states in response to trade actions, which China depicts as contrary to its interests, are not new. This has been illustrated for example by the Chinese retaliatory trade measures that were taken in response to the European textile, telecom, and solar panel investigations. The 2021 Lithuania case was exceptional as China did not solely target one specific sector with export interests in China. Lithuania's position in global supply chains was instead broadly coerced following the Lithuanian decision to allow Taiwan to open a representative office in Vilnius.[15] While the European Commission already disposed of the possibility to launch an ex officio anti-subsidy investigation against another state; the Lithuania case confirmed the need for new European tools, which can firmly stand against foreign economic coercion.

This toolbox is gaining momentum. Besides a range of "traditional" anti-dumping and anti-subsidy investigations in the Chinese electric vehicle and plastics industry, some new country-agnostic instruments are currently being tested as well; to the dismay of the Chinese leadership. Under the European Commission's

New Foreign Subsidy Regulation (FSR), three initiatives have been launched. A unit of CRRC was probed over its bid for a €610 million Bulgarian public procurement contract to provide electric trains, after which the company withdrew from the tender.[16] A second probe, based on indications of subsidies granting an unfair position in the public procurement procedure, was targeted against a German subsidiary of Longi Green Energy and two other European subsidiaries of Shanghai Electric.[17] They applied for providing solar panel for a Bulgarian solar panel park. The FSR was used for a third time when raids in the Warsaw and Rotterdam offices of China's state-owned company Nuctech were conducted. The European Commission again justified this action by referring to the indications it has of the company receiving distortive subsidies.[18] Another new tool, the so-called International Procurement Instrument (IPI), was deployed for the first time to investigate potential discriminatory practices in China's medical procurement market.[19] The European anti-coercion instrument, hailed as a lender of last resort that had not been applied until now, has been designed to respond to the foreign coercive efforts targeted at the European member states.

Recommendations and conclusions

The European expanding toolkit and the broader de-risking agenda of which its recent application is undoubtedly part are causes for concern in China. The Chinese leadership regularly equalises this European agenda with the US' decoupling strategy and perceives them as a method of containment. While China often disapproves of what it claims to be "the use of western cold war rhetoric," it nonetheless classifies Europe's latest trade actions as joining forces with the US in preparing for a decoupling scenario with China.

De-risking is not the same as decoupling, to the same extent as European interests are not fully aligned with American ones. It is important to recognise the scope of the European Commission's latest initiatives as being mainly defensive and aiming to foster a level playing field for its industries, which it was only limitedly able to do since China's accession to the WTO in 2001. The application of the new Trade Defence Instrument (TDI) remains restrained and surgical. Targeting specific industries in which the Commission fears different rules, unfair subsidies, and Chinese overproduction and underconsumption might ultimately turn into international dumping practices that can be harmful to its industries.

The EU's failure in presenting itself as a unified actor with its proper ambitions and interests is not very surprising and remains problematic. The Dutch unilateral move to, in consultation with the US, apply export controls should have been proactively avoided by a European-wide approach in the matter. In a similar vein, Scholz visit to Beijing was yet another missed chance to firmly carry out a European China policy. Putting an end to this internal European fragmentation over China, induced by short-term economic and electoral interests, will be more effective against economic coercion than any new trade defence instrument the European Commission designs.

The current horse-trading in the Chinese-European economic relationship margins on beef, pork, apples, and airplanes cannot disguise the level of mutual distrust nor the structural problems causing trade tensions between China and the EU. Within a geopolitical context recognised by tariff walls, the resurgence of industrial policy, and the dismantling of foreign overdependencies, it would not be in the European interest to keep its market unconditionally open. The conditions and areas under which trade and investment opportunities are present must be formulated in a clear and transparent way. Moreover, some of them, among which the European request vis-à-vis China to step up its efforts in structurally tackling the issue of domestic overcapacity and underconsumption, might be in the interests of both China and the EU.

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How can Beijing and Brussels move forward with their trade relationship amid geopolitical uncertainties? The case of critical raw materials

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Introduction

China and the EU, as two of the world's major economies, together comprise one-third of the global economic output. China is now the EU's second-largest trading partner, as well as the largest source of its imports and the third-largest destination of its exports. In recent years, the EU has accelerated the 'de-risking' process amid geopolitical crises, and prioritised security in the cooperation with China, a shift from the past orientation towards economic interests and technical cooperation. A raft of new acts and policies adopted by the EU, in particular the Critical Raw Materials Act, has challenged China-EU relations. Nevertheless, the two economies are still highly complementary in terms of industrial structure, technological strength, and market demand. As reiterated by Wang Yi, Member of the Political Bureau of the CPC Central Committee and Foreign Minister of China, China and the EU are comprehensive strategic partners with common interests far outweighing differences, and cooperation is the keynote of China-EU relations.[1] In the future, China and Europe should strengthen dialogue, enhance strategic mutual trust, bolster consensus on cooperation and development, and collaborate to facilitate trade cooperation under the new and turbulent circumstances.

Key issues

CONTEXT OF THE CRM ACT

In December 2019, the European Commission launched the European Green Deal, an important document for combating climate change and promoting sustainable development, proposing to make Europe the first carbon-neutral continent in the world by 2050. Critical raw materials for clean energy development are crucial to achieving this vision. The EU demand for rare earths is estimated by the European Commission to increase six-fold by 2030 and seven-fold by 2050, while the EU demand for lithium is expected to increase 12-fold by 2030 and 21-fold by 2050. On September 14, 2022, European Commission President von der Leyen announced the CRM Act during her State of the Union address. On March 16, 2023, the European Commission presented a proposal for the CRM Act. On March 18, 2024, the Council of the European Union formally endorsed the CRM Act to ensure the EU's access to a secure, diversified, affordable and sustainable supply of critical raw materials for a wide set of strategic sectors including renewable energy, digital, aerospace, and defense.[2]

CORE ELEMENTS OF THE CRM ACT

The CRM Act identifies 34 critical raw materials and 17 strategic raw materials, including rare earths, lithium, nickel, cobalt, and silicon. It sets benchmarks for EU capacities along the supply chains of critical raw materials:

- At least 10% of the EU's annual consumption for extraction;
- At least 40% of the EU's annual consumption for processing;
- At least 25% of the EU's annual consumption for recycling;
- Not more than 65% of the EU's annual consumption is from a single third country.

The Act requires simplifying permitting procedures for critical raw materials projects, with the permit granting process not exceeding 27 months for extraction and 15 months for processing and recycling. It also provides for monitoring and stress testing of critical raw materials supply chains, and sets obligations on large companies to audit their supply chains.

Main challenges and opportunities

1. THE EU'S "DE-RISKING" POLICY IMPACTS CHINA-EU ECONOMIC AND TRADE RELATIONS

China is a major supplier of the critical raw materials used in the EU. It provides 85% of the EU's supply of light rare earth elements, such as cerium, lanthanum, neodymium, praseodymium, and samarium, as well as 71% of the gallium supply and 67% of the scandium supply, according to the China Institute of Contemporary International Relations.[3] The CRM Act, though not explicitly targeting China, will directly undermine the trade in related minerals between China and Europe, and have an impact on Chinese companies along the supply chains such as smelting and processing companies. As evidenced by the CRM Act, the EU pan-politicisation and pan-securitisation of normal economic and trade relations will magnify the fragmentation of global economy and industrial pattern and consequently threaten the stability of the global green supply chains.

2. RISING PROTECTIONISM IN THE EU INFLUENCES THE BUSINESS ENVIRONMENT

The CRM Act is an important manifestation of the rise of trade protectionism in the EU. In recent years, the EU has raised thresholds for Chinese exports, as well as enterprise investments, and mergers and acquisitions through a protectionist policy toolbox. Such interference in industrial chain and supply chain cooperation has produced negative effects on the investment and development of Chinese companies in the EU. The EU business environment has deteriorated in the eyes of 32.84% of the surveyed companies, a decrease of 0.2 percentage points compared with the previous year, according to the report "Business Environment of the European Union 2023/2024" published by the China Council for the Promotion of International Trade (CCPIT).[4]

3. NEW RISKS BROUGHT BY 'DE-RISKING'

The CRM Act is intended to 'de-risk' domestic clean energy industries. Although EU leaders emphasised having no intention to 'decouple' from China, since China is a dominant producer of rare earths and many other critical raw materials in the world, domestic substitution is difficult in the short term. Forcible 'de-risking' will result in de facto 'decoupling' of China and the EU, which will directly affect the cost and stability of domestic industries, and even hinder the realisation of its carbon-neutral vision.

4. GREAT CHALLENGES TO THE OBJECTIVES OF THE CRM ACT

The EU has swiftly adopted the CRM Act in an ambitious effort to secure an independent supply of critical raw materials. However, the goal of localising critical raw materials-related industries is still facing challenges in capital, cost, technology, and environmental dimensions.

5. HIGH-LEVEL DIALOGUES FUNDAMENTAL TO THE DEVELOPMENT OF CHINA-EU COOPERATION

High-level dialogues between China and Europe have been strengthened since 2023. In April 2023, French President Macron visited China, and in June, Chinese Premier Li Qiang visited Germany and France. In December 2023, Chinese President Xi Jinping met with European Council President Michel and European Commission President von der Leyen, who were in China for the 24th China-EU Summit. In April 2024, German Chancellor Scholz visited China. On May 5, 2024, Chinese President Xi Jinping paid a state visit to France, Serbia and Hungary. Through high-level dialogues, China and Europe have enhanced mutual understanding and trust, reaffirmed the keynote of cooperation, and better managed their differences to maintain the strategic stability of China-EU relations.

High-level visits also boost business cooperation. For example, during President Xi Jinping's state visit to France, representatives from Chinese and French enterprises conducted exchanges on three topics: industrial innovation, mutual trust and win-win cooperation; green economy and low-carbon transition; and new quality productive forces and sustainable development. Enterprises from the two sides also signed cooperation agreements in areas including aviation, low-carbon mobility, intelligent manufacturing, environment, green development, and green finance. China-EU enhanced cooperation on industrial chains and supply chains lays a solid foundation for strengthening industrial integration and promoting sustainable development of economic and trade ties.

6. BROAD PROSPECTS FOR CHINA-EU ECONOMIC AND TRADE COOPERATION WITHIN THE FRAMEWORK OF THE BELT AND ROAD INITIATIVE (BRI)

The economic and trade ties between China and Europe have become closer since China's BRI initiative was launched, with bilateral trade hitting 5.5 trillion yuan in 2023. As of the end of March 2024, China-Europe freight trains have cumulatively operated over 87.000 trips, reaching 222 cities in 25 European countries, according to the statistics of China State Railway Group Co., Ltd. In addition, special trains for timber, edible oil, and new energy vehicles have been made available. Such tailored services of China-Europe freight trains have accurately dovetailed industrial and market demands and further facilitated economic and trade exchanges between the two sides. Prospects are very broad for deepening economic and trade cooperation within the BRI framework as long as China and Europe maintain a stable strategic partnership.

7. HUGE SPACE FOR COOPERATION IN CLEAN ENERGY INDUSTRIES BETWEEN CHINA AND EU

China and Europe are highly complementary and have a huge potential for cooperation in clean energy technologies, industries, and markets. The EU's energy transition and carbon neutrality can not be separated from China's clean energy equipment. The cooperation between China and Europe in clean energy industries is not limited to imports and exports, but involves a wide range of converging interests in the process of global response to climate change and energy transition. Industrial cooperation between the two sides can not only serve the EU's needs, but also deliver mutual benefits and win-win results by jointly expanding the Middle East and North Africa markets.

As noted by a signed article of Chinese President Xi Jinping in Le Figaro, France is advancing re-industrialisation based on green innovation, whereas China is accelerating the development of new quality productive forces. The two countries can deepen cooperation on innovation and jointly promote green development. Some Chinese companies have set up battery plants in France. The Chinese government supports more Chinese companies to invest in France and hopes that France will ensure they operate in a fair and equitable business environment.[5]

Recommendations and conclusions

For these two of the major economies in the world, there are no geopolitical conflicts or conflicts of fundamental interests between China and Europe - cooperation far outweighs competition, and consensus far outweighs disagreement. The two sides should reaffirm strategic partnership and deepen economic and trade cooperation by forging a two-way strategic partnership, establishing a multilateral industrial chain cooperation mechanism, promoting a clean energy community of shared interests, and actively engaging in international cooperation on science and technology innovation.

1. FORGING A TWO-WAY STRATEGIC PARTNERSHIP

China has always attached importance to its relations with the EU, recognised the EU as a strategic force in the international landscape, and taken nurturing China-EU ties as a priority in its foreign policy. In a trilateral meeting with French President Macron and European Commission President von der Leyen on May 6, 2024, Chinese President Xi Jinping said that China always approaches its relations with the EU from a strategic and long-term perspective, and regards Europe as an important dimension in its major-country diplomacy with Chinese characteristics, as well as an important partner in achieving Chinese modernisation. He hoped that China-France and China-Europe relations would be reinforced and enable them to thrive together.However, the stable development of China-EU relations lies in the EU's orientation towards China. Only by setting aside the triple label on China (partner, economic competitor, and systematic rival) can the EU truly build a two-way strategic partnership with China. On this basis, the two sides can enhance strategic mutual trust, bolster strategic consensus, and find the greatest common ground of cooperation.

2. ESTABLISHING A MULTILATERAL INDUSTRIAL CHAIN COOPERATION MECHANISM

China and Europe are major participants and beneficiaries of global industrial chain and supply chain cooperation. Amid the increasingly turbulent international situation characterised by added uncertainties, the EU's 'de-risking' industrial policy has been gradually weaponised, dampening China-EU economic and trade ties. China upholds economic globalisation, actively engages in bilateral, multilateral and regional cooperation, always safeguards the WTO-centered multilateral trading system, and has proposed initiatives on global supply chain cooperation. While the two important forces advancing multipolarity, China and Europe should actively promote bilateral and multilateral dialogues and negotiations through multilateral mechanisms, such as the UN, G20, and WTO, and play a leading role in fostering a global mechanism of industrial chain cooperation under the new international context.

3. PROMOTING A CLEAN ENERGY COMMUNITY OF SHARED INTERESTS

Chinese clean energy companies are very willing to invest in Europe. The EU should improve the business environment through active measures to attract Chinese companies to localise their operations, to encourage enterprises from the two sides to carry out technical, capital, and production capacity cooperation along the clean energy industrial chain, to facilitate enterprises to establish zero-carbon industrial parks, clean energy equipment manufacturing bases, and critical raw materials mining and smelting bases in Europe, and to collaboratively build a globally oriented clean energy ecosystem and community of shared interests.

4. ACTIVELY ENGAGING IN INTERNATIONAL COOPERATION ON SCIENCE AND TECHNOLOGY INNOVATION

China and Europe are important partners in science and technology innovation, with complementary strengths and common interests in areas such as new energy and the digital economy. The EU is powerful in basic scientific research and diversified innovation systems, while China has advantages in applied technology and a huge market demand. In the past, the scientific and technological cooperation between the two sides was mainly driven by economic and industrial cooperation. In the future, China and Europe should seize the opportunity of the new round of scientific and technological revolution and industrial transformation to explore the economic and industrial cooperation driven by scientific and technological cooperation, thereby injecting a new impetus into China-EU economic and trade ties.

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Moving forward China-EU trade relationship amid geopolitical uncertainties

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25 May 2024

Introduction

The year 2023 held great significance for China and the EU, marking the 20th anniversary of their comprehensive strategic partnership. This milestone not only signified increased levels of interaction but also culminated in a face-to-face Summit between the leaders of the two entities. In 2024, the repercussions of geopolitical conflicts, ranging from the overt hostilities between Russia and Ukraine to the widening of competition between the US and China; have exacerbated the economic rift between China and the EU. However, the China-EU relations are not without their positive developments.

In December 2023, the 24th China-EU Summit was held in Beijing. During this summit, President of the European Council Charles Michel and President of the European Commission, Ursula von der Leyen, engaged in separate sessions with Chinese President Xi Jinping and Premier Li Qiang. Charles Michel emphasized the importance of a stable and constructive relationship between the EU and China based on respect for the international rules-based order.[1] Similarly, Premier Li Qiang expressed China's readiness to collaborate with the EU to strengthen mutually beneficial cooperation and enhance the stability of China-EU relations.[2]

Key issues

WIDENING SCHISM IN BILATERAL TRADE

In 2022, the EU experienced a trade deficit of €397 billion with China, marking the highest value in the past decade. The following year, the deficit decreased to €291 billion, a significant €106 billion improvement from 2022.[3] Despite this reduction, Brussels expressed concerns about the persistent trade imbalance with China.[4] China takes a different stance from the EU regarding the trade imbalance, viewing it as a complex issue influenced by macroeconomic conditions, international trade dynamics, and the industrial structures of both regions.[5] China also sees the EU's restrictions on high-tech product exports to China as contributing factors to trade deficits and one of the critical challenges in China-EU trade relations. The EU's new draft regulations, aimed at protecting its economy and sensitive technologies, are likely to impact Chinese exports and further strain trade relations. These regulations, including measures to strengthen export controls and screen foreign investments, have been a point of contention; with China urging the EU to relax these measures to promote more balanced bilateral trade.

INCREASED EU SANCTIONS AGAINST CHINESE IMPORTS

The EU has consistently stated that its efforts to "de-risk" are not aimed at China. Nonetheless, EU officials and industry stakeholders have continuously drawn attention to issues such as "over-reliance," "overcapacity," "unfair subsidies," "trade deficits," and "infrastructure vulnerabilities." These concerns have propelled the EU to pursue various protectionist measures, particularly targeting China's "new three" industries EVs, lithium-ion batteries, and solar PV. For example, in October 2023, the EU initiated an anti-subsidy investigation into Chinese EVs. Subsequently, in March 2024, a nine-month customs registration requirement for Chinese EVs was introduced. The EU has frequently utilized the Foreign Subsidies Regulation to target Chinese companies. In February 2024, the European Commission launched a thorough probe into CRRC Qingdao Siang's bid for a public tender of 20 electric locomotives by Bulgaria's Ministry of Transport and Communications. This investigation ultimately led CRRC Qingdao Sifang to withdraw from the bid in March.[6] Moreover, on April 3, the EU commenced two investigations into two Chinese solar panels firms in a public tender for a solar park in Romania. The lasting, and in some cases escalating treatments, in the EU against certain Chinese companies such as Huawei and ZTE, is also viewed through such lens in China.

Main challenges and opportunities

'DE-RISKING' CONTINUES TO IMPEDE HEALTHY DEVELOPMENT IN THE EU-CHINA ECONOMIC RELATIONS

"De-risking" has become a normative trend in Sino-EU relations 2023.[7] This strategy, which aims to reduce dependencies on China, has precipitated heightened scrutiny of Chinese investments and more stringent constraints on the acquisition of Chinese technology; evidenced in events such as the launching of an investigation into China's electric vehicle in October 2023.[8] Notably, the European Commission took significant steps to further its economic security agenda by proposing revisions to foreign direct investment screening, intensifying coordination on export controls within the EU, and enhancing oversight of research and development (R&D) related to dual-use technologies – a political maneuver informed by the de-risking narrative.[9]

While the EU insists that de-risking is not about decoupling, the measures have been perceived by China as protectionist and potentially harmful to the long-standing trade relationship that has been a stabilizing factor in Sino-EU economic ties for decades.[10] The adoption of these strategies has had a detrimental effect on economic relations between China and the EU. A study conducted by the Rhodium Group indicated that Chinese investment in Europe in 2023 has reached its lowest point since 2010.[11] Europe's investment screening mechanisms are continuously expanding in terms of both geographical coverage and industry sectors. Consequently, Chinese companies seeking to invest in critical strategic sectors will be subject to more rigorous regulatory evaluations.[12]

RECENT DISPUTES OVER THE SO-CALLED "OVERCAPACITY" FURTHER EXACERBATE THE BILATERAL TRADE RELATIONSHIP

During her visit to China in April 2024, US Treasury Secretary Janet Yellen singled out China's industrial overcapacity as imposing detrimental effects on American businesses and workers.[13] Echoing Yellen's statement, the European Commission chief Ursula von der Leyen voiced similar apprehensions about China's overcapacity issue, just a day later.[14] The term "overcapacity" has thus prompted fierce responses from China. On April 8th, during his visit to Paris, China's Commerce Minister Wang Wentao pointed out that the rapid growth of Chinese EV sector results from innovation and supply chains, not government subsidies.[15] The Chinese view the issue over "overcapacity" as a fallacious one whereas industrial capacity should be assessed upon actual demand. In the context of economic globalisation, variations in resource endowments among different countries or regions have led to the international division of labour and trade. This outcome is a result of countries capitalising on their comparative advantages and engaging in mutually beneficial cooperation.[16] Providing effective subsidies depends on the strategic foresight of the public sector harmonizing with the efficient investment strategies of the private sector. When executed correctly, subsidies can engender notable increases in productivity and foster the expansion of market. Not to mention that industrial subsidies are prevalent in the industrial sector. In the US, Europe, and many other countries, subsidies are offered in greater numbers with a broader scope compared to China's subsidies for emerging industries.[17]

EU-CHINA SHARED CLIMATE COMMITMENT CONTINUES TO SPARK POTENTIAL FOR COOPERATION

Both the EU and China exhibit a strong dedication to combating climate change through multilateralism and adhering to international agreements such as the Paris Agreement. This shared dedication is motivated by the considerable susceptibility of their populations to the detrimental impacts of climate change. For instance, a World Bank report emphasises the risks that climate change presents to China's long-term economic well-being[18], while the EU's climate monitoring service has identified Europe and the polar regions as areas particularly affected by global warming.[19] Jorge Toledo, the European Union's Ambassador to China, underscored the pressing need for immediate action on climate change, citing its worsening impact annually and the inadequacy of current mitigation efforts. He emphasized the imperative of reinforcing the informal governance framework within the Paris Agreement through heightened ambition and enhanced accountability. Additionally, Toledo highlighted the pivotal roles of the EU, China, and the US as the three primary emitters of greenhouse gases; thus stressing the significance of their collaboration in combating the challenges posed by climate change.[20]

GREEN TRANSITION PROVIDES MUTUAL BENEFITS FOR THE EU AND CHINA

"As the world transitions to environmental technologies, maximizing the capacity of green suppliers is critical in combating climate change. Rather than resorting to finger-pointing and protectionism, fostering cooperation among all stakeholders – manufacturers, researchers, suppliers, investors, and consumers – is paramount," President and Founder of CCG, Henry Huiyao Wang, stressed in a commentary piece.[21] China is currently the world's largest producer of wind and solar energy and the leading investor in energy transition technologies. This presents a unique opportunity for the EU to transform its European Green Deal from a financial burden into a commercial success. By fostering innovation and exporting clean technologies, European companies can capitalize on this growing market. China and the EU have engaged in various collaborative efforts to promote green transition. President Xi Jinping has emphasized the importance of international cooperation in tackling climate change, stating, "We need to improve global environmental governance, actively respond to climate change, and create a community of life for humans and nature. We need to accelerate the transition to a green and low-carbon economy and achieve green recovery and development."[22] This highlights China's commitment to working with international partners, including the EU, to achieve common climate goals.

Recommendations and conclusions

PROVIDE INCENTIVES FOR EXPANDING AND EVEN PERMANENTIZING VISA-FREE TRAVELS

China has temporarily extended visa-free access to passport holders from France, Germany, Italy, the Netherlands, Spain, Ireland, Switzerland, Hungary, Austria, Belgium, and Luxembourg. Beijing views these visa-free policies as a crucial component of its broader diplomatic strategies, benefiting both China and its bilateral relationships. This indicates an openness to establishing more formal and permanent agreements. Recognizing the asymmetry in population size and GDP per capita, Beijing does not demand reciprocal arrangements. However, the long-term viability of these visa-free agreements depends on goodwill and incentives from China's partners.

Achieving visa-free travel to China represents a significant political and practical advancement for individual countries. The EU, along with all parties to the Schengen Agreement (predominantly EU member states), could collectively develop policies to incentivize China to extend and make permanent visa-free travel for EU member states or Schengen state parties. Such policies might include offering reciprocal visa-free access to Chinese passport holders who meet specific criteria, such as possessing advanced academic degrees, attaining a certain annual income, being within a particular age range, or demonstrating fluency in foreign languages as certified by EU recognised standards.

PROMOTE HEALTHY COMPETITION BETWEEN THE TWO MARKETS

China and the EU should strive to encourage fair competition in their trade relations and refrain from implementing protectionist measures that impede growth and innovation. Measures such as tariffs and discriminatory regulations can disrupt supply chains, restrict consumer choices, and hinder the smooth flow of goods and services. Both parties should uphold the principles of fair competition and open markets; establishing an environment that fosters innovation and productivity. Both sides should address concerns through open communication channels such as the EU-China Summit and EU-China High-Level Economic and Trade Dialogue (HED).[23] Additionally, trade groups, businesses, non-profits, and think tanks can serve as significant contributors to these endeavors. Healthy competition can drive innovation, improve product quality, and benefit consumers in both markets. By embracing healthy competition and avoiding protectionism, China and the EU can unlock new opportunities for economic growth, foster technological advancements, and strengthen their strategic partnership.

EU-CHINA INVESTMENT FACILITATION

The EU-China Comprehensive Agreement on Investment (CAI) represents a significant step towards deepening economic ties between the two regions. Concluded in principle on December 30, 2020, the CAI aims to provide European investors with greater access to the Chinese market and ensure fairer treatment for EU companies operating in China. The agreement includes commitments on state-owned enterprises, transparency of subsidies, and rules against forced technology transfer; which are crucial for creating an equal level playing field for European businesses.[24] However, the CAI has faced criticism, and its ratification has been stalled due to political tension. To move forward, both parties should work towards addressing these concerns through constructive dialogue.

"The sooner the CAI becomes a reality, the sooner we can see an economic boom for Chinese and European companies, especially important in the current stagnant economic climate."[25] CAI would not only enhance mutual trust but also provide a stable and predictable framework for bilateral investments, benefiting both economies.

In the foreseeable future, especially in view of sanctions and countering sanctions, as well as the geopolitics in the aftermath of the ongoing war in Ukraine, resuscitating the CAI is politically difficult from the EU perspective. However, less ambitious facilitation between China and the EU is still desired from a business perspective. After the EU elections and subsequent leadership and Parliamentary changes, the two sides have a new opportunity to explore potential deals. Hence, this would mean increased focus on acquiring carbon neutrality, AI governance, and other priorities for the two sides.

LEVERAGE POTENTIAL IN GREEN COOPERATION

Climate change and green transition are areas where China and the EU have significant common ground. Both parties are committed to implementing the Paris Agreement with the EU aiming for net-zero greenhouse gas emissions by 2050[26] and China pledging to achieve carbon neutrality by 2060.[27] Green development is a critical area where China and the EU can collaborate to address global environmental challenges. Collaborative initiatives such as the 'EU-China Environment Project' and the 'EU-China High-Level Climate and Environment Dialogue' have already laid the groundwork for joint efforts in areas like emission trading systems, green finance, and sustainable urban development. By expanding these initiatives and fostering innovation in green technologies, China and the EU can lead the global transition to a low-carbon economy.

FURTHER DEEPEN DIALOGUE AND ENGAGEMENT

To navigate the complexities of geopolitical struggles and strengthen cultural ties, it is crucial for China and the EU to enhance their dialogue engagement and promote visa-free travel and people-to-people exchanges. High-level diplomatic exchanges should be prioritized to address misunderstandings, build mutual trust, and align strategic interests, thus mitigating geopolitical tensions. Beijing sees the lack of effective communication as a significant barrier to China-EU relations and advocates for multi-level diplomacy and strategic dialogues to bridge gaps and foster collaboration, viewing the EU as a partner rather than a competitor or rival.[28] On the other hand, facilitating visa-free travel can "[free up the flow of people] and has an impact on trade, investment, and technological exchanges, promoting the exchange of culture and ideas."[29] Beijing has expanded its visa-free travel policy to include several European countries, aimed at boosting tourism and international ties.[30] Mario Boselli, chairman of the Italy China Council Foundation, remarked that the policy "indicates that China's door is opening wider, and will facilitate economic, trade and cultural exchanges between the two countries."[31] Both measures, dialogue engagement and easing travel barriers, are integral to creating a more integrated and dynamic partnership between China and the EU.

The intricate complexities of trade relations between China and the EU underscore the delicate balance between economic cooperation and strategic competition. The EU's "de-risking" strategy, designed to lessen reliance on China, has resulted in heightened scrutiny of Chinese investments and technology acquisitions, further straining trade relations. In Chinese eyes - not just the government's eyes - many EU member states' treatment of Huawei and ZTE will continue to be a painful reminder. Despite these challenges, both regions are committed to ambitious climate goals, creating opportunities for collaboration in green technologies and sustainable development. The persistent trade imbalance and the EU's protective measures emphasize the necessity for a more rational and balanced approach to trade policies. Moving forward, it is imperative for China and the EU to cultivate mutually beneficial competition, eschew protectionist measures, and engage in constructive dialogue to address trade frictions. By capitalizing on their shared commitment to climate goals and broadening collaborative initiatives, both regions can strive toward a more stable and mutually beneficial economic partnership amid geopolitical uncertainties.

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Towards a sustainable China-EU green energy transition partner

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Introduction

The era of carbon neutrality has given rise to a new round of accelerated transformation of science, technology, the Industrial Revolution, plus green and low-carbon development, which has become a major option for the world economy. Furthermore, it has provided economic competition among major powers, intensifying the trend around green production, energy supply chain, green finance, carbon pricing, and zero-carbon technological innovations.

With the widespread promotion of the Paris Agreement and the United Nations Climate Neutral Now initiative, the global top-down and bottom-up green economy is making headway, with countries, localities, businesses, and communities all becoming stakeholders in the economic transformation.

Since the United Nations Framework Convention on Climate Change (UNFCCC) was concluded in 1992, China and the EU have been exemplary examples of cooperation between developing and developed countries on climate governance and the green economy. The China-EU Green Partnership has contributed significantly to the Paris Agreement and the realisation of global carbon neutrality. As an important source of global carbon emissions, the energy sector is addressing the climate challenge and achieving net-zero carbon emissions by 2050. This will require a radical change in the global energy system.[2]

The world is in the early stages of energy transition, and under the principle of "common but differentiated responsibilities", major economies such as China and the EU are leading the green and low-carbon transformation process within industry, transportation, buildings, and energy.

Key issues

Faced with the challenge of climate change, China and the EU should work together to build a green partnership, advocate a zero-carbon development model, and deepen cooperation within clean energy. Firstly, they should promote investment in the clean energy industry and green trade, strengthening the cooperation and innovation of core technologies, and in building a global clean energy supply chain.

Secondly, accelerating the construction of a new energy and power system between China and the EU, in light of the principle of mutual complementarity and mutual benefit and win-win results. Under the guidance of the renewable energy development roadmap, international cooperation should be strengthened to realise the energy transformation of both sides.

Thirdly, jointly develop renewable energy and maintain the resilience of the resource industry chain, lead the construction of the Paris Agreement system to cope with climate change, and cooperate to enhance the global capacity for sustainable development.

Main challenges and opportunities

As an early development of the green economy of regional economies, the EU has successively constructed the EU Energy strategy,[3] and other energy legal systems following the principle of free marketisation. It has also integrated environmental measures with energy security and climate governance, continuously improving its green competitive advantage, and further proposing development initiatives and practices for economic green transformation.

Focused on its own green economy and energy transformation, the EU attaches great importance to the construction of global green economy leadership, discourse and institutional arrangements. The EU Green Deal puts forward 2050 EU's carbon neutrality target and highlights the EU's moral and normative transformation paradigm.

In China, the low-carbon transformation of vital energy and industrial sectors and the development of new industries related to clean energy are the focus of green industry chain construction in the context of "dual-carbon." Since the 18th National Congress of the Communist Party of China (CPC), China has been actively promoting industrial restructuring, improving quality and efficiency in the industrial sector, and exploring the construction of energy transformation, making remarkable progress.

In the report of the 20th National Congress of the Communist Party of China,[4] it is required that the modernisation process should stand at the height of 'Harmonious Coexistence between Man And Nature', Chinese modernisation attach importance to the development of green energy, and the main connotation of green development is to promote the safe and efficient use of energy in a clean and low-carbon manner, accelerate the development of new energy and green environmental protection industries, establish a legal system and policy guidance for green production and consumption, and establish a sound and comprehensive green industrial chain construction.

The main connotation of green development is to promote the clean, low-carbon, efficient energy use, and accelerate the development of new energy, green environmental protection, and other industries. Therefore, a legal system for green production and consumption would be established within policy guidance. This would ensure low-carbon, and recycling development of the economic system, and promote a comprehensive green transformation of economic and social development.

China has halted the construction of new coal power projects overseas and is actively building one of world's largest carbon market, a clean power generation system,[5] a new type of power system, and an energy Internet system. In this context, China and the EU have considerable potential for cooperation in building new power systems, clean energy development, integrated development of source, network, storage, digitalisation of the energy system, and power market construction.

At the same time, based on the current stage of development of clean energy technology in China and the EU and their different industrial advantages, the cooperation between China and the EU within clean energy, technology and innovation have great potential.

The more detailed the specific energy industry and technology path, the more can be discovered about collaboration between China and the EU. Both sides have a strong foundation for scientific research.

For example, EU countries have been at the forefront of technology research and project construction for some time, most notably offshore wind power.

Furthermore, Denmark's Vestas Wind Technology Company and Germany's Siemens Gomesa Renewable Energy Company account for 20% of the world's development share. China's offshore wind power development, such as the new installation of offshore wind power, has been faster than onshore wind power, becoming the world's largest offshore wind power market.[6] Offshore wind power cumulative installed capacity is expected to increasea lot, the deep and distant sea mode of operation and maintenance of the equipment capacity to enhance the next stage of development focus, the domestic professional offshore operation and maintenance of the ship there is a large gap. Strengthening practical cooperation between China and the EU in the innovation of offshore wind power technology and exploring a new model of "offshore wind power+" as well as comprehensive energy island (such as offshore wind power combined with on-site hydrogen production, offshore oil and gas, seawater desalination, energy storage, etc.) is of great significance for promoting the upgrading of both sides' offshore wind power industry.

China and the EU can become co-builders of the global clean energy supply chain. From the point of view of production layout, China is the global production capacity of clean energy equipment agglomeration,[7] China's production of photovoltaic modules, wind turbines, gearboxes, and other key components perennial accounted for more than 70% of the global market share. The wind power and photovoltaic products exported in 2022 reduced carbon dioxide emissions by approximately 573 million tons to other countries, totalling 2.83 billion tons, accounting for approximately 41% of the global renewable energy converted carbon reduction during the same period. The EU and its member states seek diversification of clean energy supply chains from the perspective of national security and independent development, which is a strategic measure to achieve energy security and energy independence. It is also in line with the trend of global clean energy supply chains shifting from centralisation to decentralisation, multipoint, and networking.[8]

At a time when the EU's energy security is fragile, China's clean energy equipment products with outstanding cost-effective advantages have become an important support for the EU. China and the EU enterprises can cooperate around specific links in the clean energy supply chain upstream and downstream, achieving complementary advantages in technology, funding, and investment models. They can jointly invest in the construction of production bases for clean energy equipment and key raw material mining and smelting bases in China, the EU, and other regions of the world, strengthen international mutual recognition in technical standards, inspection and testing, certification, and other aspects, and enhance the resilience and transparency of cross-border supply chains, jointly build an open industrial chain supply chain that meets the needs of global energy transformation.

China and the EU are the world's two major powers; the EU has been China's top trading partner for 16 consecutive years, from 2004 to 2019.[9] Since 2020, China-EU trade has been growing against COVID-19, with China overtaking the US for the first time to become the EU's top trading partner. In the first 10 months of 2022, the bilateral trade volume between China and the EU reached US $711.4 billion, a year-on-year increase of 6.3%, which reflects the strong resilience and vitality of China-EU economic and trade relations.[10]

Regarding, both policy and industrial development, China and the EU have similar needs in the development of clean energy and green industries and technologies, which opens up a broader space for China and the EU to carry out green trade cooperation. China and the EU have established a high-level environment and climate dialogue (HECD) to promote the exchange and innovation of clean energy technologies.[11] Under the energy crisis, the EU's import demand for green goods from China is expanding. There is also important complementary space for the green energy industry between China and the EU. The EU leads the world in hydrogen energy and offshore wind energy, but the promotion of lithium batteries has been poorly developed for many years. China is impressive in fuel cells, lithium batteries, and onshore wind energy, and has become an important importer of photovoltaic panels, power batteries, and rare-earth permanent magnet supplies for the EU.

The development of green trade between China and the EU is based on a foundation, and the expanding bilateral trade volume shows a good development momentum,[12] which can be reflected in both import and export and investment dimensions. From the perspective of import and export, China-EU green merchandise trade in general maintains steady growth, and the EU has become China's largest green trade partner, China's green merchandise trade with the EU accounted for 20.16% of China's green merchandise trade with the world in 2019, of which exports accounted for 6.78% and imports accounted for 25.2%. The current green goods trade volume between China and the EU is 56.038 billion dollars, about 14 times that of 2000, of which, the export volume is 27.953 billion dollars, 23 times that of 2000, and the import volume is 28.085 billion dollars, 10 times that of 2000.[13] China and the EU have promoted international cooperation in key areas such as photovoltaics, wind power, and hydropower, which has greatly reduced global clean energy costs and created the necessary foundation for global green and low-carbon development and transformation. The world's major economies are actively promoting green economic recovery, and green industry has become an important investment area, ushering in new opportunities for clean and low-carbon energy development.

For Chinese investors, EU countries such as Germany, Sweden, France, Austria, Denmark, and the Netherlands remain the most popular green investment destinations. According to the China-Central and Eastern EU Energy Cooperation Report released by the China General Electric Power Planning and Design Institute (CGEPDI) in 2020, Chinese enterprises have entered the EU market by virtue of their equipment and production capacity advantages in the field of clean energy such as photovoltaic, wind power and hydropower, etc. For example, the cumulative investment of China in wind power and photovoltaic in Central and Eastern EU has amounted to more than 4 billion euros.[14] China's new energy vehicles, lithium batteries, parts, and components manufacturers have invested in the EU, into the EU's new energy vehicle industry chain. Chinese-made electric vehicles account for nearly 15% of the pure electric vehicles registered in the EU in 2021, a share second only to that of Germany. The share of Chinese-made pure electric vehicles in the EU market has surged from a meager 0.5% to 14.7% in 2019-2021. China's BYD pure-electric buses are already operating in more than 100 cities in more than 20 EU countries, capturing 20% of the EU pure-electric bus market share.[15]

Meanwhile, a number of EU members are also seeking overseas investment to realise their national energy transition goals by 2030. A survey published by the EU Chamber of Commerce in China (EUCCC) in June 2020 showed that EU companies are enthusiastic about investing in China, attracted by the country's huge sales market and favourable economic environment for research and innovation.[16] In 2022, EU foreign direct investment (FDI) inflows into China jumped 123.7% year-on-year, reflecting the huge potential for mutually beneficial cooperation between China and the EU in the field of trade and economy.[17] China and the EU have an increasing mutual benefit and win-win situation in green investment, market structure, industrial complementarity, and raw material supply in the development of clean energy industry, and have opened up new space for trade exchanges between China and the EU in clean energy fields such as wind energy, solar energy, green transportation, and green hydrogen energy.

Recommendations and conclusions

Looking out for the future, China and the EU should work together for a green and healthy relationship for energy transition and climate change:

- China and the EU should work together to become co-builders of the global clean energy supply chain. As the two largest investors in the global clean energy market and leaders in clean energy production capacity, China and the EU should encourage enterprises from both sides to cooperate in specific upstream and downstream segments of the clean energy supply chain, to realise complementary advantages in technology, capital and investment models, and encourage enterprises to jointly invest in the construction of production bases for clean energy equipment and mining and smelting bases for key raw materials in China, EU and other regions of the world, and strengthen international mutual recognition in technical standards, testing and certification, and enhance the resilience and transparency of transnational supply chains, so as to jointly build an open industrial chain and supply chain that meets the needs of the global energy transition.

- China should drive scientific and technological innovation, and strengthen the key core technology innovation and integrated innovation in clean energy with EU countries. China and the EU should expand the space for cooperation in new energy storage, offshore wind power, long-distance transmission, and smart grid technology, which are not only conducive to enhancing China's technological equipment level and competitiveness in the global energy field, but also in accelerating the upgrading of the clean energy industry and the transformation of low-carbon energy between China and EU.

- China and the EU are advised to accelerate their energy transformation based on the principle of complementarity and mutual benefit. China and the EU share the global mission of guaranteeing energy security, accelerating low-carbon energy transformation, and actively building a new type of energy and power system. Promoting the fundamental change in their respective energy systems is a solid foundation for China and the EU to carry out pragmatic cooperation in the field of clean energy in the future. The government departments, leading enterprises, and research institutions in the field of energy and power in China and the EU can strengthen cooperation in the clean energy industry on the basis of the common goal and foundation of green transformation.

- China and the EU should study and implement the roadmap for the development of renewable energy. The EU has advanced technology, mature market mechanisms, and rich experience in offshore wind power, electric vehicles, new energy storage, smart grid, and other fields, while China has a huge market and cost advantage in wind power, photovoltaic, battery, and other fields. The EU can participate in the construction and operation of China's clean energy projects through investment, joint ventures, and technology transfer, and it can also introduce China's clean energy products and services to improve its own clean energy supply and consumption level.

- China should strengthen international cooperation on all fronts to achieve energy security under open conditions. Climate governance and energy transition play an important role in China's diplomatic relations with the EU and other important countries. Through cooperation in climate and energy, countries will deepen mutual understanding and build a positive and interactive pattern of international relations to promote the sustainable development of global climate cooperation. By sharing technological innovation and technology transfer, countries can accelerate technological innovation and research and development, and expand the scope of deployment and depth of application of clean energy. Improving energy efficiency, will provide opportunities for China and the EU to promote economic development and the green industrial transformation.

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The great clean tech de-risking: the end of EU-China climate diplomacy?

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Introduction

In recent years, EU-China relations have become increasingly complex owing to a growing number of irritants, ranging from asymmetric trade and investment relations, lack of reciprocity in market access and an uneven playing field, to geopolitical misalignment, Beijing's 'no-limits' partnership with Moscow, and tensions in the South China Sea and the Taiwan Strait, among others. Following the expected rightward shift in the European Parliament elections, and with competitiveness, strategic autonomy and economic security now at the top of the EU's agenda, tensions are bound to escalate as policymakers increasingly see China as a threat in all three areas. China's dominance in some key strategic sectors has prompted calls for 'de-risking' strategies, including in clean technologies. As the EU enters a new political cycle, de-risking will be at the centre of the political debate. The outcomes of this debate will not only shape Europe's future relationship with China, but also impact the speed of the energy transition in Europe, China and beyond.

Key issues

Despite the introduction of the 'partner, competitor, systemic rival' triptych in 2019,[1] EU-China relations have continued their downward spiral, with economic competition and systemic rivalry taking precedence. The EU and China have failed to achieve any notable negotiating successes since concluding in principle the Comprehensive Agreement on Investment (CAI) negotiation in December 2020, which has been put into deep freeze after a series of tit-for-tat sanctions over China's human rights record. Economic security is now among the priority issues on the EU's agenda, with the bloc pointing fingers at China for its unfair trade practices and the lack of action to level the playing field.

Recent crises, including COVID-19 and Russia's war on Ukraine, have exposed the fragility of global supply chains and the reorientation of the EU's perception of dependencies and exposure to geopolitical risks. These have fuelled concerns over Europe's economic stability and energy security and left policymakers wondering whether Europe should rely on one dominant energy technology provider as it embarks on its decarbonisation journey. The looming threat of Chinese economic coercion for political purposes, as in the case of Australia[2] and Lithuania,[3] has also eroded Europeans' trust in Beijing.

To address this increasingly wide range of perceived risks associated with China, Commission President Ursula von der Leyen outlined her vision for a new 'de-risking' strategy in March 2023,[4] setting a new EU approach to China. President von der Leyen contrasted the de-risking approach with decoupling. She stressed that the bloc should adopt a more moderate approach, focusing on targeted measures where dependencies or risks are identified.

This approach won the consensus of the G7 when they agreed on a common approach to de-risking their economic relations with Beijing and Moscow.

Although a relatively new concept, the EU's de-risking strategy builds on several existing, mostly country-agnostic, measures and policies (see Annex I EU's de-risking toolkit table). However, these are primarily defensive actions, not driven by any long-term objective, but the result of current issues or identified risks.

Although a relatively new concept, the EU's de-risking strategy builds on several existing, mostly country-agnostic, measures, and policies (see Annex I EU's de-risking). However, these are primarily defensive actions, not driven by any long-term objective, but the result of current, trendy issues or identified risks.

Main challenges and opportunities

As EU anti-subsidy investigations proliferate and tougher rhetoric from EU leaders against China heats up, some fear a trade war is looming between the two major economies.

Unlike the US, where there is a consensus among political parties on more assertive policies on China, EU member states are much more divided on their views on how they should position themselves along the spectrum of the EU-China relations triptych.[5] While the EU as a bloc is not significantly dependent on trade with China, the level of dependency varies significantly among member states.[6] Notably, Germany, which is responsible for three-fifths of the EU's car exports,[7] has the highest share of China exports within its extra-EU exports—cars being the EU's most exported product (by value) to China.

If the EU is to systematically unwind its clean tech dependency on China while staying on course with the ambitious climate and energy targets set out in the RePowerEU and Green Deal Industrial Plan, policymakers will need to make tough choices over trading off economic, climate, security, and industrial competitiveness objectives. The EU will have to carefully navigate competition dynamics to avoid creating a divide between its member states. Moreover, as tensions rise, the space for EU-China climate diplomacy could shrink, threatening the future of global climate governance and much-needed joint leadership on climate action between the EU and China, which are among the world's biggest emitters, both in current and historical terms.

DE-RISKING: WHAT DOES IT REALLY MEAN?

The challenge of de-risking is to know what the trade-offs are and what type and level of risks the EU is willing to accept. As the EU tries to draw a line with China, a rift is opening between its member states. On the one hand, countries including France and Lithuania are advocating for strong trade measures to shield European industries from unfair competition. On the other, countries including Germany, Sweden and the Netherlands are more hesitant to usher in protectionist policies that would affect their companies' ability to operate in China if Beijing retaliates.

At the heart of the debate is a significant lack of clarity and agreement among experts and member states on the definition of de-risking and the scale and scope of the strategy to be implemented, often driven by their level of economic and political dependence on China.

Ultimately, it all comes down to the level of trust the European Commission and each member state have: in Beijing for not weaponizing deep economic dependencies; in Chinese renewable technology manufacturers and their ability to fend off government influence over their operations; and also in their own companies' ability to manage economic and supply chain dependencies of national security importance (German Chancellor Olaf Scholz argues that de-risking supply chains is the prerogative of businesses, not the state).[8] As Vice President Margrethe Vestager said in April 2024: "As we further develop the strategy for clean technologies, we must reflect on the question of trustworthiness."[9]

THE APPROPRIATE LEVEL OF RISKS & WHAT RISKS?

To deliver on the EU's promise to make Europe the first climate-neutral continent in the world, green technologies will be a cornerstone of the strategy. Driving China's economic growth in 2023, the "new three" industries of solar, electric vehicles and batteries testify to China's global leadership in the clean transition.[10] Globally, China accounts for over 80% of solar cell exports,[11] over 50% of lithium-ion batteries[12] and over 20% of electric vehicles.[13]

With Europe's ambitious target of 600 GW of solar energy by 2030 and China's unrivalled position in terms of speed, scale and affordability in the solar supply chain, there is an increasing risk the EU will become almost entirely dependent on China for its solar expansion. To date, over 90% of the solar panels deployed in the EU are imported from China.[14]

Chinese manufacturers also hold a significant grip on the entire battery supply chain,[15] controlling a considerable proportion of key minerals such as cobalt, lithium and graphite globally, as well as having a strong presence in mineral processing and the production of key battery components such as cathodes and anodes.

China has also emerged as a formidable competitor in the electric vehicle market with the EU becoming by far China's largest customer, and rapidly so. With the EU set to ban combustion engine cars by 2035 and an overarching goal to decarbonise its road transport, Chinese electric vehicle manufacturers are poised to capitalise on this new thriving market which will directly threaten one of Europe's bedrock industries: the automotive sector.

However, rolling back decades of globalisation and eroding trade gains is neither feasible nor desirable.[16] The extent and nature of the risks posed by deep economic integration with China in these three sectors vary, requiring a tailored approach that considers both the costs and benefits of de-risking. While there is a temptation to approach de-risking solely through the lens of trade defence to shield domestic industries or to protect Europe from economic coercion risks, this should not come at the expense of the EU's economic competitiveness or international climate commitments. At the same time, advocates of climate policies should not lose sight of the impact that unfair trade in green technologies could have on job markets. Support for climate policies could be in jeopardy if the promise of a green revolution only brings in low-cost green technologies, but not high-paying green-collar jobs.

THE COLLATERAL DAMAGE

China's green technology boom has created a very unbalanced economic situation, with overcapacity and fierce domestic competition in the electric vehicle[17] and battery[18] sectors, forcing the industry to turn to export markets. Beyond Europe and the US, emerging markets and developing economies are also raising concerns about China's fast-growing green technology exports. In a sign of growing discontent and tension over China's industrial policy, Brazil[19] and Türkiye[20] have both imposed import tariffs on Chinese electric vehicles.

The EU's climate diplomacy vis-à-vis developing countries has become increasingly challenging, not least since their launch of its very own climate-related trade measure, the Carbon Border Adjustment Mechanism (CBAM). CBAM is one of many initiatives that are seen by the Global South as a deeply unfair and one-sided EU foreign policy tool. The BRICS group of countries (Brazil, Russia, India, China, and South Africa) has used their annual leaders' gathering to criticise the measure as 'unilateral' and 'protectionist.'[21] India has led the charge to confront the CBAM at the World Trade Organisation.[22]

The issue of 'unilateral measure', referring to policies that regulate the trade of carbon-intensive and green technologies alike, has also flared up in recent international climate talks. At COP28 in Dubai, an attempt by the BASIC group of countries – consisting of Brazil, South Africa, India, and China – to introduce 'unilateral trade measures related to climate change' to the COP agenda could have resulted in an impasse in the climate talks. The motion was supported by key developing countries negotiating blocs including the G77 (consisting of 134 countries). In the end, the situation was defused by the United Arab Emirates, which chaired the talks; yet the sentiment from developing countries regarding initiatives such as CBAM and tariffs on green technologies was reflected in the final negotiated text in Dubai: "unilateral measures should not lead to unjustifiable or arbitrary discrimination or restriction in international trade."

Recommendations and conclusions

MAP THE RISKS, KNOW THE TRADE-OFFS, KEEP THE EUROPEAN GREEN DEAL ROLLING

How to address dependencies, supply chain vulnerabilities, and economic and political risks will require a delicate balancing act by the EU to avoid both the risk of doing too little and the danger of doing too much. De-risking should be understood as a process of risk mitigation and management, rather than the elimination of all risk.

It is important to distinguish between renewable energy dependency, considered a stock, and classic fossil fuel dependency, regarded as a flow. Although reliance on a single technology provider may pose risks, it is crucial to highlight that renewable dependency naturally decreases over time as the power sector decarbonises and the stock of solar panels and wind turbines expands. For the EU, this transition is expected to occur within the next 11-15 years,[23] rendering it a short-term dependency that inherently limits the urgency and extent of necessary actions.

To systematically reduce its dependence on China for clean technologies while maintaining the momentum of the green transition, the EU cannot solely rely on trade defence instruments to protect its industry. Instead, a coherent and ambitious industrial strategy is needed to strengthen Europe's clean industries and overall competitiveness. This includes not backtracking on the EU's Green Deal initiatives.

Deepening, broadening and refining partnerships with third countries is an integral part of the EU's de-risking strategy. Strategic, co-developed and mutually beneficial clean transition partnerships with key emerging economies would help the EU rebuild trust with the Global South, increase its geo-economic resilience vis-à-vis China and enhance its competitiveness and geopolitical clout in future-proof clean sectors.[24] Europe's strength therefore lies in cooperating with a wide range of countries also concerned by China's cleantech dominance, coming up with joint strategies to diversify manufacturing while effectively building its capacities at home.

COOPERATE WHERE WE CAN

Despite increasing economic competition and political tensions, along with a stalled dialogue in most areas of their relationship, the EU-China partnership in certain areas of climate and environment has proved productive. While there is growing frustration on both sides at the lack of concrete progress, it is still worth putting our energy into maintaining all existing technical cooperation and strengthening existing formats to cover both climate and trade issues at the ministerial level. There are still issues that both the EU and China can and should work on together such as tackling physical climate risks, managing the socio-economic impact of the transition and working on adaptation strategies.

A UNIFIED, LONG-TERM VISION FOR EU-CHINA RELATIONS

While the 2019 triptych provides a solid foundation for defining the EU's relationship with China, it has yet to live up to its potential on the climate dimension. In the race to become the next 'climate superpower',[25] it is inevitable that the EU and China will engage in intense economic competition and at times see each other as rivals. Meanwhile, the promise of climate cooperation should be more than a placeholder in the partnership bucket of the triptych and yield concrete outcomes in terms of emissions cuts.

As we enter a new European political cycle, with a new mandate for both the European Parliament and the European Commission in 2024, this is a perfect opportunity for the EU to adopt a coherent, comprehensive, and consistent long-term China strategy that ensures:

- **Reciprocity.** While the concept of reciprocity has historically been associated with trade and market access, reciprocity should be the basis of EU-China cooperation writ large. On climate, that would mean alignment of the respective national climate targets to the Paris Agreement 1.5C temperature target. Regarding security, both sides to adhere strictly to the principle of non-interference in international relations. An assessment of reciprocity across all issues should be the basis of any recalibration of the EU's long-term China strategy.

- **A clear scope for cooperation.** While climate issues may not always fit neatly into the cooperation framework, there are areas where both partners can collaborate effectively, such as the alignment of sustainable finance regulations, addressing climate risks to regional stability, and supporting clean transition financing in third countries. It is essential to recognize the boundaries of cooperation, acknowledging factors like clean technology competition and each nation's influence in third-party countries.

- **A cohesive approach.** While China is not a unique case, the EU will have to grapple with the lack of unity among its member states on the right strategy to define its future relationship with Beijing and agree on a common understanding of its de-risking strategy. The lack of coherence and strategic vision could lead to a multiplication of instruments that do not adequately define, address, or mitigate risks, and eventually raise concerns among the EU's partners, rendering its efforts counterproductive.

Annex I: The EU's de-risking toolkit

EU's strategic priority[26]	EU Policies & Measures	Objective(s)	Implications for China	Implementation power
Promote	The Net-Zero Industry Act [27]	Strengthen the European manufacturing capacity of net-zero technologies.	To give European manufacturers a competitive advantage over foreign producers in sectors that are predominantly led by China.	The EC would identify strategic net-zero technologies and set an overall benchmark target for EU domestic manufacturing. Member states would identify Net-Zero Strategic Projects, speed up authorisation and provide public funding.
	EU Chips Act[28]	Reinforce the EU semiconductor ecosystem, ensure the resilience of supply chains and reduce external dependencies.	Europe's share of the global chip value chain is expected to increase from 10% to 20%.	The European Chips Act's governance is overseen by the European Semiconductor Board, comprising representatives from member states, and led by the EC.
Promote and Partner	Critical Raw Materials (CRM) Act[29]	Ensure the EU's access to a secure and sustainable supply of CRM by strengthening EU capacities at various stages of the value chain and by diversifying EU imports.	No third country should supply more than 65% of the EU's annual consumption. For five materials - bismuth, manganese, magnesium, cobalt, and strontium - EU imports from China exceeded this threshold. We can expect to see a boost in domestic production, refining and recycling, and in free trade agreements with third countries that include chapters on CRM.	Member states will be responsible for granting Strategic Project permits and will have to develop national programmes for the exploration of geological resources. Member states and the EC will also identify appropriate external strategic projects to diversify imports by increasing funding in developing and emerging countries.
Protect	Foreign Direct Investment (FDI) screening mechanism revision[30]	Standardise the screening process across member states to avoid loopholes in evaluating foreign investors seeking to acquire control of EU companies with critical technologies, infrastructure or sensitive information that are essential for EU-wide security or public order.	Solar and wind technologies, electric vehicles and semiconductor investment by non-EU investors are expected to be particularly affected, often linked to concerns about Chinese investment in these sectors.	Member states where the investment takes place must examine and notify cases meeting certain criteria and may decide to approve, condition, or block the investment. The European Commission (EC) can issue opinions.
	Forced Labour regulation[31]	Prohibit the sale, import and export of goods made using forced labour.	Goods found to use forced labour would be banned from the EU market, potentially affecting imports from Xinjiang, a top solar supplier.	The EC will be entitled to investigate supply chains outside the EU and to ban the sale, import and export of goods made using forced labour.

EU's strategic priority	EU Policies & Measures	Objective(s)	Implications for China	Implementation power
Protect	Anti Coercion Instrument[32]	Dissuade non-EU countries from attempting to coerce or make them halt the coercion and threats.	Countermeasures include imposition of tariffs, restrictions on trade in services and trade-related aspects of intellectual property rights, and restrictions on access to foreign direct investment and public procurement.	The EC will be given the powers to implement decisions on EU response measures, with the involvement of member states.
	Anti-subsidy Regulation[33]	Offset international trade distortion	Anti-subsidy investigations against China: -Wind turbines: subsidies received by Chinese suppliers of wind turbines destined for Europe -Solar panels: investigation into Chinese bidders in a public tender for a solar park in Romania. -Electric vehicles: investigation into the imports of battery electric vehicles from China.	The EC is competent to open anti-subsidy investigation and impose duties to counteract a subsidy, but only if it is limited to a specific firm, industry, or group of firms or industries.

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(Re)balancing Cooperation in EU-China connectivity

3

What are the key aspects of the respective connectivity projects undertaken by the EU and China? To what extent are these projects interoperable and complementary?

Connectivity in China–EU relations: Building synergies or blocks?

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05 June 2024

Introduction

Connectivity has become an emerging frontier in China–EU relations. In 2023, China celebrated the tenth anniversary of its grand connectivity strategy, the Belt and Road Initiative (BRI). Over the past decade, within the BRI framework, China has invested in numerous infrastructure projects across the globe and signed cooperation documents with more than 150 countries, including many EU members and over thirty multilateral organisations. Largely in response to China's initiative, the EU launched the Global Gateway Initiative (GGI) in 2021, which aims to mobilise €300 billion by 2027 for global infrastructure projects. Two and a half years later, the GGI has already reaped its early fruits.

The BRI is estimated to be worth trillions of dollars.[1] Although the GGI cannot compete with the BRI in terms of resources, it has attracted attention thanks to its aggressive posture (i.e., identifying itself as a "positive offer,"2 indicating that BRI as 'negative') to developing countries as an alternative to the BRI. After the GGI was launched, China immediately expressed its willingness to build synergies between it and the BRI. In December 2023, Chinese and European leaders held their twenty-fourth Summit. At the Summit, President Xi Jinping expressed his willingness to cooperate with the EU in terms of connectivity. However, the European response has been lukewarm.

Key issues

Connectivity is not immune to the overall China–EU relations. In fact, how China–EU relations evolve may largely determine on whether connectivity will become a new highlight for their relations or create more competition or even conflict with them.

Two issues are particularly critical:

1. TRUST DEFICIT

The disconnection caused by the COVID-19 pandemic and the disputes over the Russian–Ukrainian war have led to a huge trust deficit between China and the EU. For the EU, the Russian-Ukrainian war is an existential threat,[3] and the EU expects China to do more to help end the war in its favour. However, some European observers consider China untrustworthy because they believe China is in *de facto* alignment with Russia[4] and supporting Russia's warlike actions. The EU makes the Russian-Ukrainian war the defining issue of its relations with China over other issues.

Meanwhile, China has been viewing its relations with the EU more holistically. The EU remains a vital partner for China in terms of trade, investment, people-to-people exchange, and global challenges, but China understands the EU's recognition of China as a "systemic rival."[5] Moreover, China has been disappointed with the EU's anti-subsidy investigations over Chinese products and concerned with the EU's growing dependence on the United States in the wake of the war. This makes China doubt the EU's willingness to build stable and healthy relations and suspect that the EU might coordinate with the US to contain China.

The same is true in the area of connectivity. China sees the EU and the US launching the Partnership for Global Infrastructure and Investment, the Lobito Corridor, and the India-Middle East-Europe Economic Corridor projects, which are allegedly aimed at the BRI. Despite China's interest in cooperating with the EU in connectivity, interest and enthusiasm may be thwarted against this backdrop.

2. GEOPOLITICAL MENTALITY

If there is a keyword for the external policy of current EU leadership, it is probably "geopolitics." Soon after Commission President von der Leyen took office in 2019, she demonstrated her ambition to bring the EU into the geopolitical fray and win with irrefutable clarity. The ambition has been reaffirmed and guided the EU's external actions. Geopolitical competition requires a competent rival, and that rival is not only Russia but also China. The EU sees the growing attractiveness of China's political and economic system and its increasing influence in the developing world as a major challenge. Therefore, the GGI was created to demonstrate the EU's capability as a democracy to address global challenges and push back on China in the developing world. However, EU leaders have made it clear that the GGI is "above all a geopolitical project"[6] and are alert to Chinese actor involvement.[7] With such a mentality guiding policymaking, the China-EU cooperation in connectivity would be much more difficult.

Main challenges and opportunities

1. THE EU'S DE-RISKING POLICY

In spring 2023, Commission President von der Leyen proposed the de-risking policy. The phrase, while sounding milder than 'decoupling,' implies a narrative that equates China with risk. Logically, therefore, any effort to deepen cooperation and tighten bonds with China creates new risks and should be avoided by the EU, who sees the GGI as a geo-economical instrument. This means increasing the EU's economic resilience and security[8] and reducing its dependence on China by diversifying its investment, trade, and supply chains. For the EU, fostering connectivity with China runs counter to its goal.[9]

2. TRANSPARENCY AND INCLUSIVENESS OF BRI

Transparency and inclusiveness have been focal points for international accusations against China's BRI. The low transparency and inclusiveness hinder international actors' participation in BRI projects. Furthermore, a 2020 report by the European Chamber of Commerce in China finds that the lack of transparency gravely impedes European enterprises' involvement in BRI projects while creating competitive advantages for China's state-owned enterprises.[10] This reasonably undermines the advocacy of European stakeholders for the BRI and the support of China-EU connectivity cooperation. Chinese leaders have declared their intention to improve the transparency and inclusiveness of the BRI,[11] but it has not yet satisfied European stakeholders.

For China, the connectivity cooperation with the EU is not only about Chinese companies participating in EU projects or the two sides working together on new projects but also about providing more opportunities for European stakeholders to share the BRI's gains. China may pay more serious attention to the European stakeholders' concerns and create a more transparent and inclusive field.

3. APPROACH DIVERGENCE

Significant divergences exist between China and the EU regarding the paths taken to carry out connectivity projects. Simply put, China's overseas infrastructure projects tend to be large in scale, with state-owned enterprises as the primary implementers and engineering procurement construction as the cardinal participation method. Meanwhile, the EU builds projects mainly through the private sector, with longer delivery cycles, and takes technical assistance as a key path. Generally, China is better at challenging infrastructure projects, while the EU is better at social infrastructure projects, such as designing, planning, environmental protection, and capacity building.

The difference in approaches makes cooperation between China and the EU face some operational difficulties, but it can also help the two sides complement each other. In fact, China's BRI has been evolving and is now prioritising 'small and beautiful' projects and the green and digital sectors.[12] This may create more opportunities for China–EU cooperation.

4. JOINT CONSTRUCTION OF THE MIDDLE CORRIDOR

The Middle Corridor, known as the Trans-Caspian International Transport Route, passes through Central Asia and the Caucasus, connecting China and Europe. It is one of the GGI's key projects. Following the Russian-Ukrainian war and the Red Sea crisis, the EU has stepped up its efforts to build the Middle Corridor. In January 2024, the EU and encompassed states convened an investor's forum on the project. Notably, although representatives from G7 nations, financial institutions, and the private sector were invited to the event, China was strikingly absent.

China is a natural player in the construction of the Middle Corridor. This is not only because Chinese goods are and will be transported but also because there is a significant overlap between the Middle Corridor and the middle route of the China–Europe Railway Express. The China–EU cooperation on the Middle Corridor is rooted in a strong economic rationale, and may help facilitate the construction by complementing their respective capacities in hard and soft infrastructure building. This may create an all-win result for the EU, China, and the encompassed states. China has expressed interest in helping build the corridor,[13] what is needed now is for the EU to show openness.

Recommendations and conclusions

The barriers facing China-EU potential cooperation in connectivity are mainly political. Therefore, political willingness will fundamentally decide whether the two sides build synergies or blocks in connectivity. Moreover, pilot cooperation activities in politically less sensitive sectors may help pave the way for future cooperation.

ACKNOWLEDGE THE COMPLEXITY OF CHINA–EU RELATIONS

China–EU relations are complex enough that they should not be defined by any single issue. It is understandable that the EU perceives the serious threat of the Russian–Ukrainian war, but EU leaders must recognise that all countries are not obliged to share such a perception of the threat. The (re)emergence of the so-called Global South has made this clear, and China's holding a different stance on the war than the EU's is not surprising. The EU may consider decoupling the Russian-Ukrainian war issue with connectivity and face the complexity of its relationship with China. This way, the EU may develop a less assertive and more cooperative view of China.

PUT DEVELOPMENT FIRST

China and the EU should agree to prioritise the interests of developing countries. China and the EU are among the world's largest economies; China is the largest trading partner with more than 120 economies, and the EU is among the top donors of development assistance resources. China's and Europe's global trade, investment, and aid activities may have crucial impacts on the interests of developing countries. The EU and China should acknowledge their global responsibility instead of upholding the idea of geopolitical competition on the Global South's playing field. Whether the GGI or the BRI, the initiative should be developmental rather than geopolitical or geo-economical. The more seriously the EU and China consider the interests of developing countries, the more likely their cooperation might become.

KEEP DIALOGUE OPEN

If it is too early for Chinese and EU policymakers to discuss concrete cooperation projects in connectivity, they might keep the information exchange channels open. China and the EU may invite representatives from each other to participate in their respective connectivity events, such as the Forum on China-Africa Cooperation, the China-Europe Railway Express Cooperation Forum, the European Development Days, and the EU-Central Asia Economic Forum. This may serve as a first step to enhance mutual understanding and trust and lay the foundation for future cooperation.

Moreover, it would also be useful to strengthen dialogue at the expert level. In particular, Chinese and European think tanks within connectivity should strengthen their bonds with each other. Such exchanges may help Chinese and EU policymakers understand each other's policies, manage divergences, and identify cooperation opportunities.

EXPLORE THE POTENTIAL OF DEVELOPMENT ASSISTANCE

Development assistance is an important instrument of the GGI. Notably, the GGI is led by the Directorate-General for International Partnerships, responsible for implementing EU development assistance. However, China and the EU are no strangers to each other in the domain of development assistance. In the early 2000s, the two donors explored the possibility of establishing a dialogue mechanism on Africa and co-launching triangular projects. In recent years, EU and Chinese development assistance agencies have organised several ad-hoc dialogues and training sessions. Building on such foundations, the two might consider creating a partnership on development cooperation and a regular dialogue mechanism. This may help foster higher-level and larger-scale China–EU cooperation on connectivity in the future.

START WITH HEALTH AND THE ENVIRONMENT

Connectivity is not only about constructing more roads, ports, and stadiums but also about building health-care systems and protecting the environment. The EU's GGI identifies these areas as key investment sectors. On the Chinese side, it has declared green the defining color of the BRI and built the Health Silk Road. Hard infrastructures are plagued by geopolitical rivalries, competing economic interests, and security concerns, while health and the environment are much less politically and economically sensitive. China-EU cooperation in these sectors may be fruitful and serve as good start-ups.

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Bridging the BRI and GG for sustainable solutions to global issues

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Introduction

The level of interconnectedness in production networks and sustainability concerns such as climate change and migration is increasing. Competition for production and consumer markets is inevitable and therefore multiple connectivity projects that enable global supply chains have overlapping regional and sectoral focus. For this reason, the specialised division of labour in production networks and the transnational nature of sustainability issues should lead to interconnectedness rather than weaponisation of closed-circuit production networks.

This paper suggests the importance of interoperability[1] of competing connectivity projects as a way to improve interconnectedness. Interoperability can be maintained by agreeing on a common set of regulations in transnational issues and core sectors in line with the UN SDGs, and by avoiding geopolitical competition on narratives and conflicts over lowering standards. The next section will analyse China's BRI and the EU's Global Gateway (GG) as two connectivity projects with potential for compatibility.

Key issues

DO BRI AND GG OVERLAP?

BRI was announced in 2013 as an overseas investment plan primarily involving construction sector projects for connectivity and brown energies for industrial energy security. In this sense, BRI was initially planned as an extension of China's domestic development policies. In 2015, however, it was incorporated into China's industrial upgrading plan: 'Made in China 2025.' In this second stage of the BRI, investments and the infrastructures facilitating these investments such as ports including their ownership and location choices, and technology and labour regulations, were geared towards ensuring China's domination of emerging green and digital markets.

GG is sometimes seen as Europe's response to the BRI's pivot into emerging green and digital markets and the connectivity issues surrounding these markets. As BRI became the key tool for China's twin transformations of renewable and digital technologies, the EU launched the GG initiative in 2021. GG builds on the 2019 EU-Asia Connectivity Strategy,[2] and it is the European response to global connectivity challenges, based on the sustainability value and leveraging the actions of the so-called Team Europe Initiative.

In keeping with the multilateral approach embedded within its DNA, the EU takes an active interest in fostering cooperation with other global connectivity initiatives. Learning from the G7 Partnership for Global Infrastructure and Investment (PGII) experience is a case in point. Cooperation between BRI and GG can potentially be seen in this light when EU's non-negotiables are acknowledged. Among these non-negotiables are preventing unfair competition and upholding sustainability goals and, last but not least, partnerships based on equality, avoiding all kinds of subordination. For instance, smaller economies within the EU tend to engage with the BRI in not equal terms.

Main challenges and opportunities

COOPERATING WHILE COMPETING

Today, BRI and GG share similar goals in seeking dominance in technology and consumer markets. While the BRI and GG compete for global markets, collaboration for transnational issues is crucial for the sustainability of both connectivity projects and the international order. Cooperation in technology development would secure supply chains and therefore be economically beneficial. Besides, enhancing interoperability would help meet UN SDGs, such as climate action, underwater safety, responsible production, and clean water and energy. Since both the EU and China are committed to meeting SDGs, collaboration on these issues is also their responsibility towards the international society. Among these transnational issues, climate action[3] is a field where it is possible to observe considerable collaboration between China and the EU in terms of standardization, taxonomy and financing. Telecommunication technologies is a case in point: the discursive controversy about the dominance over new generation cellular networks undermines the fact that China's regulations are inspired by those of Europe. However, there are other areas that could enhance the sustainability of responsible production practices. In the following section, we explore the opportunities for collaboration in the transportation sector.

COLLABORATION IN TRANSPORTATION REGULATIONS

Previous research identifies several issue areas for cooperation such as coordinating transportation regulations for climate. In this piece, the focus will be on transportation with two cases: the Middle Corridor as a response to chokepoints in land routes and maritime digitalization in Southeast Asia as a response to chokepoints in sea routes.

Middle Corridor

The EU's Middle Corridor is the recent renaming and revitalization of the Trans-Caspian International Transport Route in the aftermath of the closure of the Northern Corridor that used to connect the supply chains between China and Europe. The Middle Corridor shares its route, geopolitical security concerns and geoeconomic goals with several other connectivity plans in the region ranging from the BRI's China-Central Asia-West Asia Economic Corridor to Türkiye's own Middle Corridor. These overlapping projects all face the same issue: the lack of regulatory coordination.[4] BRI and GG court the same regional actors, such as Georgia, for infrastructure investment but hard infrastructure does not suffice in the absence of mechanisms to eliminate discrepancies in soft infrastructure such as customs, trade, and transportation regulations. The route falls short of constituting a viable alternative to the Northern Corridor (now closed due to the war in Ukraine) because China and the EU engage with the regional actors bilaterally and that hinders harmonizing the regulations across countries and/or regions.

ASEAN

The second case is the digitalization of maritime connectivity through Southeast Asia. Unlike the Middle Corridor, multilateral initiatives for the cybersecurity of ports and shipping routes, such as the regional association ASEAN's MPAC2025,[5] exist. MPAC2025 includes physical, institutional and interpersonal connectivity for all Southeast Asian countries and their allies and counterparts. Therefore, by definition, it is meant to connect, not divide and exclude. For example, digitalization of ports remains uneven due to a lack of communication between locally-owned and Chinese-owned ports. In this context, MPAC2025 aims to develop mechanisms to synchronize port operations across ASEAN. Besides ASEAN, several other organizations such as JICA off Japan, AIIB, and ADB sponsor cybersecurity projects. Nonetheless, the next task for Southeast Asia is to create mechanisms for the synchronization of these projects.

These two cases illustrate the third parties' unwillingness to take sides between China and other powers, including the EU. Third parties' resistance to decoupling is most evident in their involvement in the overlapping connectivity projects. The India-Middle East-Europe Corridor (IMEC) is a case in point. IMEC[6] is the rebranding of an earlier connectivity project called I2U2[7] that included India, Israel, the UAE, and the US, in an enlarged composition to include India. IMEC is envisioned to include two sets of maritime routes, one from India to the Gulf and from there, to Europe. These two maritime routes will be connected by a railway line via Jordan and Israel.[8] In both cases, the middle powers that are involved in the initiatives announced their commitment to more than one connectivity project because they perceived decoupling is not practically possible – especially in the case of global issues. The Suez Canal and Red Sea crises that affected global powers with opposing political stances similarly proved them right. In case of a chokepoint blockage due to natural disaster or military confrontation, it is difficult to find alternative routes for all parties concerned.

Involving governments, business leaders, and representatives of labour and civil society from the countries along these routes in multilateral discussions about regulatory harmonization would help prevent delays in constructing and operationalizing routes. Additionally, it would provide China and the EU with better insights into the obstacles hindering the smooth implementation of connectivity projects. These obstacles often stem from local conditions such as tensions between state and local state-society relations, leading to third parties' reluctance to fully commit to connectivity projects. It is crucial that non-state actors are also included in the conversation to make sure that a broad consensus is reached. Therefore, we identify the need to include local actors in interoperability negotiations of the BRI and GG in land and sea transportation and address the UN SDGs. We will explain our policy and research recommendations based on this analysis in the next section.

Recommendations and conclusions

As manifested in their grand narratives, BRI and GG have different added values. BRI targets the Global South countries with collective values like poverty eradication. Unlike the BRI which emphasizes non-intervention in domestic affairs even facing global issues international norms violations, GG aims at achieving universal goals that go beyond national borders – such as climate action and the compatibility of digital regulations with universal human rights regimes. For the EU, non-negotiable prerequisites for collaboration with other international powers include the values of sustainability and maintaining a level playing field. This means that initiatives should cooperate and avoid creating opportunities for subordination or dependency.

However, the abovementioned grand narratives can easily weaponize overseas investments and contribute to the polarization of issues which remain interoperable in practice. Therefore, discursive polarization and weaponization of transnational issues only create losers with no winners and should be avoided. The current hindrance to avoiding a lose-lose scenario is the lack of experience in working together. Therefore, platforms and mechanisms should be created to bring together local actors in recipient countries with non-state actors in China and Europe. This will help create an environment conducive to establishing regulatory commons.

To this end, the roadmap we suggest is building permanent mechanisms to ensure sustained communication. Long-term exchanges will help familiarize both parties with each other's decision-making processes and actors. Such familiarity will be conducive to the most-needed transparency and efficiency in formulating solutions for transnational issues.

Another suggestion to ensure sustainability of collaboration is to involve local actors in the destination countries for innovation and inclusivity in identifying emerging transnational issues. China is known to work primarily with the governments but as several incidents in which societal actors protest[9] Chinese investments demonstrate, state officials are often not the sole determinants of a policy outcome that shape overseas investments.

Last but not least, extending such institutionalized mechanisms to other connectivity initiatives either by global powers or regional actors is crucial. Besides, international organizations such as World Bank, the UN and ADB are potential stakeholders in the long-term collaboration on regulations.

This paper focuses on the already existing issues regarding transportation infrastructure and regulations. The Carbon Border Adjustment Mechanism[10] and Due Diligence Directive[11] that are in process will have a major impact on global supply chains and require future research to explore the ways through which BRI and GG achieve compatibility in climate agenda and sustainable labour markets.

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