

EU–China relations at a crossroads, Vol. I: Looking for a new *modus vivendi*

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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.

DISCLAIMER

This publication was produced under the EU & China Think-Tank Exchanges project. The input papers contained in this publication are the sole responsibility of the authors and do not necessarily reflect the views of the EU or the EPC. The EU's financial support to the project does not constitute any EU endorsement of the contents of the project events or any papers and publications produced. Supporters and partners cannot be held responsible for any use that may be made of the information contained therein.

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

This compendium of contributions on EU–China relations is the result of discussions organised by the European Policy Centre during the past year and a half under the EU & China Think-Tank Exchanges project. This project is funded by the European Union to promote dialogue and support mutual understanding among experts, analysts and policymakers from Europe and China.

Inadvertently, the project operated in a very different environment than originally foreseen, one which brought new impediments to EU–China bilateral communication and people-to-people exchanges. I am not only thinking of the COVID-19 pandemic, which has created physical restrictions to valuable interpersonal exchanges. A widening gap has emerged between European and Chinese mindsets when defining the core concepts that define the pillars of the international system – that we operate as partners as well as competitors – and the nature of the relationship that the EU and China aspire to have.

A lot has also happened in China, in EU–China relations, and in the world in the past two years. Europe is at war. The institutional and conceptual foundations of the post-World War II international relations order are being challenged. The ability of the EU and China to face such challenges as strategic partners is questioned. Trust and understanding are turning into rare commodities.

This compendium – and more still, the process of exchange and dialogue that has led to its completion – is therefore even more valuable than anticipated. A refreshing step out of our individual echo chambers, the volume of which has considerably increased over the COVID-19 period, it is crucial to replenish ideas about the possible paths forward for this crucial bilateral relationship at a time of renewed great power competition.

Therefore, I hope the content and recommendations that have emerged from the preliminary exchanges between European and Chinese think tanks will draw attention and inspire policymakers as well as analysts, contribute to mutual understanding and fuel the appetite for more discussion. This is just the beginning of the conversation.

Nicolas Chapuis

EU Ambassador to China
Beijing, June 2022

Preface

The context of EU–China relations has dramatically changed over the past years, marked by frequent ups and downs. The world after the COVID-19 health crisis and Russia’s invasion of Ukraine will be very different, with clear implications for bilateral ties between Brussels and Beijing.

Shaken by a global pandemic, regional conflicts, economic turmoil, energy and food insecurity, and climate and environmental crises, multilateralism is now not only more needed than ever but also more difficult to achieve. Without the involvement of central players like the EU or China, it will be challenging to find solutions to global problems, let alone implement them. However, mounting rifts and diverging perceptions of and approaches to global and domestic affairs risk undermining the effectiveness of the EU–China bilateral dialogue.

Coming on the heels of a sanctions spat in March 2021, the EU & China Think-Tank Exchanges project seeks to minimise misperceptions and overcome misunderstandings between both parties by fostering a dialogue among European and Chinese think-tankers, academics and policymakers. Through a series of events and papers, this project upholds a solid and candid channel of communications and exchanges on issues ranging from health and digital policy to economic and green cooperation.

This compendium is the first of three publications of the project. It contains 12 input papers that provide the views of European and Chinese experts on a set of specific policy issues from 2021 to 2022. They not only provide a specialist view on the state of affairs in a given field but also offer a snapshot of the authors’ perceptions at a specific moment in time.

The publication is, in this regard, an opportunity to review and reflect on how the EU–China relationship has developed over the last months. Each paper invites the reader to assess whether the policy recommendations are still relevant and if the international context of EU–China relations developed as the authors anticipated. In other words, it is an invitation to continue the conversation.

I take this opportunity to wholeheartedly thank all the authors for their relevant contributions, which they also presented in several settings, and for helping us navigate EU–China relations candidly and openly with so many participants.

Our think tank partners – Egmont–The Royal Institute for International relations, the Center for China and Globalization (CCG) and the China Institute of International Studies (CIIS) – deserve much credit for their commitment to continued dialogue.

Lastly, the input papers, events and this compendium would not have been possible without the contribution of many members of the European Policy Centre team, from Operations and Events to Communications and the other programmes. To all of them – particularly Ivano di Carlo who, along with the Europe in the World team, spearheaded the project –, a huge thank you.

Ricardo Borges de Castro

Associate Director and Head of the
Europe in the World programme
European Policy Centre

List of acronyms

AfCFTA	African Continental Free Trade Area
AI	artificial intelligence
AIIB	Asian Infrastructure Investment Bank
AU	African Union
BRI	Belt and Road Initiative
CAI	Comprehensive Agreement on Investment
CBAM	Carbon Border Adjustment Mechanism
CCP	Chinese Communist Party
COP 15	2022 UN Biodiversity Conference
COP26	2021 UN Climate Change Conference
COVAX	COVID-19 Vaccines Global Access
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DAC	Development Assistance Committee
DEPA	Digital Economy Partnership Agreement
DMA	Digital Markets Act
DSA	Digital Services Act
DSM	Digital Single Market
ETS	Emissions Trading System
FIL	Foreign Investment Law
FOCAC	Forum on China–Africa Cooperation
FTA	free trade agreement
FTT	forced technology transfer
FYP	Five-Year Plan
GHG	greenhouse gas
GIIB	Global Infrastructure Investment Bank
HCF	Human Community of Fate
ILO	International Labour Organization
IMF	International Monetary Fund
IO	international organisation
IoT	Internet of Things
IPI	International Procurement Instrument
ISD	investment and sustainable development
JV	joint venture
LPF	level playing field
MC12	2022 World Trade Organization Ministerial Conference
MEP	Member of the European Parliament
MFA	Chinese Ministry of Foreign Affairs
MFN	most-favoured-nation
MiC2025	Made in China 2025
NDICI	Neighbourhood, Development and International Cooperation Instrument
NEV	new energy vehicle
OECD	Organisation for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership
REC	regional economic community
RRF	Recovery and Resilience Facility
SOE	state-owned enterprises
SSA	Sub-Saharan Africa
TEU	Treaty on European Union
TSD	trade and sustainable development
WHO	World Health Organization
WTO	World Trade Organization

EU–China relations in 2021: Opportunities and challenges ahead

What is the nature of the multifaceted relationship between the EU and China, especially with regards to the following four thematic aspects: political, economic, digital and climate? What are the latest developments in the relationship, and what is the way forward in light of the challenges and opportunities?

EU–China tech relations: Conditioning global tech standards adoption through market capitalisation

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European Policy Centre

29-30 June 2021

Introduction

The COVID-19 pandemic has elevated the significance of digital and emerging technologies for the global economy. It has also caused supply chain disruption, which illustrates past and current EU dependencies on foreign companies and providers of digital services and products. This dependency has alarmed EU officials over the past years and fuels their ongoing discussions about strategic autonomy and digital sovereignty,¹ such as the 2030 Digital Compass.

Following the US presidential election in November 2020 and the consequent appointment of President Joe Biden, current EU debates on strategic autonomy have become instilled with political promises for stronger and closer cooperation among the EU and US. The renewed transatlantic alliance is a major geopolitical development for the EU. Its expectations for joining efforts with the US on fostering tech regulatory convergence as major transatlantic partners

were significantly lowered during the Trump presidency. Political will and room for EU–US synergy have increased since November 2020, which is a significant development with positive outcomes for advancing specific goals under the broader EU digital strategy.²

Besides the EU's partnership with the US, it is also crucial to consider current EU relations with China. There are multiple channels for trade, with China recently declared as the EU's largest trading partner for goods, surpassing the US.³ Both the EU and China have placed a major emphasis on the development of emerging technologies in their industrial policies, and both players share a strong ambition for global standard-setting in emerging technologies.⁴ Considering the two partners' current relations and ambitions, a meaningful dialogue on global governance on data, tech and emerging technologies evidently cannot take place without boosting greater dialogue, cooperation and synergy with China.⁵

Key issues

THE EU'S DIGITAL GOALS FOR 2030

On 9 March 2020, the European Commission presented a series of new objectives under its 2030 Digital Compass. The plans strongly address, among other issues, the delays in rolling out 5G technology across the EU. They also make recommendations on how to reduce the EU's dependencies on semiconductors⁶ and the raw materials

needed to produce digital devices and empower emerging technologies. During the European Council Summit on 25 March 2021, EU leaders discussed the Commission's digital targets for 2030, the significance of boosting key sectors in the Digital Single Market (DSM) (e.g. semiconductors, sectoral data spaces), and the legislative proposals of the Digital Services Act (DSA) and Digital Markets Act (DMA).⁷

Making progress on these priorities is key to boosting the EU's bid for digital sovereignty and aligning the EU27's economies. This would address regional deficits in connectivity infrastructure and public investment for the effective allocation of funds under the Recovery and Resilience Facility (RRF), which stipulates that at least 20% of the funds must fulfil EU digital targets. The agreed RRF framework is a sign of progress because it offers a clear growth trajectory that all member states must follow. This would help bring different EU regions that score low on digitalisation up to speed with the rest and enable better exchanges of know-how and cooperation among European small and medium-sized enterprises.

THE RENEWED MOMENTUM IN EU-US RELATIONS

Crucially, as a sign of renewed ambition in the EU-US partnership, the European Council was joined by Biden, who agreed with EU leaders on the centrality of protecting rule of law and democracy in the digital world. Protecting online democratic resilience is a key factor to fostering political stability in both the EU and the US. Moreover, the two partners agree that fostering online democratic resilience and long-term political stability will be key to bringing global prosperity on the digital pillar of the global economy.⁸

This political goal was further highlighted in a recent report by the US National Security Commission on Artificial Intelligence, which highlighted the need for the US to seek partnerships consistent with "democratic values" as a key recommendation to counter authoritarian regimes' standard-setting.⁹ Additionally, the US Congressional Research Service has also indicated the US' willingness to follow EU digital regulations, especially the DSA and DMA.¹⁰ It is now widely accepted in EU policy circles that fostering stable cooperation with the US and boosting regulatory convergence on digital targets will be central to the EU realising its digital goals for 2030.¹¹

CHINA'S STANDARD-SETTING AGENDA, AT HOME AND IN THE WORLD

In parallel, China's ambitious strategy, China Standards 2035, demonstrates its strong ambition to set global standards for emerging technologies like 5G telecommunications, Internet of Things (IoT) devices and artificial intelligence (AI). The plan has the same model as Made in China 2025 (MiC2025), setting benchmarks of success, such as increasing the number of Chinese standards that become international standards and influencing and leading international standards bodies. MiC2025 laid out a blueprint for the government and leading Chinese tech companies in 2015. In 2021, China Standards 2035 aims to enable the sector to grow from third-tier companies (i.e. companies that produce designs created abroad) to second-tier companies (i.e. leaders in design and innovation).¹² In this regard, MiC2025 can be

seen as the stepping-stone to achieving the goals under China Standards 2035.

MiC2025 and China Standards 2035 can thus be seen as two parts of a wider strategy aiming towards Chinese self-sufficiency in key sectors like semiconductor design and production. When it was first presented, foreign companies and governments viewed MiC2025 as a blueprint for nurturing domestic champions that would give them preferential treatment and push out foreign competitors. This is why MiC2025 was met with ire overseas and subsequently referred to less by Chinese officials.¹³ Nevertheless, the ambition to become a leader in setting global standards for emerging technologies still features prominently in China Standards 2035. Chinese policymakers see this as an opportunity to become dominant in the technologies that will power 'Industry 4.0'. These key industries are expected to receive increased government support, either through investments in new infrastructure or the post-COVID-19 recovery.

In the short term, China could rely on its internal market to foster the domestic adoption of common standards in digital goods and services. Once common standards are adopted across the country, the central government could then see how to push its companies and standard-setting preferences internationally. China's Belt and Road Initiative (BRI), building infrastructure and trade channels across Eurasia and beyond, will also provide important synergies and be instrumental in spreading Chinese standards globally. Under China Standards 2035, it will have strong incentives for exporting its domestic standards internationally through multilateral organisations. Increasing participation in international multilateral bodies, such as the World Trade Organization, the UN's International Telecommunication Union, the International Organization for Standardization, and the International Electrotechnical Commission, will be key.

DOUBLE STANDARDS AND THE NEED TO EXPAND EXCHANGES AND COOPERATION

Chinese companies also effectively use their membership in foreign industry and domestic regulatory bodies, such as the US-based Institute of Electrical and Electronics Engineers and the US National Institute of Standards and Technology. By participating in these bodies' performance tests and joint exercises with other global companies, Chinese companies can draw important insights from the results. The success of these results works as a useful stamp of quality vis-à-vis other digital goods developed outside China – having Chinese products accredited in US-based forums helps Chinese companies sell their products abroad. Nevertheless, despite capitalising on foreign standards and domestic industry bodies, China does not offer the same degree of regulatory reciprocity to European or US companies based in China.

Main challenges and opportunities

Judging by the two economies' long-term plans, the EU and China share the same objectives: to condition the development of emerging technologies and internet regulation, with a dual aim of (i) preparing their internal markets to be at the forefront of Industry 4.0, and (ii) ensuring that the adoption of global tech standards matches those adopted at the domestic level.

From an EU perspective, China's most important challenges in the emerging tech and digital fields are the following. First, China is capable of developing top-rate technology (e.g. 5G, AI) in emerging areas. Second, China is keen to export its technology to condition the development and adoption of its standards globally, thus nurturing adherence to a distinctly Chinese set of technology standards and protocols. With more than a hundred countries participating, the BRI offers a vital facility to achieve this goal. Third, China is boosting its influence in the UN and other standard-setting bodies to enhance the interests of its own companies.

If these challenges are left unaddressed, the following longer-term trends could intensify:

- ▶ **The intensifying EU–US–China race** to condition the establishment of global standards in emerging technologies could eventually divide the tech world into different industrial blocs. Strategic competition between global players raises the spectre of fragmented global standards. This could create a geopolitical tech divide in a sector that thrives off multilateral cooperation.
- ▶ **5G mobile telecommunications** are a bedrock technology that can foster growth, innovation and the global adoption of IoT standards. Geopolitical tensions between the US and China could potentially divide the tech world into two competing camps to reflect the different interests and their spheres of influence; EU–US versus China. Divisions could also be seen in the development of semiconductors, AI and other emerging tech areas.

- ▶ **The dual use of civil-military tech standards** is a practice by which technologies that are developed for civilian purposes (e.g. facial recognition) in the EU can be exported to China and adapted for military purposes. This practice of 'civil-military fusion' has gained considerable traction in both European and American strategic communities because it has the potential to bolster defence tech capacities. It is believed that the Chinese fusion of civil-military tech standards targets EU advances in civilian sectors, such as quantum computing, big data, semiconductors, 5G and AI. Through their export to China, these European advances could enable their 'dual use' in military areas.
- ▶ **Democratic accountability** and transparency are priorities in the development of EU tech standards in 5G, AI and internet governance more broadly. The global race to influence the development of tech standards is crucial to defending democracy in the EU and its neighbourhood. High-risk AI surveillance and military systems, data acquisitions and cross-platform data-merging practices establish tech standards based on principles that are antithetical to EU liberal democratic values, accountability and transparency, and diversity of opinion interoperability and respect for human rights.
- ▶ **The internal/external level playing field** is seen by the EU as a key principle for effective and fair competition within its DSM and between its peer economies. The EU currently cannot match the state-backed funding that China grants to its private companies through private investment in AI and/or other emerging technologies.¹⁴ China's huge state-backed investment in its private sector will undoubtedly challenge European companies in advanced tech sectors at home and even third-country markets.

Recommendations and conclusions

WORKING TOGETHER ON COMMON PROBLEMS TO FOSTER TRUST AND GLOBAL PROSPERITY

Avoiding the fragmentation of internet and global data governance is a key condition for the EU and China to define how they identify what mutual benefits to explore. The EU has made clear over the years its intention to draft regulation that will put an end to the self-regulating approach that the tech sector enjoys in its DSM. Interestingly, China is also making similar

efforts regarding big tech companies in its domestic market. Global economic powers like the EU, China and the US are experiencing similar challenges arising from the increased role of digital tech, data and e-commerce in their internal markets. Additionally, it seems that all players consider tech sector regulation to be a useful tool in dealing with these challenges.

This trend is encouraging, as all players seem to be affected by the lack of an agreed set of rules for internet

governance, both globally and domestically. With this in mind, the ongoing discussions about boosting global internet governance should continue in multilateral institutions (e.g. UN, Organisation for Economic Co-operation and Development). For these discussions to foster results in global forums, it is important to instil greater trust among the different players. While this is easy to say, it is much more difficult to achieve it in practice.

Nevertheless, certain areas could provide a good opportunity for closer engagement, as they focus on truly global climate issues that no one country can solve by itself, regardless of its ambition. In this vein, the EU and China would enjoy better prospects and add greater value to their partnership if they joined efforts with the US in select areas where tech standards and emerging

technologies have strong links with environmental protection and carbon neutrality.

Competing on priorities across the digital board cannot lead to effective frameworks for EU–China cooperation. Additionally, the current exchanges between the two economies illustrate that decoupling the economic relations will not work in the short to medium term and could even create greater problems in other areas, such as cooperation on climate change which the twin digital and green transitions will power. Therefore, adopting common tech standards could enable much-needed cooperation in climate-focused tech areas, where common standards on AI and connectivity infrastructure can foster sustainability globally.

¹ See also Aktoudianakis, Andreas (2020a), "[Fostering Europe's Strategic Autonomy – Digital sovereignty for growth, rules and cooperation](#)", Brussels: European Policy Centre/Konrad-Adenauer-Stiftung; Grevi, Giovanni (2020), "[Fostering Europe's Strategic Autonomy – A question of purpose and action](#)", Brussels: European Policy Centre/Konrad-Adenauer-Stiftung.

² See also Rashish, Peter S. (2021), "[Transatlantic economic relations under the Biden administration: Be careful what you wish for?](#)", Brussels: European Policy Centre.

³ Eurostat (2020), "[Euro area international trade in goods surplus €29.2 bn](#)".

⁴ See also Bjerckem, Johan and Malcolm Harbour (2020), "[Europe as a global standard-setter: The strategic importance of European standardisation](#)", Brussels: European Policy Centre.

⁵ See also Mollet, Frederico (2021a), "[China's grand industrial strategy and what it means for Europe](#)", Brussels: European Policy Centre.

⁶ See also Mollet, Frederico (2021b), "[Chips on our shoulder: Is Europe neglecting design in its semiconductor strategy?](#)", Brussels: European Policy Centre.

⁷ See also Aktoudianakis, Andreas (2020b), "[Getting the Digital Services Act right: 3 recommendations for a thriving EU digital ecosystem](#)", Brussels: European Policy Centre; Algorithm Watch and European Policy Centre (2020), "[Putting meaningful transparency at the heart of the Digital Services Act](#)".

⁸ See European Council, "[Remarks by Charles Michel following the video conference of the members of the European Council of 25 March](#)", 25 March 2021.

⁹ National Security Commission on Artificial Intelligence (2021), "[Final report](#)".

¹⁰ Fefer, Rachel F. (2021), "[EU Digital Policy and International Trade](#)", Congressional Research Service.

¹¹ Dworkin, Anthony (2021), "[Built to order: How Europe can rebuild multilateralism after covid-19](#)", Brussels: European Council on Foreign Relations.

¹² Conversely, first-tier companies are those sector leaders that have capitalised on the global market and can set global standards. See Chipman Koty, Alexander, "[What is the China Standards 2035 Plan and How Will it Impact Emerging Industries?](#)", *China Briefing*, 02 July 2020.

¹³ See e.g. *ibid.*; McBride, James and Andrew Chatzky (2019), "[Is 'Made in China 2025' a Threat to Global Trade?](#)", Council on Foreign Relations.

¹⁴ European Investment Bank (2019), "[EIB Investment Report 2019/2020: accelerating Europe's transformation](#)", Luxembourg, p.110.

EU–China relations: The opportunities and challenges ahead

Center for China
& Globalization

29-30 June 2021

Introduction

In the past four decades since China established diplomatic relations with the then European Community in 1975, the issues in the bilateral relationship were largely concentrated on trade. In the meantime, trade and investment ties continued to grow. China is now the EU's biggest trading partner, overtaking the US in 2020. European businesses have a substantial interest in the Chinese market.

The stressors in the current EU–China relations stem from changing realities. First of all, the unabated rise of China has shifted the balance of power in the international system, instilling increased angst in the West. Second, the outbreak of the COVID-19 pandemic exacerbated the existing geopolitical tensions and sparked widespread anti-China public opinion. Last, the US–China competition under the Biden administration is reshaping the EU's role in world politics and, consequently, Brussels' relationship with Beijing.

Key issues

THE CONTINUING RISE OF CHINA

According to the World Bank, China was the only major economy to register positive growth in 2020 and is expected to have a +7.9% GDP growth in 2021.¹ In purchasing power parity terms, China's GDP overtook the US in 2017. The latest GDP reports show that the US fell by -2.3% in 2020, while China grew by +2.3% amid the pandemic. This puts the Chinese economy at only \$6.2 trillion behind the US and down from \$7.1 trillion in 2019.² In other words, China will likely overtake the US as the world's largest economy a few years earlier than anticipated. In contrast, the European economy is expected to shrink by -7.4% in 2020, following the outbreak of COVID-19, with an economic recovery anticipated in 2021.³

The outbreak of the coronavirus in Wuhan was initially expected by the West to be China's 'Chernobyl moment'. The Chinese government, however, quickly disproved this by successfully containing the virus and resuming economic activities. The effective pandemic control

vindicated the Chinese system of centralised resource allocation and grassroots mobilisation. China's generous aid in personal protective equipment and medical expertise to foreign countries also propped its image as a responsible power, despite scepticism over its health diplomacy. For all of Europe's and the US' advanced health care infrastructure and democratic systems, they have nevertheless registered over 1.5 million deaths combined.⁴ This tale of two systems provides a stark comparison of government performance and fuels China's confidence and more assertive diplomacy.

China's rise, in the words of political scientist Graham Allison, "is inevitably encroaching on American positions and prerogatives at the top of every pecking order."⁵ An uneasy sense of 'westlessness', a term coined during the Munich Security Conference, reflects the European reaction towards an increasingly preponderant Middle Kingdom. China's Belt and Road Initiative – under which half of the EU countries have signed agreements with Beijing – is largely perceived by the West as China's strategic plan to increase its

sphere of influence. It is within the broader context of China's rise in both economic prowess and global influence that the developments in Hong Kong and Xinjiang, in which European values are being challenged, resulted in the recent sanctions that are unprecedented in scale and breadth.

DOMESTIC POLITICS

Public opinion about the EU's performance during the COVID-19 crisis consistently calls for more EU competences.⁶ Wedge issues in European countries, such as immigration, exasperated during the pandemic. Fears about an economic recession and massive unemployment continue to drive contentious politics in EU member states, hardening populist sentiments. Local elections in Austria, Finland, Italy, the Netherlands, Portugal and Sweden testify to the enduring appeal of populist values for many Europeans.

In Germany, Armin Laschet will lead the charge of the Christian Democratic Union in the September polls, but the continuity of his predecessor Angela Merkel's centrist course is put into question. In France, President Emmanuel Macron has faced criticism for a comparatively slow roll-out of the coronavirus vaccine and his overall handling of the pandemic. The next presidential election is scheduled for April 2022, and current polls show far-right candidate Marine Le Pen as Macron's chief rival.

China is celebrating the centennial anniversary of the Chinese Communist Party this year. The 20th National Congress, due to be held in 2022, is looming on the horizon. The political events will make a strong,

unified leadership for China's national rejuvenation the centrepiece. The 'Century of Humiliation' narrative in its foreign policy discourse is unlikely to make room for negotiation, let alone compromise, on sovereignty and territorial issues (i.e. Hong Kong, Taiwan, Xinjiang).

INTENSIFYING US-CHINA COMPETITION AND CHANGING TRANSATLANTIC RELATIONS

The escalating competition between the world's two largest economies is inevitably affecting the EU's relations with both China and the US. During the past four years, the transatlantic alliance was damaged by Donald Trump's proclivity towards unilateralism, leaving the EU no alternative but to pursue its own strategic autonomy. Now, the alliance is 'back on track', as President Biden and his foreign policy advisors seek to build a united front against China.

According to EU High Representative Josep Borrell, US and EU foreign policy toward China have essentially converged, with both sides agreeing that "relations with China are multifaceted, comprising elements of cooperation, competition, and systemic rivalry."⁷ Nonetheless, Brussels defied Washington's wish on the signing of the Comprehensive Agreement on Investment (CAI) at the end of 2020. US Secretary of State Antony Blinken's visit to Brussels post-Anchorage meeting ended without progress. Nevertheless, in Borrell's words, the visit "was very encouraging and also operational. It confirmed that transatlantic relations are back on track."⁸ The ever-changing transatlantic relationship will drive more dynamic development in great power politics between the EU, China and the US.

Main challenges and opportunities

THE COMPREHENSIVE AGREEMENT ON INVESTMENT

After seven years of negotiations, the CAI was concluded in principle on 30 December 2020. Against the backdrop of escalated US-China tension, the speed at which Brussels struck the deal with Beijing despite US pressure speaks volume. China reciprocated with considerable concessions over market access, environment and labour protection. Together with the Regional Comprehensive Economic Partnership, the conclusion of the CAI marks China's diplomatic success amid a growing threat of isolation. However, a contentious spat over human rights placed the fate of the investment agreement, which has not yet been ratified by the European Parliament, in doubt.

The bulk of the deal is focused on opening up investment opportunities for EU companies operating in China. Specifically, it offers possibilities for European companies to increase production in promising fields

(e.g. electric cars) while eliminating requirements to partner with local firms in some sectors. This was also a way for some European companies to mitigate the impact of the pandemic and reduce the return on investments in other markets.

The deal was also seen as a positive signal that China would stay on its course of reform and open up, boosting foreign companies' investor confidence. For the first time, China committed to a negative list – setting out industries in which foreign investment is prohibited, unless the investor meets certain conditions – in all sectors, both service and non-service.⁹ Furthermore, the agreement will give a strong impetus to China joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which requires China to raise its trade standards on many fronts and reform parts of its economy in line with international practices. As the geopolitics surrounding the CAI become ever more complicated, its delay and lingering uncertainty could pose a loss of opportunities for both parties.

THE US–CHINA TECH DECOUPLING

One of the defining features of the US–China competition is the latter’s rise in global technology value chains, which is threatening the US’ leading edge. As the Trump administration unleashed sanctions on Huawei and other Chinese technology companies, China affirmed its wish to build a thriving indigenous technology sector to sustain its domestic growth. European businesses operating in China are facing rising costs and uncertainty as they grapple with the consequences of decoupling between the US and China; they fear being caught in the crossfires of US–China tensions. According to a recent report by the EU Chamber of Commerce in China, about 68% of European firms said that supply chain decoupling will affect their business negatively.¹⁰

Telecommunications is another sector that is caught in the crossfires of the trade war between the world’s two largest economies. The US’ anti-China Clean Network initiative, which aims to ‘purge’ Chinese telecommunications and network equipment from the internet, is affecting European companies and their offerings in the US network.

In the past few years, the US–China technology rivalry has affected the EU’s 5G-related agenda significantly. Pressuring countries to not use any Chinese companies, such as Huawei and ZTE, when building 5G infrastructure was a mission of the Trump administration. Eight countries, including the US, the UK and Australia, have officially banned Huawei. Meanwhile, many EU member states rely on Huawei to build their 5G networks. 5G-related issues will clearly become an even more significant factor in the reshaping of global geopolitics and EU–China relations soon.

THE COMPLEX GEOPOLITICAL LANDSCAPE OF A MULTIPOLAR WORLD

The last week of March 2021 witnessed high democratic tensions, as all the EU’s relationships with the world’s key strategic actors were challenged. Brussels’ sanctions against China during Blinken’s visit were understood to be a show of solidarity with Washington. Meanwhile, Russian foreign minister Sergei Lavrov met with his Chinese counterpart, Wang Yi, and called on “countries to stop interfering in other countries’ sovereign internal affairs”.¹¹ China and Russia have strengthened their strategic relationship in recent years as the latter seeks to diversify its energy exports away from the EU.

Since the annexation of Crimea in 2014, relations between the EU and Russia are at an all-time low, with disagreement in many areas: Ukraine, human rights, hybrid and cyberattacks on EU countries, the assassination attempt on and jailing of Kremlin critic Alexei Navalny. The controversy over the Nord Stream 2 pipeline continues to challenge Brussels’ approach to Russia and constrain the EU’s pursuit of strategic autonomy from the US.

China’s Foreign Minister, Wang Yi, toured the Middle East, starting with Saudi Arabia, then Turkey, Iran, the United Arab Emirates, Bahrain and Oman between 24–30 March. The signing of a 25-year cooperation agreement with Tehran on 27 March raised concerns in the West about China’s expanded influence in the Middle East and a Beijing-led alliance of like-minded states. However, China is the world’s second economic power and indeed a crucial trade partner for both the EU and US. This reality makes it impossible for the US–China rivalry to replicate the bipolar world of the Cold War, and navigating a multipolar strategic landscape no easy task for either player.

THE EU–CHINA ECONOMIC COOPERATION CONTINUES TO YIELD FRUIT DESPITE HUMAN RIGHTS CONCERN

China has not gone through a second COVID-19 lockdown, as has been the case in many European countries. As a result, the Chinese economy is performing slightly closer to pre-pandemic levels than other parts of the world, where restrictions are still taking a toll on activity. China is expected to register the second-highest growth rate globally in 2021. The latest Eurostat report shows that trade between the EU and China last year reached €586 billion. EU exports to China grew by +2.2%, and imports by +5.6%. In comparison, exports to the US dropped by -8.2%, and imports by -13.2%.¹² These figures indicate that China now has an even bigger role in how European economies perform.

European businesses have become more reliant than ever on China, underscoring the importance of the Chinese market as a rare source of growth – especially in the auto industry, a sector hard-hit by the pandemic. Mercedes-Benz and BMW logged record-high sales by volume last year, in striking contrast to their significant declines in overall global sales. China’s share of global sales jumped 5 to 6 percentage points in each company (i.e. 36% for Mercedes-Benz, 33% for BMW). In China, by far the most important single-country market for Audi, sales increased by +5.4%, reaching a new record.

THE EU AND CHINA SHARE A STRONG INTEREST IN RULES-BASED GLOBAL GOVERNANCE

The Biden administration’s support for Ngozi Okonjo-Iweala’s appointment as the WTO’s new director-general raises hopes about the resumption of the stalled WTO modernisation agenda and confidence that the multilateral trading system will endure in the future. This requires greater readiness among members to include China in the efforts. The EU has highlighted bilateral collaboration with the US on WTO reform. However, it also tends to argue that including China in the negotiations is inevitable. There may still be potential for the EU’s role in enlisting China as a willing participant in the WTO reform.

Climate change is another area where the EU hopes to engage with China significantly. The EU and China have long-standing cooperation on climate change and have agreed to step up their joint efforts further. The European Commission ensured that sustainable development was included in the final draft of the CAI, and China has made a series of commitments on carbon neutrality. The EU also continues to encourage China to mobilise its diplomatic resources, among others, to support regional and international security, particularly in areas of disarmament, non-proliferation, counterterrorism, cyberspace, and peacekeeping operations on the African continent.

Vaccine cooperation could be another low-hanging fruit in the bilateral relationship. Both the EU and China regard vaccines as global public goods. China confirmed that it is ready to consider 'vaccine cooperation' with Central and Eastern European countries. Hungary was the first EU country to approve the Sinopharm vaccine and purchased enough doses to inoculate 2.5 million people. China declared to provide 10 million doses of vaccines to the COVID-19 Vaccines Global Access (COVAX) sharing scheme. The EU, as the biggest donor to the COVAX scheme, could work with China to ensure the equitable global distribution of vaccines.

THE EU CAN PLAY THE ROLE OF AN INTERMEDIARY BETWEEN CHINA AND THE US

The EU is more closely aligned with the US ideologically but has huge economic interests in China. This puts Brussels in a unique position to be a mediator and peacemaker between Washington and Beijing. Speaking at the Paris Peace Forum in 2019, Macron said that amid an unprecedented crisis in global economic systems, Europe must remain "sovereign" and could act as a mediator between the two powers. The Union may be able to provide a "third voice to help find useful solutions."¹³ Earlier this year, Merkel said, "I'd very much wish to avoid the building of blocs," amid calls for an EU-US alliance to counter China.¹⁴

Under the Biden administration, Washington's call to shape a value-based transatlantic alliance is intended to rekindle the binary division of the world. Having experienced Brexit and a fraught and uncertain EU-US relationship over the last four years, the EU remains cautious about the benefits and risks of the robustness of democratic alliances. Instead, Brussels could choose to appeal to both sides' pragmatism: it could use its strong alliance with the US and deep economic links with China to show that the current trajectory of sharp conflict and disharmony serves no one's long-term interests.

Recommendations and conclusions

Besides the geopolitical challenges, both the EU and China must first and foremost carry out their shared domestic mandate: managing the COVID-19 crisis on both the public health and economic fronts. In the long run, European and Chinese economic growth will depend on the governments' ability to deal with domestic challenges like demographic change, the consequences of emerging technologies on jobs, and widening income inequality and its implications on social coherence. With the pandemic still raging, it is time that the EU-China relationship transcends ideological differences to focus on cooperation that can improve people's welfare.

Given the constraints imposed by the bilateral sanctions, the EU and China should encourage the involvement of think tanks, trade groups and NGOs in track two diplomacy to ensure that communication between the two sides can take place at the non-governmental level during a time of high diplomatic tensions. Virtual meetings have become a common way of cross-national exchange. However, as the vaccine roll-out progresses and border restrictions lift, people-to-people exchanges should be placed high on authorities' agendas. Scholars, think tank experts and journalists are among the most important groups in Sino-European exchange. Brussels and Beijing should also support students and young leaders exchange programmes.

Via track two dialogue, the EU and China should make a joint effort to militate against public discourse that limits both sides' policy options. Going forward, it is urgent that Brussels and Beijing focus on issues, not ideologies; and play down hyped-up rhetoric on human rights in the EU and nationalism in China. One way of helping break the deadlock in the bilateral relationship is to promote the voices of the business communities regarding the benefits of the CAI and strengthened trade and investment ties.

China should find ways to alleviate the European concerns over forced labour in Xinjiang, chief among them being the improvement of transparency of local governance. In its domestic reforms, the Chinese government would have to push forward or implement long-discussed level-playing-field tenets, such as competitive neutrality, market access and intellectual property rights protection, which affect the interest of European multinationals operating in China.

For its strategic benefit, the EU should focus on areas of common interest that can lay the groundwork for further compromise in the relations between the EU, China and the US. In its role as a historical advocate of multilateralism and global governance, Brussels can be instrumental in brokering trilateral summits on issues like climate change, vaccine cooperation, WTO reform and digital governance.

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EU–China political relations, opportunities and challenges

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29-30 June 2021

Introduction

How can a constructive and forward-looking dialogue between the European and Chinese participants, based on open and mutually respectful exchanges of views, be encouraged and sustained?

The EU and China have been in a comprehensive strategic partnership since 2003, when not only the two parties but also the world in general were very different from what they are now. Of course, both sides have updated and recast their strategic approaches regularly since then. However, the pace and scale of change – especially in China but also in the EU and, more recently, globally – necessitate that the relations at the strategic level should be constantly analysed and discussed to optimise mutual understanding, avoid miscalculations and build mutual trust.

Since 2003, China's unprecedented advances and dramatically increased global presence have been abundantly clear and are seen as matters of pride domestically. For example, China lifted hundreds of millions of its citizens out of poverty, made effective use of its crucial accession to the World Trade Organization (WTO), recorded sustained extraordinary annual growth rates, successfully hosted the 2008 Olympic Games, plays a significant and growing role in the UN, is a major contributor of personnel to Blue Beret missions

under the UN Security Council, is an important investor abroad, and develops major global initiatives (e.g. Belt and Road Initiative). On some metrics, China was the largest economy in the world two centuries ago. Once again, on other metrics, China is on course to regain that position in the near future.

The EU has also changed enormously since 2003. It has enlarged substantially with the accession of 13 states, developed and concretised the European and Monetary Union, survived the 2008 global financial crisis and established the Banking Union, modernised its institutions and working methods and enhanced its foreign policy powers (i.e. 2009 Lisbon Treaty), become an increasingly important player in international and multilateral affairs, and forged a common view and leading role to meet the challenges of climate change. The EU's recent joint actions on meeting the unprecedented challenges of COVID-19 and the ambitious and forward-looking agenda on the green and digital transformations are further examples of its dynamism and ability to move with the times. The EU, it should be recalled, is a unique experiment in international affairs – a democratic and law-based collectivity that pools sovereignty among 27 sovereign states. A number of neighbouring states wish to join, notwithstanding the recent departure of the UK.

Key issues

The EU and China, by virtue of their roles as global actors of the first importance with deeply enmeshed economic and trade ties, must find a way to manage and advance their complex and multifaceted relationship against an increasingly complex geopolitical situation. This complex situation is marked by declining support

for multilateralism and growing scepticism about the multilateral, rules-based order, which remains at the heart of the EU's foreign policy. The two sides should discuss what is meant by a 'multilateral, rules-based order', if only to ensure a common understanding of what this concept means and entails.

The emerging global geopolitical context presents increasing challenges to the EU's values and interests. Multilateralism, as based on the principles of the UN Charter and international law, and the universality of human rights and fundamental freedoms are core principles of EU treaties that guide the EU's actions. Multilateralism must be revitalised and strengthened. To this end, the two sides should work towards a common understanding of what is meant by *multilateralism*, which in the EU's view is both a condition for and a corollary of globalisation. That said, the risks of a power-based multipolar approach to the world are growing, as the post-World War II multilateral order shows its age. COVID-19 is an accelerator of these geopolitical trends.

European populations and parliaments are looking critically at international health issues, climate issues, trade policy and its implications, and vulnerabilities in the EU's supply chains. The EU pledges to defend its values and interests vigorously, which is reflected clearly in its geopolitical approach. All these aspects have implications for the EU–China relationship.

The EU's approach to China is autonomous and constructive in that it looks for mutually advantageous outcomes and draws on all facets of its activities. However, the EU also clearly perceives that the balance of challenges and opportunities within their relationship has changed and that it should seek to correct and level the playing field and adopt a more reciprocal and balanced approach to its very important relationship with China. The practical expression of this approach was set out clearly in its 2019 Strategic Outlook:

“China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance. This requires a flexible and pragmatic whole-of-EU approach enabling a principled defence of interests and values.”¹

This important EU document of 2019 illustrates the EU's multifaceted approach, which fits the extensive range of policy areas in the EU–China relationship. It is not an ‘all or nothing’ approach – still less, a negative one – and the 10 key ambitious actions proposed by the European Commission and European External Action Service in follow-up to the Strategic Outlook span the full scale of this multifaceted approach to varying degrees.

The EU still needs to define and explain what is meant by *strategic autonomy* more fully, particularly in light of possible misapprehensions about its interrelationships with China and the US, and diverging conceptions within the Union. By definition, the EU is autonomous since all of its decisions and policies ultimately track back to the EU treaties, primary and secondary EU law, and

the member states. The autonomy of the EU is not an instrument aimed at any particular third country or countries. The EU's commitment is to multilateral solutions. However, difficulties and blockages, particularly in the multilateral trading system and WTO deficiencies, have underlined the reality that the EU must act in its own right – multilaterally where possible, and autonomously when necessary – to defend its interests. A clear example of the EU's new expression of autonomy is the ‘anti-coercion instrument’ prepared by the European Commission, which will allow the EU to defend its interests when the multilateral avenue to resolution is blocked.

The EU's 2019 approach should be viewed as a constructive platform for building practical and mutually beneficial outcomes, especially on global partnership issues, and enhancing mutual trust and understanding between the EU and China. Discussion on global issues should, in the view of the EU, include *all* global issues, including those where there are some profound differences (e.g. human rights and universal values). Some areas for immediate follow-up discussion are outlined below.

- ▶ **Cooperative partnership across the UN:** China is an increasingly important UN player and, of all the permanent members of the Security Council, is the largest contributor to Blue Beret operations. EU–China engagement on peace, global and regional security issues and development cooperation should be enhanced. Cooperation on Africa and other regional hotspots would emphasise the partnership and reflect China's role as a permanent member. WTO reform is another obvious area for intensified EU–China discussions.
- ▶ **Climate change, the environment and biodiversity:** The EU and China are global leaders in these areas. President Xi's commitment to peak emissions by 2030 and achieve carbon neutrality by 2060 should be considered. The climate, Green Deal, digital transition and pandemic are all central priorities of the EU and drivers of its new growth strategy.
- ▶ **Global health issues:** Especially in light of the pandemic, and with a particular aim to enhance trust between the EU and China.
- ▶ **Industrial and technical standards:** Cyber questions should also be discussed. European, Chinese and American regulators are noticeably taking an increasing interest in the activities of big tech companies. The two sides could discuss this aspect. The scope for cooperation on financial matters should be explored, particularly in light of Brexit.
- ▶ **Trade:** Issues and questions regarding the level playing field, market access and trade disruptions will require particular and clear-eyed attention.

► **Human rights and universal values:** Where at times radically different systemic perspectives apply, questions on these issues should be addressed in a sustained and forward-looking manner. This should

go beyond the EU–China Human Rights Dialogue. Also, thought needs to be given as to how to manage some disagreements before and indeed when they become public.

Main challenges and opportunities

Leaving aside for one moment the substantial policy challenges, the particular challenges in developing mutual understanding (i.e. the current pandemic-driven constraints on face-to-face and people-to-people interactions) must also be considered. The current social norms not only work against the human chemistry in actual meetings between official and parliamentary delegations but also run the risk of reducing virtual interactions to serial statements of position. It is to be hoped that the exchanges between think tanks, such as the EU & China Think-Tank Exchanges project, will facilitate and encourage textured, inclusive and free-flowing discussions, despite the current disagreements between the EU and China involving sanctions and countersanctions and the consequent serious difficulties in approving the Comprehensive Agreement on Investment.

A further challenge is the oft-misunderstood relationship between the EU and the US. The transatlantic relationship is deep and enduring, and the US (with the exception of the Trump years) is a strong supporter of the EU and European integration. In parallel, the EU is, of course, an autonomous entity that makes its own decisions. There is no conflict between a healthy and balanced transatlantic relationship and the development of a mutually beneficial relationship between the EU and China. Moreover, the US–China relationship predates and is more established and deeply textured than the EU–China one in terms of politics, economics, education, and cultural and people-to-people interactions. The various relationships

between the EU, China and the US should not be seen as alternatives or zero-sum games.

It is also important to correct any misplaced concerns that the EU is somehow seeking to contain or encircle China or sabotage its development model.

The Online Expert Roundtable should directly discuss China's centennial goals and how it reached the goals set out some years ago for a moderately prosperous society by 2021. In addition, new guiding principles have emerged in China, which the EU should seek to understand, as well as their implications for Chinese domestic and foreign policy.

The discussions could also touch on the implications of the new 'principal contradiction', which was approved at the 19th National Party Congress in 2017. It seems to focus particularly on health, environment and social inclusion, and the *quality* rather than quantity of growth. Potential synergies between the EU's approach and such principles should be explored.

There are clear and immediate opportunities for developing the EU–China relationship on global issues like climate change, biodiversity, the response to COVID-19 and WTO reform. Actual government-to-government meetings and people-to-people exchanges would be of substantial help once health restrictions lift.

Recommendations and conclusions

The EU–China relationship has many constituent policy areas and should be developed across all of them. This is especially the case for trade and investment, connectivity and people-to-people exchanges, foreign and security policy (i.e. peacekeeping, denuclearisation), and global governance and human rights issues. The EU should always base its approach on clearly

defined interests and principles and deepen its effective and coherent engagement with China. Some of these policy areas are much more complex than others, and it will be for both sides to find ways forward together, including on those issues where conflicting values are most pronounced.

¹ European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (2019), [Joint Communication to the European Parliament, the European Council and the Council: EU-China – A strategic outlook](#), JOIN(2019) 5 final, Strasbourg, p.1.

Unpacking the Comprehensive Investment Agreement: Challenges and opportunities for EU–China trade and investment relations

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29-30 June 2021

Introduction

After eight years of negotiations, the EU and China finally reached an ‘agreement in principle’ on the ambitious Comprehensive Agreement on Investment (CAI) on 30 December 2020.¹ With this agreement, the EU aims to rebalance market access as it binds China’s liberalisation of investment since it joined the World Trade Organization (WTO).² In addition, China committed to new market access commitments in several service sectors. The agreement also aims to strengthen the level playing field (LPF) with new rules on state-owned enterprises (SOEs), transparency in subsidies and forced technology transfers (FTTs); and includes commitments in sustainable development.

However, the CAI was immediately criticised for three essential reasons. First, it arguably provides little new market access to China, as it mainly codifies China’s recent unilateral investment liberalisation. Second, it does not address China’s human rights abuses enough

(i.e. forced labour of Uyghurs). Third, the European Commission pushed it through without first consulting the new Biden administration, missing the opportunity to form a united transatlantic front *against* China.

In the meantime, EU–China relations plummeted due to sanctions and countersanctions over human rights issues (i.e. forced labour of Uyghurs) in March 2021. The European Commission and Parliament have put the agreement on ice, although its technical preparation and translation are still ongoing. It is improbable that the agreement will enter into force anytime soon. Nevertheless, considering the economic and geopolitical importance of the EU–China trade and investment relationship, it deserves to be discussed in detail.

This Input Paper analyses the scope and contents of the CAI and explores its main challenges and opportunities for EU–China trade and investment relations.

Key issues

MARKET ACCESS AND INVESTMENT LIBERALISATION

Section II of the CAI includes obligations on market access, national treatment and most-favoured-nation (MFN) treatment. It also covers a list of prohibited ‘performance requirements’. These are conditions that the Parties cannot impose on investors in the other Party’s territory, such as export obligations, obligations to buy local content requirements, technology transfers requirements, or research and development targets.

Regarding the **manufacturing sector** – which makes up more than half of the EU’s total investment in China (including 28% for the automotive sector) –,³ the CAI binds several of China’s unilateral liberalisation commitments. Annex III on China’s market access commitments and reservations illustrates that around 30 manufacturing sectors are being liberalised, most of them without any reservations (e.g. joint venture or ownership requirements). These sectors include furniture, rubber and plastic products, electrical machinery and equipment, computers and communication equipment, food processing, apparel and textiles, and chemicals. Reservations still apply to around 10 strategic sectors that are characterised by overproduction (e.g. cement, steel, metals, aluminium, transport equipment).

Several reservations apply to the **automotive sector**, which represents almost 30% of EU FDI in China. The CAI provides EU companies access to China’s electric vehicles sector. Establishing new production capacity in electric vehicles is allowed but subject to limitations related to overcapacity and competition with “existing independent investment projects”.⁴ However, to intensify cooperation in electric vehicles, these limitations do not apply to investment projects in pure electric vehicles by EU investors that amount above \$1 billion.⁵ China will also lift several restrictions on foreign investment in this sector, such as a minimum of 50% Chinese ownership and joint venture (JV) requirements. This liberalisation was already foreseen in China’s 2020 Foreign Investment Law.

China is making commitments to invest in **services**, especially financial services, real estate services, environmental services, computer services, construction services, auxiliary air transport and international maritime transport services, particularly by lifting JV requirements. For most service sectors covered by the CAI, no reservations apply with regard to market access (Annex III). However, several reservations do apply for national treatment (Annex II).

Most of China’s market access commitments in the CAI do not create new investment opportunities for EU business in China, however, as they essentially codify existing or envisaged unilateral market access

commitments under its recent Foreign Investment Law (FIL). For instance, China is already removing JV requirements in its financial and health sectors, allowed 50% foreign ownership in cloud services since 2019, and began liberalising investments without JVs for electric and hybrid vehicles in 2018. The value of the CAI is that it locks in these commitments. Moreover, the commitments and openings in the service sectors will benefit not only the EU but all WTO members by virtue of MFN rules.

THE LEVEL PLAYING FIELD

One of the EU’s most important concerns about China’s investment and trade regime relates to the competitive distortive effects caused by Chinese **SOEs**. The CAI defines SOEs precisely and comprehensively, including entities where the state holds direct or indirect power to control decisions through minority ownership or has the power to appoint the management body, as well as state-designated monopolies or entities vested with special rights or privileges.

The CAI requires SOEs to act in accordance with commercial considerations and not to discriminate in their purchases and sales of goods or services. This implies that Chinese SOEs cannot discriminate against goods or services supplied by EU investors or favour Chinese goods and services. A specific transparency mechanism provides that the Parties may request information about a SOE of the other Party if it believes that said SOE is adversely affecting its interests.

The lack of transparency and unfair competition in Chinese **subsidies** are other major EU concerns that are addressed in the CAI. The agreement goes beyond WTO rules, as it also includes transparency obligations for subsidies in the service sectors. Both parties will be required to promptly publish (i.e. within the calendar year of the subsidy being granted) details about the subsidies covered by the agreement (e.g. objective, form, amount, recipient). The CAI also obliges the EU and China to engage in consultations to provide additional information on subsidies that could negatively affect investment interests. The requesting Party may request additional information on the subsidy. However, a Party cannot be obliged to remove such a subsidy. It is only obliged to “use its best endeavours to find a solution”.⁸

The CAI clearly intends to improve subsidy transparency. It does not, however, create new disciplines on prohibited subsidies. Moreover, the enforcement of its subsidy rules is weak, as disputes about these provisions are not actionable under its dispute settlement mechanism.

The CAI also prohibits **FTTs**; a longstanding concern for the EU and other foreign enterprises operating in China (in the areas of e.g. electric vehicles, biotechnology).

INVESTMENT AND SUSTAINABLE DEVELOPMENT

CAI Section IV covers investment and sustainable development (ISD), which contains commitments to the environment and climate. These include effectively implementing the multilateral environmental agreements to which it is a Party, particularly the Paris Agreement (i.e. the Nationally Determined Contributions).

China also commits to implementing its ratified International Labour Organization (ILO) Conventions effectively and working towards the ratification of outstanding ones. Concerning forced labour, China “shall make continued and sustained efforts on its own initiative” to pursue ratification of the fundamental Conventions 29 and 105 – both on forced labour. These commitments are important, considering the concerns of European civil society and several Members of the European Parliament (MEPs) about China’s human rights abuses.

Main challenges and opportunities

QUID INVESTMENT PROTECTION AND DISPUTE SETTLEMENT MECHANISMS?

Although the CAI is an investment agreement, it does not cover substantive investment protection standards, such as monetary compensation for (in)direct expropriation or fair and equitable treatment. Neither does it include investor-state dispute settlement mechanisms, typically included in bilateral investment treaties. However, it does include a commitment from both sides to pursue the negotiations on investment protection and dispute settlement within two years of signing.

A STEPPINGSTONE FOR WORLD TRADE ORGANIZATION REFORM?

The CAI should be considered in the broader context of the triangular EU–US–China trade and investment relationship and the EU’s proposals for WTO reform. WTO reform is one of the key priorities of the EU’s new trade strategy. The European Commission proposes addressing its concerns about China’s trade-distortive practices, particularly the proposed rules on state intervention and competitive neutrality (e.g. subsidies, SOEs, FTTs).

The CAI includes numerous provisions and commitments that go beyond WTO agreements and China’s WTO accession protocol. This is the case, for example, in China’s offer of market access in several service sectors (i.e. financial, health, telecommunications, computer). Moreover, the CAI’s transparency requirements for subsidies and provisions on FTTs, SOEs and domestic regulation are ‘WTO-plus’. Although these commitments can serve as a starting point to engage China in the reforming of the WTO rulebook, both the EU and US are aiming for more substantial reforms in key areas like subsidies and SOEs (e.g. in the context of trilateral meetings with Japan). This will be difficult for China to accept. The China–US Phase 1 agreement does not include strict rules on subsidies nor SOEs (but does include rules on FTTs and intellectual property rights). However, considering

the EU’s ambition for a renewed EU–US partnership under the Biden administration, the Commission is prioritising transatlantic cooperation on WTO reform.⁷ It envisages addressing shared concerns vis-à-vis China in the WTO reform process, such as on China’s subsidies and SOEs, jointly with the US.

THE COMPREHENSIVE AGREEMENT ON INVESTMENT AND THE EU’S AUTONOMOUS TRADE INSTRUMENTS

The CAI is the EU’s bilateral instrument to rebalance market access and create a better LPF with China. However, in parallel with this bilateral approach, the EU is also strengthening its autonomous trade toolbox to deal with unfair trade practices, particularly those caused by China. Under the umbrella of ‘open strategic autonomy’, the EU’s new trade policy aims to tackle unfair trade practices more assertively and focus more on implementing and enforcing trade rules. In other words, to ensure a fair LPF. As such, the EU has recently adopted or will propose several autonomous trade instruments that (indirectly) target China’s distortive trade and investment practices and will be complementary to the CAI.

For example, in October 2020, the EU’s foreign investment screening mechanism became fully operational. The Commission also aims to relaunch the interinstitutional negotiations on an ‘International Procurement Instrument’ (IPI) and adopted a proposal for a foreign subsidies instrument in May 2021.

SUSTAINABLE DEVELOPMENT

European civil society and MEPs strongly criticised the CAI’s provisions on sustainable development, particularly in relation to forced labour. Over the past year, China has faced mounting criticism – including from the EU and the US – over its detainment of Uyghurs and other ethnic minority groups in forced labour camps, mainly in the far-western region of Xinjiang.

The scope of the ISD chapter has been criticised as being too limited and its enforcement mechanisms too weak. Regarding forced labour, the CAI obliges China to “make continued and sustained efforts on its own initiative” to pursue ratification of the two fundamental ILO Conventions on forced labour (No 29 and 105).⁸ Several MEPs have already stated that China’s ratification and implementation of these Conventions should be a precondition for the European Parliament’s ratification of the agreement. A recent trade and sustainable development (TSD) panel report under the EU–South Korea Free Trade Agreement (FTA) clarified that the commitment to ratify these Conventions require ongoing and substantial efforts, are legally binding and must be respected regardless of their effect on trade.⁹

In its new trade strategy, the Commission promised a comprehensive review of its 15-point plan on implementing and enforcing TSD chapters effectively by mid-2021. However, the Commission stated that this review would only feed into ongoing and future FTA negotiations, implying that this exercise would not change the text of the CAI. It stresses that the CAI is not the only instrument in the EU’s TSD toolbox to deal with sustainable development and human rights concerns in China. The agreement will be flanked by other autonomous tools to address these concerns, including the Global Human Rights Sanctions Regime and the new Single Entry Point that would allow all EU-based stakeholders to lodge TSD-related complaints. Moreover, the Commission will submit a proposal on mandatory due diligence, including effective action and enforcement mechanisms, to ensure that forced labour does not find a place in the value chains of EU companies.

Recommendations and conclusions

This Input Paper demonstrates that the CAI is not a revolutionary agreement that will break open the Chinese market for EU investors. China’s market access commitments in the CAI mainly reflect its recent (or planned) unilateral foreign investment liberalisation and only provide new, modest market openings. However, this does not mean that the CAI has no added value; it enshrines China’s unilateral liberalisation of foreign investment, preventing backsliding and providing enforcement procedures. Moreover, the CAI includes new rules on subsidies, SOEs, FTTs, domestic regulation and transparency. These all relate to the EU’s key concerns about China’s distortive trade and investment practices. Several of these provisions are still insufficient (on e.g. subsidies, SOEs). However, they can provide a starting point for more ambitious rules at the bi- or multilateral (WTO) level.

Whether the CAI will make a significant difference for EU investors will mainly depend on China’s implementation within the context of its domestic and external economic and investment policies. Although

SIGNATURE AND RATIFICATION

The European Commission initially envisaged submitting the CAI to the Council and Parliament in the second half of 2021 for signature and ratification. However, in March 2021, China adopted several sanctions against EU officials and entities in response to the Union’s sanctions against several Chinese persons and entities for human rights abuses (i.e. against Uyghurs). Several MEPs have stated that the Parliament will not even include the ratification of the CAI on the agenda as long as the Chinese sanctions stand.

These positions were confirmed on 20 May 2021 when the Parliament adopted a resolution with an overwhelming majority that “[c]ondemns in the strongest possible terms the baseless and arbitrary sanctions imposed by the Chinese authorities”. The Parliament has put the CAI on ice, as it takes the position “that any consideration of the [CAI], as well as any discussion on ratification by the European Parliament, has justifiably been frozen because of the Chinese sanctions in place” and demands that “China lift the sanctions before Parliament can deal with the CAI, without prejudice to the final outcome of the CAI ratification process”.¹⁰

In response to the rapidly deteriorating political climate, EU Trade Commissioner Valdis Dombrovskis stated on 4 May that the EU “for the moment suspended some efforts to raise political awareness on the part of the Commission”.¹¹ Whereas technical aspects like legal scrubbing are still ongoing, the Commission will clearly not propose the CAI for signature and ratification unless the political climate improves and China’s sanctions against MEPs are lifted.

China liberalised foreign investment further in several sectors in its last FIL, its recent adoption of a series of investment(-related) laws and policies targeting or restricting foreign investment does not bode well. For example, in less than two years, China has updated its law on (security) screening of foreign investment, adopted a new export control law and statute to block the extraterritorial effect of foreign legislation and measures, drawn up a list of ‘unreliable entities’ (to punish foreign enterprises deemed harmful to China’s sovereignty and security), and enacted a series of security-related laws (e.g. Cybersecurity Law) which restrict or complicate the business climate for EU companies in China.

These tools align with China’s state-sponsored industrial strategy, Made in China 2025, which aims to reduce the country’s reliance on foreign technology in several strategic high-tech sectors; and its new ‘dual circulation’ economic model. With the latter, China aims to cut its dependence on overseas markets and technology, mainly due to its trade conflict with the

US under the Trump administration. China is seeking to abandon its export-oriented economic model and move towards a more inward-looking and self-reliant development strategy by building up its high-tech capacity through state intervention and inward investment.¹² This may explain why China agreed to a deal that offers little new access for Chinese investors to the EU but facilitates EU investment in China in several strategic sectors (e.g. electronic vehicles).

Regardless of whether the CAI will eventually be signed and ratified, the EU must continue to roll out and implement its autonomous trade tools to address China's trade distortive practices (e.g. Foreign Subsidies Instrument, IPI). It should use its (new) trade defence and enforcement tools (e.g. the new enforcement regulation, anti-coercion mechanism, traditional trade defence instruments) in a targeted way if necessary. If China takes its envisaged dual circulation model seriously, the European Commission will arguably need to focus more on protecting EU investors in China from unfair competition or practices than on dealing with unfair Chinese investments in the EU Single Market.

At the same time, it must prioritise transatlantic cooperation on WTO reform, proposing new rules that address the shared concerns vis-à-vis China jointly with the US and other like-minded countries (e.g. on subsidies, FTTs, SOEs). The EU and US should jointly set these WTO reforms in motion at the next WTO Ministerial Conference in Geneva later this year.

Considering the current diplomatic tensions between the EU and China caused by the recent (counter) sanctions, it is unlikely that the CAI will be proposed to the Council and European Parliament anytime soon. In any case, as long as China's countersanctions against EU officials and entities are in place, the agreement should not be signed and ratified. However, once these diplomatic tensions cool down, the EU must leverage the CAI to the fullest extent to address China's human rights and forced labour issues. This could be done by requesting additional commitments on, for example, the ratification of the fundamental ILO Conventions in an additional protocol or roadmap, or by developing clear pre-signature or ratification commitments.¹⁵

¹ For a more extensive analysis of this topic, see Van der Loo, Guillaume (2021a), "[Lost in translation? The Comprehensive Agreement on Investment and EU-China trade relations](#)", Brussels: European Policy Centre/Egmont.

² "EU – China Comprehensive Agreement on Investment" (2020) (hereinafter, CAI).

³ European Commission (2021), [EU-China Comprehensive Agreement on Investment: Key facts and figures](#).

⁴ CAI Annex III, Subsector 12 (W).

⁵ CAI Annex X.

⁶ CAI Section III, Sub-section 2, Art.8.

⁷ See Rashish, Peter S. (2021), "[Transatlantic economic relations under the Biden administration: Be careful what you wish for?](#)", Brussels: European Policy Centre.

⁸ CAI Section IV, Sub-section 3, Art.4.

⁹ Murray, Jill; Laurence Boisson de Chazournes; and Jaemin Lee (2021), [Panel of experts proceeding constituted under Article 13.15 of the EU-Korea Free Trade Agreement: Report of the panel of experts](#), European Commission.

¹⁰ European Parliament (2021), [European Parliament resolution of 20 May 2021 on Chinese countersanctions on EU entities and MEPs and MPs](#), 2021/2644(RSP), Brussels.

¹¹ Brzozowski, Alexandra, "[EU efforts to ratify China investment deal 'suspended' after sanctions](#)", *Euractiv*, 05 May 2021.

¹² See Mollet, Frederico (2021), "[China's grand industrial strategy and what it means for Europe](#)", Brussels: European Policy Centre.

¹³ Van der Loo, Guillaume (2021b), "[Mixed' feelings about the EU-Mercosur deal: How to leverage it for sustainable development](#)", Brussels: European Policy Centre.

From Brussels to Beijing: The key issues and tools for climate collaboration

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Introduction

With the US re-joining the Paris Agreement, and the EU pledging to achieve carbon neutrality by 2050 and China by 2060, the international community demonstrates its commitment to the Agreement goal of limiting global warming to well below 2°C. The need to address the climate crisis remains high on the international agenda, even amidst other pressing challenges, such as the economic and social repercussions of the COVID-19 pandemic. The upcoming UN Climate Change Conference in Glasgow (COP26) is an opportunity to exploit the international momentum to prevent climate change's worst effects. In this context, recognising that the global crisis requires global action, the EU is keen to engage in dialogue and collaborate with other major players like China.

The EU's climate action is based on reducing its greenhouse gas (GHG) emissions. Its new growth strategy, the European Green Deal, sets the direction and basis to become climate-neutral by 2050 while securing the competitiveness of its economy and ensuring a just transition. This increased ambition on climate action is guiding the EU's policies overall. It affects how energy, mobility and food systems are being developed. It influences policy developments around the circular economy, which aim to improve Europeans' production and consumption patterns. It also guides the EU's spending: 30% of both the 2021-27 Multiannual Financial Framework and Next Generation EU target climate investment.

The EU's internal efforts to build the regulatory, policy and investment frameworks and convene stakeholders to bring about a positive change for people, business and the planet

also have implications beyond its borders. For example, the rules and standards which the EU applies to products and services on its market also influence global market developments. Moreover, by providing European examples of economically and socially beneficial measures, the EU positions itself as a 'directional leader' in climate action.¹

At the same time, the EU understands that its internal measures mean little without global cooperation and climate diplomacy. Going forward, one can expect the Green Deal, its goals and principles to be strongly reflected in the EU's diplomatic efforts, financing, trade negotiations and partnerships.

In this context, it is no surprise that the EU is keen to engage and cooperate with China: the world's largest GHG-emitting country, an important trade partner, a source of new solutions, and a major investor and player in the developing world. Since the EU-China Cooperation on Climate Change was launched in 2005, both parties have cooperated in several areas. Examples range from designing a Chinese carbon trading system to establishing a High-Level Environment and Climate Dialogue in 2020.

While recognising the current tensions in the wider EU-China relationship, there is a strong joint interest to collaborate on climate action. Both sides' resources for developing innovative solutions in the transition towards climate neutrality comes with numerous possibilities and benefits. It is in the interest of both to continue to leverage climate action through diplomacy and partnerships when addressing key issues related to the global climate crisis.

Key issues

A climate collaboration between Brussels and Beijing may require both blocks to put aside their immediate geopolitical and economic interests for the greater goal of working together to address the global climate crisis. Going forward, some key areas where EU–China collaboration could bring significant benefits for climate are explored below. It is important to note that although these issues are not standard issues of joint EU–China engagement, they do offer great potential for enhanced collaboration.

EMISSION PRICING

The Emissions Trading System (ETS) is a core aspect of the EU's climate action. It allows for carbon pricing in the EU by allocating a number of 'allowances' (i.e. capped at a certain level) that can be traded. China's recent set-up and launch of its own carbon ETS, in cooperation with the EU, functions differently. It is a successful example of alliance and offers a concrete basis for further collaboration on climate objectives between China and the EU. However, as the design of the Chinese ETS is limited (i.e. only covering the electricity sector), it is not sufficient to entice economy-wide emission reductions. Continuing the exchange and drawing lessons from the EU experience can help China improve its ETS from a fledgeling system to a powerful tool for climate action and reach its goal of achieving carbon neutrality by 2060. A closer alignment of the European and Chinese internal carbon pricing systems would also benefit the international carbon trade. This will be discussed at the upcoming COP26.

The EU's plan to introduce a Carbon Border Adjustment Mechanism (CBAM) adds a new dimension to emission pricing discussions and developments: it aims to prevent 'carbon leakage' by, for example, pricing emissions stemming from goods that are exported to the EU.² CBAM may also cause friction between the EU and China. However, its impact on trade (i.e. EU–China relations) and emissions is dependent on how it will be designed (e.g. coverage of exports and/or imports, what sectors are covered, how carbon values are calculated). As the EU reflects on developing a World Trade Organization-compatible approach to designing the CBAM, dialogue and cooperation with other global partners, such as China, will be important to ensure a CBAM that works for trade and the environment. Finding common ground by coordinating and facilitating the mutual recognition of these trading systems is certainly a priority for the EU, and possibly a window of opportunity for EU–China cooperation.

HEALTHY ECOSYSTEMS

Healthy marine and terrestrial ecosystems are important carbon and heat sinks and, as such, key to effective climate action. While nature has been greatly ignored in

climate action, much more efforts are needed to protect the environment while strengthening climate mitigation. This means enhanced efforts to restore marine and terrestrial ecosystems and improve biodiversity and ocean governance. The EU and China have a joint interest to advance this agenda.

Improving ecosystems and biodiversity is recognised as a central component of the European Green Deal. As part of its Biodiversity Strategy for 2030, the EU aims to help restore, protect and increase the resilience of global ecosystems by 2050. One tactic is to launch a European biodiversity governance framework to enhance monitoring and ensure that finance, research, capacity, technology and innovation are directed at the implementation of the set goals.³ As an ongoing development, the Portuguese Council Presidency aims to bring greater attention to sustainable ocean governance and enhance international engagement on the topic within the framework of the UN Convention on Biological Diversity.⁴

Going forward, it can be expected that the role of healthy ecosystems will feature in the EU's bilateral and multilateral engagements strongly. The EU's efforts are also important in light of the upcoming UN Biodiversity Conference (COP 15) in Kunming, which aims to provide a new framework for action (i.e. a target to protect 30% of both ocean and land by 2030). Furthermore, healthy ecosystems are expected to feature strongly as being integral to climate action at the COP26. As the host of COP 15, China will have a key role in reaching a global agreement on biodiversity protection. The EU and China have a joint interest in collaborating on the preparations of these conferences if they wish to shape the global biodiversity agenda positively.

CIRCULAR ECONOMY

Another area of action that carries enormous potential to reduce GHG emissions is the transition to a circular economy, the greening of supply chains and the overall smarter use of resources.⁵ The EU recognises that maintaining the economic value of products, materials and resources for as long as possible and enhancing reuse and recycling would help reduce the emissions created during the sourcing, production, use and disposal of materials and products.

At the same time, supply chains are global, and a circular economy requires international collaboration. Under the new Circular Economy Action Plan, EU policymakers recognise the importance of building circular economies around the world.⁶ The Action Plan raises an international agreement on plastic and a 'Global Circular Economy Alliance' as means to enhance sustainable production and consumption globally.

Nevertheless, the road ahead is long. For example, the EU's inability to manage its own waste and waste

exports leads to an enormous loss of valuable resources and a significant climate footprint.⁷ Due (partly) to China's stricter limits for plastic waste imports in 2018, the European Green Deal suggested that the EU should stop exporting its waste abroad and planned to revisit its rules on waste shipments and illegal exports. This has also been integrated into the Action Plan. The European Commission's regulation to ban unsorted plastic waste to countries outside of the Organisation for Economic Co-operation and Development (2020/2174) is a concrete measure to achieve this aim.

Going forward, it is in the EU's interest to engage with China in greening supply chains, from material extraction to improving value chain transparency (on i.e. product content, how products can be reused and recycled). Such engagement could have spill-over effects to the Asia-Pacific region: the fostering of circular transformation, the smarter use of resources, and the decrease of GHG emissions.

Main challenges and opportunities

Both the EU and China will be challenged to use their diplomatic toolbox and other means to increase climate collaboration and upscale their climate ambitions. This will then enable, enhance and accelerate global action. Climate diplomacy and development cooperation are crucial opportunities for both actors to demonstrate their climate commitment.

USE CLIMATE DIPLOMACY TO STRENGTHEN CLIMATE ACTION

Besides more conventional tools like trade, the degree to which the EU and China can place issues like emission pricing, healthy ecosystems or the circular economy at the core of the global climate agenda will also depend on their diplomatic performance. Thus, getting one's own house in order (through e.g. implementing domestic strategies like the Green Deal) to showcase cost-effective practices and socio-economic benefits of climate action to international partners are prerequisites for becoming a 'green leader'. If the EU and China can consolidate their climate leadership by advocating sustainable practices in the various international fora and networks, climate diplomacy would be a major opportunity to progress on the issues discussed. But diplomatic efforts must complement other tools, such as the EU Single Market, financial support or trade.

Lately, the number of practices falling under the 'platform' or 'network diplomacy approach' is increasing quickly. The EU has been actively promoting networks, such as the Green Diplomacy Network, the Global Alliance on Circular Economy and Resource Efficiency, and the EU-China Cooperation on Climate Change. However, participation in and the effectiveness of these platforms could still be improved. Once more, EU-China climate collaboration could incentivise third countries to increase their engagement within these networks.

A strengthened involvement of those countries would offer them the possibility to shape climate action

alongside the world's leading economic powers; be it through discussions on carbon emission trading or exchanging the best practices for restoring biodiversity.

STRENGTHEN COLLABORATION ON SUSTAINABLE DEVELOPMENT

Another opportunity to enhance climate action lies in the EU's and China's ability and willingness to promote synergies in their development cooperation, notably in Sub-Saharan Africa (SSA).

As major actors in the region,⁸ both parties could have a decisive impact in promoting the circular economy, biodiversity and the green transition in SSA through collaboration on the ground. Recently, the EU's Neighbourhood, Development and International Cooperation Instrument (NDICI) led to a 30% spending target for climate-related issues. Moreover, the Fifth African Union-European Union Summit set out roadmaps to foster green and sustainable partnerships among the two blocs. However, addressing the climate vulnerability and overall development needs of many African countries while accelerating their transitions to more sustainable economies and societies will continue to require significant support.

Like the EU, China has been actively involved in SSA through development cooperation. Instead of competing with individual projects and partnerships on the ground (e.g. through diverging development strategies), an EU-China peer-to-peer cooperation with African partners could increase both the quantity and the quality of sustainable development projects and help address the multiple challenges of partner countries. Such a multi-stakeholder approach to developing sustainable partnerships could leverage the impact of the circular economy, biodiversity and green transition in Africa while also securing the partner countries' ownership.

Recommendations and conclusions

In order to increase the effectiveness of its external climate engagement, the EU must join forces with China to upscale climate efforts globally. The following recommendations address the EU's external action and advise how it can reach out to China to promote climate collaboration.

► **Build EU and Chinese climate diplomacy on the lessons learned from its climate action.**

This should include using policies and investments to mainstream climate considerations across sectors while bringing tangible corporate and social benefits. Other examples are insights on energy transitions, improving production and consumption patterns, nature as a climate action tool, and investing in sustainable mobility and food systems.⁹ The diplomatic efforts of both the EU and China will only be successful if they are coupled with an attractive narrative that other countries can also follow.

► **Start a bilateral dialogue on CBAM design.**

Carbon pricing measures like the EU ETS have proven their utility. However, their uneven application throughout the world (e.g. different pricing) may lead to carbon leakage and reduce their effectiveness for emission reductions. If CBAM is to remedy this effectively, there should be an open international dialogue on the design options (e.g. consequences of sector coverage, carbon content calculation). Initiating a dialogue requires not only efforts from the EU but also the trading partner's constructive stance. Cooperation and bilateral dialogue between the EU and China on governmental and corporate levels can proactively facilitate good design choices, create a real level playing field and lead to emission reductions without trade conflict.

► **Intensify global cooperation on improving the health of marine and terrestrial ecosystems to the benefit of climate action.**

Use COP 15 and COP26 to enhance these efforts. This requires the EU, China and other international actors to agree on the target of protecting 30% of both ocean and land by 2030, improving information sharing on the state of the ecosystems, and strengthening collaboration between competent authorities for better law enforcement (e.g. preventing overfishing).

► **Accelerate international collaboration in achieving a transition to a circular economy as part of global climate mitigation efforts.**

This means maintaining the value of products,

materials and resources in the economy for as long as possible. It requires working towards global standards for more circular (i.e. durable, repairable, recyclable) products and enhancing reuse and recycling. This would reduce the extraction of virgin materials and its related climate footprint. Coupling these efforts with common requirements on digital passports would help products be traceable throughout their lifecycle and therefore support repair, recycling and law enforcement. Moreover, efforts are needed to counter illegal waste shipments across the globe following the Basel Convention and ensure that producers take care of their products in the end-of-life phase.

► **Incentivise cooperation on the green transition in the EU's partnerships with SSA countries and other relevant stakeholders, such as Japan, India and China.**

The EU and China could promote joint mapping and programming exercises, abandoning geostrategic games and focusing instead on synergies to strengthen SSA's sustainable development agenda. Putting aside its political and economic differences with China, the EU must work with China on the 'global commons'. A joint EU-China engagement that assists the African Union's (AU) implementation of the Great Green Wall could be considered. Another possibility is to launch an EU-AU-China Summit that addresses sustainable development activities in Africa.

These recommendations would enhance EU-China collaboration and shape the global climate action agenda positively through trade, the European Single Market, financial support, climate diplomacy and development cooperation. Despite the current tensions between the two blocs, strengthening climate collaboration remains urgent. Enhancing EU-China collaboration to contain global warming below the 2°C increase would bring mutual and global benefits and influence long-term progress on climate action. Lowering global GHG emissions is not a political issue but a question of survival and ensuring the prosperity of today and tomorrow. Climate action is equally important for both actors.

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- ¹ Gupta, Joyeeta and Michael J. Grubb (2000, eds.), *Climate Change and European Leadership: A sustainable role for Europe?*, Dordrecht: Kluwer.
- ² *Carbon leakage* is the displacement of production to other countries with lenient emission regulation and/or pricing.
- ³ European Commission (2020a), [EU Biodiversity Strategy for 2030: Bringing nature back into our lives](#), COM(2020) 380, Brussels, p.20.
- ⁴ E.g. the Portuguese Presidency of the Council will be holding All-Atlantic 2021, a high-level conference on sustainable marine ecosystems, from 2 to 4 June 2021.
- ⁵ Hedberg, Annika and Stefan Sipka (2020a), [The circular economy: Going digital](#), Brussels: European Policy Centre; Material Economics (2018), [The Circular Economy – A powerful force for climate mitigation](#), Stockholm.
- ⁶ European Commission (2020b), [A new Circular Economy Action Plan For a cleaner and more competitive Europe](#), COM(2020) 98, Brussels.
- ⁷ E.g. by reducing landfills. See Eurostat, [“Greenhouse gas emissions from waste”](#) (accessed 15 April 2021).
- ⁸ di Carlo, Ivano; Elem Eyrice Tepeciklioğlu; Amanda Paul; and Yu-Shan Wu (2020), [Eurasia goes to Africa](#), Brussels: European Policy Centre. Jones, Alexei; Niels Keijzer; Ina Friesen; and Pauline Veron (2020), [“EU development cooperation with Sub-Saharan Africa 2013-2018: Policies, funding, results”](#), European Centre for Development Policy Management/German Development Institute/Policy and Operations Evaluation Department, p.5.
- ⁹ See e.g. Hedberg and Sipka (2020a), *op.cit.*, Hedberg, Annika and Stefan Sipka (2020b), [“Towards a green, competitive and resilient EU economy: How can digitalisation help?”](#), Brussels: European Policy Centre; Hedberg, Annika and Stefan Sipka (2020c), [“Improving biodiversity: How can digitalisation help?”](#), Brussels: European Policy Centre; Sipka, Stefan (2020), [“Towards road transport fit for a green and digital future”](#), Brussels: European Policy Centre; López Piqueres, Sofia and Sara Viitanen (2020), [“On the road to sustainable mobility: How to ensure a just transition?”](#), Brussels: European Policy Centre.

The EU–US–China triangle: A matter of divergence or convergence?

What is the EU's role amid growing US–China tension?
What is the way forward for the EU, and what are the European perceptions of China?

EU–US–China relations: The EU’s ‘third way’ and the challenge of managing differences

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13 July 2021

Introduction

Intense, long-term competition between the US and China looks set to dominate the global landscape as Washington and Beijing push back against each other in what Josep Borrell, the EU High Representative for Foreign and Security Policy, has described as a struggle for “geopolitical world supremacy”.¹

US–China rivalry has worldwide ramifications. Many countries, fearing the start of another costly and calamitous cold war, are unwilling to accept a binary choice between the US and China. As Singaporean Prime Minister Lee Hsien Loong has cautioned, Washington and Beijing should not “create rival blocs, deepen fault lines or force countries to take sides.”²

Relations between the US and China – regardless of whether the two rivals engage with each other or strike a more confrontational posture – has immense consequences for the EU and its hopes of becoming a major geopolitical actor.

The EU has close ties with both the US and China. EU policymakers like to point out that given the difference between the EU and Chinese political systems and the EU’s lengthy common history and shared values with the US, Brussels is “closer to Washington than to Beijing.”³

However, despite EU–US convergence on some common approaches towards China, there will be no complete transatlantic alignment on policies towards Beijing.

Instead of getting entrenched in the US–China dispute, echoing the views in most European capitals, Borrell has said the EU must look at the world from its own point of view, act to defend its values and interests, and proceed forward in “its own way”.⁴ Crafting such a stand-alone ‘third way’ approach will keep the EU and its member states busy in the coming years.

Key issues

FINDING THE RIGHT BALANCE BETWEEN COMPETITION AND COOPERATION

The US, China and the EU face the common challenge of finding the right balance between competition and cooperation in their contacts with each other, interaction in multilateral fora and relations with other nations.

In a fast-moving and unpredictable global environment, US Secretary of State Antony Blinken’s assertion that the US–China relationship is “competitive when it should be, collaborative when it can be, and adversarial when it must be” will not be easily translated into consistent action.⁵

Despite its self-confidence and global outreach, China will also need to balance between exuding pride and confidence in its impressive development and growth trajectory and its continuing dependence on Western markets, investments and technology.

Given individual European governments' differences over China, the EU faces the even more daunting task of cooperating with the US to tackle common concerns vis-à-vis China while also maintaining close economic contacts with Beijing.

Significantly, the EU will have to walk this tightrope amid abiding concerns that despite their areas of discord, Washington and Beijing will at times find enough common ground to strike deals that exclude the EU and even work against European interests. A case in point is the US–China Phase One trade agreement signed in January 2020.⁶

As it seeks to find a place on the geopolitical stage amid US–China power struggles, the EU's key challenge will be to design and implement 'third way' policies that can secure respect and recognition in both Beijing and Washington without alienating either. If successful, the EU may also provide a valuable template for managing differences in a volatile and complex globalised world.

EU–CHINA TIES VERSUS TRANSATLANTIC RELATIONS

EU–China ties have entered a new and more difficult phase. In March 2019, the EU labelled China as a partner, competitor and systemic rival.⁷ Since then, most EU member states' attitudes towards China hardened further following acrimonious tit-for-tat sanctions over China's treatment of Uighurs in Xinjiang and a European Parliament resolution which put plans to ratify the Comprehensive Agreement on Investment (CAI) effectively on ice.⁸

However, reflecting the multifaceted nature of EU–China ties, Beijing's enhanced geopolitical role, expanding economic outreach and position as the EU's biggest trading partner since 2020, there has been no severing of contacts between EU and Chinese leaders, policymakers and business representatives.

In contrast to its worsening relations with China, after four years of tough US policies and actions under Donald Trump, the EU enthusiastically embraces the Biden administration's more positive approach to its bilateral ties with the EU and key international questions (i.e. climate change). Wide-ranging EU proposals for resetting transatlantic relations were adopted at the end of 2020, Biden attended a virtual EU summit in April, and an in-person EU–US summit was held in Brussels in June.

TRANSATLANTIC CONSULTATIONS ON CHINA

Attended by European External Action Service's Secretary General, Stefano Sannino, and US Deputy Secretary of

State Wendy R. Sherman, the first EU–US consultations under the Biden administration were held in Brussels on 26 May. Both sides underlined that their multifaceted relations with China comprised "elements of cooperation, competition, and systemic rivalry."⁹

During this meeting, issues of shared concern were highlighted, including "ongoing human rights violations in Xinjiang and Tibet, the erosion of autonomy and democratic processes in Hong Kong, economic coercion, disinformation campaigns, and regional security issues, in particular the situation in the South China Sea."¹⁰ The importance of Taiwan's meaningful participation in the work of international organisations, including World Health Organization forums and the World Health Assembly, was underlined.

Sannino and Sherman also discussed pursuing "constructive engagement" with China on issues like climate change and the non-proliferation of nuclear weapons, and on "certain regional issues", a reference *inter alia* to the Iran nuclear deal, the Middle East, North Korea and Africa. US and EU senior officials and experts will continue discussions on "reciprocity, including economic issues; resilience; human rights; security; multilateralism; and engagement." No reference was made to any coordinated transatlantic boycott of Beijing's hosting of the 2022 Winter Olympics.¹¹

These transatlantic consultations were quickly followed by an in-person EU–US summit which reiterated the promise to "closely consult and cooperate on the full range of issues in the framework of our respective similar multi-faceted approaches to China, which include elements of cooperation, competition, and systemic rivalry."¹² Biden and EU leaders voiced serious concern about the situation in the East and South China Seas and warned Beijing against any unilateral attempts to change the status quo and increase tensions.

While in Brussels, Biden also attended a NATO summit where leaders warned that "China's stated ambitions and assertive behaviour present systemic challenges to the rules-based international order and to areas relevant to alliance security".¹³ At the G7 summit in Cornwall, Biden's focus was on an infrastructure proposal called Build Back Better World, which is designed to compete with China's trillion-dollar Belt and Road Initiative (BRI). Leaders of the G7 also stated concern with "the use of all forms of forced labour in global supply chains, including state-sponsored forced labour of vulnerable groups and minorities, including in the agricultural, solar, and garment sectors."¹⁴

EU–US CONSULTATIONS DO NOT MEAN CONSENSUS ON CHINA

Nevertheless, consultations do not mean consensus, and as it progresses, the transatlantic conversation will spotlight both convergences and divergences in the European and American approaches towards Beijing.

EU policymakers agree with the US on the strategic challenge presented by China's growing international assertiveness. However, they do not always agree on the best way to address this. Specifically, EU leaders have no appetite for a China policy that is based on confrontational zero-sum games, starting another calamitous cold war, or holding a discussion dominated by hard security references to preserving US primacy in the Indo-Pacific. Unlike the US, the EU does not consider China to be an "existential threat".¹⁵

French President Emmanuel Macron has warned against any expectations that the EU will gang up with the US against China, saying such a confrontational option would be counterproductive. German Chancellor Angela Merkel shares this sentiment. Believing that the EU must pursue its interests in its relations with Beijing, Macron and Merkel also remain strong supporters of the CAI trade deal, despite opposition by the European Parliament and human rights organisations.

EU STRATEGIC AUTONOMY

The search for and development of strategic autonomy in EU domestic, trade, technology, and foreign and security policies will remain a priority in Brussels and other EU capitals. The EU's focus is on trade defence instruments, such as the regulation on scrutiny of foreign investment and action on subsidies to foreign companies that distort competition in the Single Market, as well as new 'due diligence' legislation for international supply chains and the new International Procurement Instrument.¹⁶

The EU-US relationship will also continue to be marked by cooperation and competition, including in China, where American and European companies vie for market access and investments. Brussels and Washington are still on a collision course on steel and aluminium tariffs, digital taxes and public procurement. In an attempt to ease tensions with Berlin, Blinken recently waived sanctions on the Russian company behind the Nord Stream 2 pipeline as well as its German chief executive officer. Nevertheless, Washington remains against the \$11 billion venture, which it believes would increase EU dependency on Russian gas.¹⁷

Main challenges and opportunities

TRADE IS CENTRAL TO EU-CHINA RELATIONS

Trade remains central to the EU-China relationship. China became the EU's main trade partner in goods in 2020, taking the top spot previously occupied by the US.¹⁸

In 2020, exports of EU goods to China increased by +2.2%, and imports went up +5.6%, while EU trade with the rest of the world, including the US, dramatically dropped (-9.4% in exports and -11.6% in imports compared with 2019). EU exports to China in 2020 amounted to €202.5 billion while imports reached €383.5 billion.

Strong trade relations, however, do not mean less friction. EU policymakers remain critical of Chinese subsidies to state-owned enterprises and persistent trade and investment barriers facing European companies in China, including when competing for public tenders.¹⁹ Demands for reciprocity and calls on China to help facilitate the reform of the World Trade Organization are now part of the EU's trade playbook with China.

BUT NOW TRADE IS MIXED WITH HUMAN RIGHTS

Concerns over China's trade conduct now intersect increasingly with criticism of its human rights performance.

The EU and the US share concerns as regards China's treatment of its Uighur population; the erosion of autonomy and democratic processes in Hong Kong, which the EU has described as contrary to the principle of 'one country, two systems'; and the situation in the South China Sea where the EU accuses Beijing of having increased its presence by creating artificial, militarised islands, in breach of the 2016 arbitration ruling in favour of the Philippines.

THE FUTURE OF THE COMPREHENSIVE AGREEMENT ON INVESTMENT

The EU-China CAI may have been signed off by EU and Chinese trade officials at the end of December 2020, but in light of the European Parliament resolution on freezing legislative processes, it could unravel in the process of ratification. However, several EU states, including France, Germany, Slovenia and Ireland, have voiced support for the deal. European businesses are also adamant that it meets many of their demands for better access to the Chinese market.

RISKS AHEAD FOR THE 17+1 RELATIONSHIP

China's special '17+1' relationship with several EU member states and Western Balkan countries remains a thorn in the flesh for Brussels amid fears that Beijing

is seeking to divide the 27-nation bloc to press its own political and economic interests. Lithuania decided in May to leave the grouping, adding to perceptions that the arrangement has not lived up to initial expectations. Although leaders of 6 European countries did not attend the 17+1 summit held on 9 February – the highest drop-out number since the format was set up in 2012 –, no other nation has officially signalled an interest in ending its participation.

THE BELT AND ROAD INITIATIVE

International interest in China's BRI diminished during the pandemic amid concerns that Beijing may have lost interest itself, as well as the capacity to fund large-scale infrastructure projects. However, the EU remains concerned about the BRI's outreach into its territory and neighbourhood. A recent demand by Montenegro that the EU should help it pay off a nearly \$1 billion loan to the Export-Import Bank of China, borrowed to finance a large highway project, has heightened fears that countries are running up massive debt in their rush to sign up for Chinese loans. Prominent BRI investments have already occurred in Greece, Portugal and the troubled Budapest–Belgrade railway. In 2019, Italy became the first (and currently only) G7 member to join BRI, but the new Prime Minister, Mario Draghi, is reversing its course.

As stated earlier, the US wants a G7 infrastructure plan to rival the BRI. Meanwhile, the EU has its own connectivity strategy for Asia, which sets out standards for building infrastructure networks that are coherent, interoperable, as well as financially and environmentally sustainable. The strategy also states that calls for tenders must be open and transparent to promote good governance and a level playing field.²⁰

HUAWEI AND 5G

A patchwork of different national European approaches to Huawei remains a source of EU–China discord, with the European Commission setting out guidelines in its Toolbox and risk assessment report for the selection and prioritisation of measures to mitigate potential risks in the European 5G rollout.²¹ While neither document mentions Huawei directly, they do define the possible interference of third states as one of the main security risks in the 5G rollout.

CLIMATE CHANGE

The most obvious example of possible and much-needed joint EU–US–China action is in combating climate change. Biden's invitation to Xi Jinping to join the virtual Leaders Summit on Climate on 22 April and European Commission Vice President Frans Timmerman's recent online discussions with China's environment minister Huang Runqiu are reassuring signs that the 'competition versus cooperation' template has operational traction, and that environmental issues are not getting entangled in the wider geopolitical wrangles.

Merkel and Macron have also called for greater three-way cooperation on protecting biodiversity ahead of an October conference on the issue in the Chinese city of Kunming.

POST-PANDEMIC ECONOMIC RECOVERY

With growth and jobs on the EU agenda now more than ever, maintaining buoyant trade and investment flows with China will remain a top priority. Additionally, EU policymakers know they must work with China to ensure a post-COVID-19 economic recovery, thrashing out ways to deal with any future pandemic and tackling the nuclear challenges posed by North Korea and Iran.

Recommendations and conclusions

Looking ahead, Washington will have to accept Europe as an equal partner. China must also wake up to an EU, which, while striving to build closer economic ties and eschewing confrontational competition, will be ready to hit hard on questions related to human rights and fundamental freedoms.

For Beijing, that means showing more restraint, courtesy and a sense of proportion when responding to EU criticism of its policies, both in bilateral and multilateral formats. It means reining in its more strident 'wolf warrior' envoys, listening to those advocating dialogue, and developing more sophistication in understanding how the EU, with its diversified power centres and 27 nations, can actually work together and forge compromises on even questions linked to China.

Washington, meanwhile, needs an updated script for any future transatlantic conversations. This includes taking a closer look at Europe's Indo-Pacific outreach and its focus on economics, trade, regulatory standards and connectivity rather than only hard security. The US will also have to understand that the EU will pursue its interests not only with China but also in its expanding and deepening relationships with ASEAN, India, Japan and South Korea.

The EU, the US and China must reflect on the utility of sanctions that escalate tensions. They should consider alternative ways of discussing differences over human rights more constructively and without disrupting dialogue, diplomacy nor economic relations.

It will take time to craft a grown-up playbook on how Biden, Brussels and Beijing can act as responsible global actors and learn to coexist while cooperating and competing.

The coming years will therefore be challenging as the US and China adjust, adapt, confront and compete with each other. For the EU – and other countries –, this means getting used to living with geopolitical tensions as well as seeking ways to decrease existing strains, not adding to them. The EU can contribute to such an exercise not only

through its policies but also by working with its Indo-Pacific partners, most of whom are equally wary of increased threats to their security and economic development.

An EU ‘third way’ policy in crafting relations with China could provide a constructive template for managing geopolitical differences in a volatile world. But it will require time, hard work and more coordination between EU governments and EU institutions.

¹ Borrell, Josep, “[The Sinatra Doctrine: Building a United European Front](#)”, *Institut Montaigne*, 09 September 2020.

² Stromseth, Jonathan (2019), “[Don't make us choose: Southeast Asia in the throes of US-China rivalry](#)”, Washington DC: Brookings Institute, p.14.

³ Borrell (2020), *op.cit.*

⁴ *Ibid.*

⁵ Lewis, Simon and Humeyra Pamuk, “[Biden administration singles out China as 'biggest geopolitical test' for U.S.](#)”, *Reuters*, 03 March 2021.

⁶ See *Reuters*, “[What's in the U.S.-China Phase 1 trade deal](#)”, 15 January 2020.

⁷ European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (2019), [EU-China – A Strategic Outlook](#), JOIN(2019) 5 final, Strasbourg.

⁸ Emmott, Robin, “[EU, China imposes tit-for-tat sanctions over Xinjiang abuses](#)”, *Reuters*, 22 March 2021; European Parliament, [MEPs refuse any agreement with China whilst sanctions are in place](#), 20 May 2021.

⁹ European External Action Service, [United States: Consultations between Secretary General Stefano Sannino and Deputy Secretary Wendy Sherman](#), Brussels, 26 May 2021.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² European Council (2021), [EU-US Summit Statement: Towards a renewed Transatlantic relationship](#), para.26.

¹³ Siebold, Sabine; Steve Holland; and Robin Emmott, “[NATO adopts tough line on China at Biden's debut summit with alliance](#)”, *Reuters*, 14 June 2021.

¹⁴ Group of Seven (2021), “[Carbis Bay G7 Summit Communiqué: Our Shared Agenda for Global Acton to Build Back Better](#)”, Cornwall, para.29.

¹⁵ See Pei, Minxin, “[The China Threat Is Being Overhyped](#)”, *Bloomberg*, 28 May 2021.

¹⁶ Valero, Jorge, “[EU member states overcome nine-year blockade on procurement instrument](#)”, *EURACTIV*, 02 June 2021.

¹⁷ *Reuters*, “[Germany confirms U.S. waiver on some Nord Stream 2 sanctions](#)”, 19 May 2021.

¹⁸ Eurostat (2021), “[Euro area international trade in goods surplus €29.2 bn](#)”.

¹⁹ European Commission (2020), [Report on Trade and Investment Barriers: 1 January 2019 – 31 December 2019](#), COM(2020) 236 final, Brussels.

²⁰ European Commission, [EU steps up its strategy for connecting Europe and Asia](#), Brussels, 19 September 2018.

²¹ NIS Cooperation Group (2020), [Cybersecurity of 5G networks: EU Toolbox of risk mitigating measures](#), European Commission; European Commission, [Member States publish a report on EU coordinated risk assessment of 5G networks security](#), Brussels, 09 October 2019.

Europe, China and the US: Perceptions and tendencies

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13 July 2021

Introduction

How have the perceptions of Europeans evolved towards the People's Republic of China (China), also taking into account the US?

Several surveys from the Pew Research Center and the Transatlantic Trends allow for a comprehensive, comparative analysis since there is continuity in their studies. As we are looking at liberal democracies, it is crucial to understand how these societies react to global challenges, other countries and their leaderships.

Long gone are the days in which the partnership between the EU and China was a story of success and ambition.¹

In fact, diverging perspectives from those golden years are emerging in Europe. Case in point, the European Commission simultaneously categorised China as a “cooperation partner”, “economic competitor” and “systemic rival” in 2019.²

The COVID-19 pandemic reinforced this tendency and highlighted the competitive dimension of the EU–China relationship. The election of US President Joe Biden is also a key element of the evolution of European perceptions. Notwithstanding, there is much that still needs to be done and to explore in terms of both potential and limits regarding this triangle between the EU, China and the US.

Key issues

WASHINGTON STAYS THE COURSE

The Biden Administration represents a shift from its predecessor but maintained the course regarding China. There is, of course, a change of style and language, but the essentials are the same.³ The White House's Interim National Security Strategic Guidance published in March leaves no room for any other interpretation. It considers China to be “the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system.”⁴ And what is more, Washington is keen on “revitaliz[ing] our most fundamental advantage: our democracy.”⁵ Washington has returned to the importance of what political scientist Joseph Nye characterised as ‘soft power’ and ‘power of attraction’. In the words of President Biden,

“I believe we are in the midst of an historic and fundamental debate about the future direction of our world. There are those who argue that, given all the challenges we face, autocracy is the best way forward. And there are those who understand that democracy is essential to meeting all the challenges of our changing world.”⁶

Even as we watch the relentless competition between Republicans and Democrats in the US and particularly in Congress, the truth of the matter is that when it comes to the foreign policy and strategy towards China, there is a bipartisan consensus. Despite the differences as to what the boundary of this common policy is to be, the core is solid. And this international standing can be seen in the Quadrilateral Security Dialogue, as well as the G7 and NATO summits. The NATO Brussels Summit Communiqué is quite eloquent in this regard: “China's stated ambitions

and assertive behaviour present systemic challenges to the rules-based international order and to areas relevant to Alliance security.”⁷

EUROPEAN PERCEPTIONS

This is not to say that the US’ internal fragmentation and violence have not affected its international standing. For example, the storming of the Capitol in January has left an indelible mark. This is clearly visible in the latest Pew Research Center survey on the US’ global image: when “[m]ost say the U.S. is a somewhat reliable partner but no longer see it as a model democracy”.⁸ At the same time, President Biden is perceived very positively. When asked about their confidence in his ability to ‘do the right thing’ regarding world affairs, President Biden gets 74% – a whopping increase from the unsurprising low ratings of his predecessor. As the survey indicates, this evaluation of President Biden is also linked to his foreign policy that is more aligned with like-minded countries’ goals, exemplified by re-joining the Paris Agreement and the World Health Organization.⁹ His support for Ngozi Okonjo-Iweala’s appointment as the head of the World Trade Organization also converged with that of the EU.

In the same survey, German Chancellor Angela Merkel gets the highest confidence of all participants with 77%, while French President Emmanuel Macron is rated favourably at 63%. The two other leaders included, Presidents Vladimir Putin and Xi Jinping, have the respective confidence of 23% and 20%.¹⁰ Regarding the latter, these are trends that can also be inferred from previous Pew Research Center reports, such as that conducted last year regarding countries’ COVID-19 management. For instance, in Germany, the negative opinion of China grew from 37% in 2002 to 71% in 2020, 34% to 73% in the Netherlands, 40% to 85% in Sweden, 34% to 73% in Spain, 21% to 63% in France, and 61% to 62% in Italy.¹¹

In the 2021 survey, of all the European countries surveyed, Greece is most interesting considering the high and obvious level of Chinese investment in this Mediterranean country. 67% of Greece looks to Biden with confidence, “the highest it has been since Pew Research Center first asked the question there [2012]”,¹² and 36% to Xi. Regarding the latter, this is the highest level of confidence shown by any of the surveyed EU member states. The lowest are Sweden (12%), Germany (16%) and France (18%).¹³

Main challenges and opportunities

Despite the evident global loss of confidence and growing concern regarding Beijing, there is also the recognition that “China’s influence holds steady, seen as second most important global power at 20%”. It is also clear that the US “remains dominant [62%], but has not recovered from the pandemic drop.”¹⁴ The worldwide consolidation of China is a reality that underpins all the challenges and opportunities that follow below.

PARTNERS IN ENVIRONMENTAL CHALLENGES?

Climate change is undoubtedly in the hearts and minds of Europeans, Canadians, Americans and Turks, as the latest Transatlantic Trends shows: “Climate change [37%] and global health [36] are the top issues for transatlantic cooperation, followed by the fight against terrorism [32%] and by trade [31%].”¹⁵ Taking into account China’s weight in the global economy, no realistic solution can be carried through without its participation. The environment is usually indicated as the area per excellence of cooperation between Europeans, the recently re-joined US, Japan and China. It is also an important dimension of China’s national legitimacy and, hence, crucial to understand the priority it attaches to clean energies and technologies. Nonetheless, there is a general perception that China should deliver more regarding climate change.¹⁶ Climate action remains, therefore, both a challenge and an opportunity.

A COMMON AND SUCCESSFUL TRANSATLANTIC AGENDA?

In terms of defence, “NATO is perceived as important for national security on both sides of the Atlantic, especially in Poland, the UK, and the United States.”¹⁷ Furthermore, “[t]here is a clear transatlantic consensus for a tougher approach toward China, especially on human rights, cybersecurity, and climate change.”¹⁸

However, the real bone of contention is, of course, the economic dimension: the need to aggregate transatlantic efforts becomes more difficult. China has different levels of economic engagement with certain strategic sectors of EU member states. For instance, Beijing already plays an important role in Portugal’s electricity and energy sectors, or the Port of Piraeus in Greece, while it is still far from being relevant in Spain.

A key factor in the evolution of the economic dimension will be the success of the transatlantic agenda as to technology, infrastructure and connectivity. And in this regard, all the decisions pertaining to 5G are and will continue to be an excellent barometer.

ONE EUROPE? DOES IT EVEN MATTER?

Non-interference has been a keystone of Chinese foreign policy. Nonetheless, the divergence of some EU member states from the Union, such as the ‘illiberal democracy’ of Hungary, is clearly aligned with China.

A telling example is the controversy around the expected Fudan University campus in Budapest and the pushback led by the city. Or, more broadly, the Chinese countersanctions that explicitly included academic institutions and scholars. Moreover, the development of China-led regional groups in Europe, such as the ‘17+1’ (minus Lithuania), is also a factor in this picture.

China is already part of some EU member states’ political equations. The weight of the debate on China varies in terms of intensity and focus and, therefore, its image is heterogeneous. In some countries, public dissatisfaction is evident. But their economic, political and security elites – in, say, Germany or the Czech Republic – are divided on the wider issue of how to deal with China.¹⁹ In other European countries, the public dissatisfaction needs to be better understood. For example, are Montenegrins experiencing investment disappointment, or something more?

Furthermore, China’s partnership with Russia is also part of understanding the EU’s dynamics, particularly in those countries that do not have positive historical memories

of either the Russian Empire or the Soviet Union, to put it mildly.

A GREENER GERMANY?

Germany, considered the most important country of the EU by 60% in the latest Transatlantic Trends,²⁰ is holding national elections in September. Chancellor Merkel will not be leading the Christian-democratic alliance, making this a doubly crucial political event for Europe.

Electoral campaigns have already hit the road, and how to best deal with China is an important issue in the race. The German Greens seem to have a good chance of being part of the next federal government. If so, German foreign policy is likely to change, with a greater emphasis on security and normative concerns.

It is worth noting that one of the Members of the European Parliament targeted by the Chinese countersanctions, Reinhard Bütikofer, is a member of the German Greens and the Parliament’s Chair of the Delegation for Relations with the People’s Republic of China. In this regard, China’s ‘wolf warrior’ diplomacy and its manifestation on, for instance, Twitter has impacted European societies’ perceptions negatively. And to this, we must add Europe’s concerns regarding Hong Kong and Xinjiang, amongst others.

Recommendations and conclusions

In general terms, there are no recommendations to be made when dealing with public perceptions. However, they can change, of course, in response to the evolution of the issues that have been highlighted.

Even so, there must be an acknowledgement that European perceptions regarding China *have* shifted. This shift is not recent, nor homogeneous since some member states are more divided than others.

When asked to share sentiments about China’s influence in global affairs,

“people feel generally negative about China’s influence in global affairs. [...] Germans (67%) [...] have the most critical stance vis-à-vis China. [...] negative views of China increase with age.”²¹

Moreover, in some countries, elites’ and the public’s opinions regarding China differ. European heterogeneity is not always easy to grasp – even internally –, but national backgrounds and contexts do matter.²²

Furthermore, the global strategic landscape is in transition, and the US has set out its alignment very clearly. The election of President Biden leaves no room for manoeuvre regarding the main decisions that many European countries will have to make in terms of foreign policy towards China, ranging from 5G infrastructure to participating in multilateral fora.

On balance, the relationship between European member states, China and the US is intricate and differentiated. The perceptions of Europeans are even more important when we consider the EU’s strategic horizons.

- ¹ For a comprehensive state-of-the-art of the EU–China relationship, see Poggetti, Lucrezia (2021), [“EU-China Relations in times of systemic rivalry”](#), Lisbon: Calouste Gulbenkian Foundation.
- ² European Commission & High Representative of the Union for Foreign Affairs and Security Policy (2019), [EU-China – A Strategic Outlook](#), JOIN(2019) 5 final, Strasbourg, p.1.
- ³ See Chellaney, Brahma (2021), [“Indo-Pacific: EU’s Strategic Imperatives”](#), Lisbon: Calouste Gulbenkian Foundation.
- ⁴ White House, [“Interim National Security Strategic Guidance”](#), Washington DC, p.8.
- ⁵ *Ibid.*, p.3.
- ⁶ *Ibid.*, p.3.
- ⁷ North Atlantic Treaty Organization, [“Brussels Summit Communiqué”](#), Brussels, 14 June 2021, para.55.
- ⁸ Wike, Richard; Jacob Poushter; Laura Silver; Janell Fetterolf; and Mara Mordecai (2021), [“America’s Image Abroad Rebounds With Transition from Trump to Biden”](#), Washington DC: Pew Research Center, p.10. This survey was conducted in Canada, Europe and the Asia-Pacific region. The EU member states that were surveyed are Belgium, France, Germany, Greece, Italy, The Netherlands, Spain and Sweden.
- ⁹ *Ibid.*, pp.6-8.
- ¹⁰ *Ibid.*, p.11.
- ¹¹ Silver, Laura; Kat Devlin; and Christine Huang (2020), [“Unfavorable Views of China Reach Historic Highs in Many Countries”](#), Washington DC: Pew Research Center, p.4. This survey was conducted in 16 countries. The EU member states in question are Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain and Sweden.
- ¹² Wike *et al.* (2021), *op.cit.*, p.24.
- ¹³ *Ibid.*, pp.23-26.
- ¹⁴ de Hoop Scheffer, Alexandra; Martin Quencez; Gesine Weber; Anthony Silberfeld; and Brandon Bohrn (2021), [“Transatlantic Trends 2021: Transatlantic opinion on global challenges”](#), The German Marshall Fund of the United State/Bertelsmann Foundation, p.4. This survey was conducted in 11 countries: the US, Canada, France, Germany, Italy, the Netherlands, Poland, Spain, Sweden, Turkey and the UK.
- ¹⁵ *Ibid.*, p.4. Cf. Transatlantic Trends 2020, which were only conducted in Germany, France and the US in two phases: before and during the COVID-19 pandemic. “French and Germans see climate change as the top transatlantic priority both before and after the pandemic, while Americans think health crises cooperation is most important.” de Hoop Scheffer, Alexandra; Martin Quencez; Milan Seghier; Anthony Silberfeld; Emily Hruban; Brandon Bohrn; Michel Duclos; Nicolas Bauquet; and Mahaut de Fougères (2020), [“Transatlantic Trends 2020: Transatlantic opinion on global challenges before and after COVID-19”](#), The German Marshall Fund of the United States/Institute Montaigne/Bertelsmann Foundation, p.6.
- ¹⁶ de Hoop Scheffer *et al.* (2021), *op.cit.*, pp.33-34.
- ¹⁷ *Ibid.*, p.4.
- ¹⁸ *Ibid.*, p.5.
- ¹⁹ See e. g. Lomová, Olga, [“The Two Faces of Czech China Policy”](#), *Echovall*, 08 July 2020.
- ²⁰ de Hoop Scheffer *et al.* (2021), *op.cit.*, pp.9-10.
- ²¹ *Ibid.*, p.29.
- ²² See e.g. *European Values Study*, [“Homepage”](#) (accessed 01 July 2021).

A glimpse into the future: EU–China relations in 2022

What is the future of EU–China relations? What are the potential avenues for cooperation and the role that think tanks can have to address future challenges in the bilateral relationship?

EU–China relations in 2022

Center for China
& Globalization

17 December 2021

Introduction

As 2021 draws to a close, it looks like China will be high on the EU's 2022 agenda. This year set the turbulent scene: sanctions exchanged, the Comprehensive Agreement on Investment (CAI) deal frozen, and intensified transatlantic ties amidst an ongoing pandemic. 2022 will witness a fledgeling German coalition government, with a new chancellor replacing Angela Merkel, who frequently impacted the EU's China policy; a notoriously unpredictable French presidential election that could unseat Emmanuel Macron; the US midterm elections which might defang Joe Biden's presidency during his remaining tenure; and the 20th National Congress of the Chinese Communist Party (CCP) shaping up the top echelon of the Chinese political elite.

Looking ahead, the EU–China relationship will remain entangled with a dynamic transatlantic alliance that is constantly shaped by the strategic competition between the US and China, a stale CAI, and unresolved issues concerning European businesses operating in China. The bilateral relationship will face challenges from power restructuring in major EU countries, the ongoing damage caused by the lingering coronavirus and global economic headwinds, and Brussels' values-driven foreign policy. However, given the shared commitment to multilateralism and bilateral trade and investment, cooperation opportunities are bountiful in areas of climate change, World Trade Organization (WTO) reform and digital governance, while business ties remain robust.

Key issues

DYNAMICS IN THE TRANSATLANTIC RELATIONSHIP

The relationship between the EU and China cannot be viewed without the context of the changing dynamics of the transatlantic relationship. To restore trust and EU–US diplomatic ties, US President Biden's tour to Europe this year – highlighted by the EU–US summit and the subsequent NATO Summit in June – reinvigorated the strategic and economic transatlantic relationship.

However, the extent of the assurance brought by this so-called renewed transatlantic partnership remains limited. The formation of AUKUS as a strategic coalition counterbalancing China amid geopolitical tensions in the Indo-Pacific has sent confusing signals to Brussels. Being excluded by this three-way security pact between the US, the UK and Australia has arguably demonstrated that the US is willing to contain China at the expense of risking its long-term loyalties of old friendship with the EU.

At the same time, just days after the announcement of AUKUS, the EU Strategy for Cooperation in the Indo-Pacific was launched to enhance its relationship with members of the Association of Southeast Asian Nations while pursuing bilateral engagement in the region with China. This is reflective of the EU's emphasis on strategic autonomy in its policies. To add, the disparate standpoints of the EU27 have rendered the Union's position ununified, as always. In any case, as it evolves, the transatlantic relationship is likely to continue being a major factor in the development of the EU–China relationship amid the growingly multipolar world order.

STALEMATE ON THE EU–CHINA INVESTMENT DEAL

Last year, China overtook the US to become the EU's largest trading partner. Robust bilateral trade ties are predominant in the EU–China relations, but the CAI – which took seven years to conclude – has remained

strained. Its ratification by the European Parliament is still pending, following the designation of several Chinese officials under the EU Human Rights Sanctions Regime. In response to China's retaliation by sanctioning its Members (MEPs), the Parliament overwhelmingly adopted a resolution demanding the lifting of the sanctions before proceeding with any discussions on the ratification. Furthermore, Merkel, the main promoter of the CAI during the German EU Council Presidency, left office in September. The German Greens, a fierce critic of the deal, is now part of the new three-party coalition government.

China has urged the European side not to allow politics to disrupt a mutually beneficial economic agreement. Zhang Ming, China's Ambassador to the EU, has expressed that Chinese companies were keen for the deal to be put into action and have been frustrated by the failure to sign the agreement off, which China was ready to do.¹ Nonetheless, the subsequent diplomatic friction between the EU and China and the vanishing political context that fostered the CAI have resulted in an indefinite freezing of the CAI's ratification process.

UNRESOLVED ISSUES IN THE BILATERAL RELATIONSHIP

Amid CAI being put on hold, concerns and challenges for European businesses operating in China have risen, exacerbated by regulatory obstacles. EU officials and business owners have repeatedly criticised Beijing for not giving the same level of access to foreign business as the EU grants to incoming Chinese companies.

Their responses to China's 14th Five-Year Plan (FYP) have also been mixed at best. The Plan's attaching of great importance to localisation and indigenous technology are seen as warning signs of reduced business and collaboration with some EU providers, although they could also benefit from China's growing focus on quality growth. Additionally, China's new regulations on tech companies and emphasis on common prosperity have rattled EU investors, prompting concerns over the possible impact on innovation, entrepreneurship and capital markets.²

As China-US tensions broaden and tech decoupling unfolds incrementally, partnerships between EU member states and the US are being put in place to counter China. Although decisions and approaches are country-specific, banning Huawei from supplying 5G infrastructure under the name of security has been an overwhelming trend in the EU. Furthermore, strategic tech alliances are demanded to face the global shortage of semiconductors, reconstructed global supply chains, and new technologies. More coordinated efforts by the EU and US in this regard were already present in the inaugural meeting of the Trade and Technology Council, held between the two in September.

Besides ongoing tensions over human rights issues in Xinjiang and Hong Kong, EU-China distrust has also been furthered by political tensions over the complex issue of Taiwan. Beijing has downgraded its diplomatic ties with Lithuania in response to the latter allowing Taiwan to open a de facto embassy in Vilnius. Tensions worsened following a formal visit by seven MEPs to Taipei and Lithuanian lawmakers' scheduled visit to Taiwan.

Main challenges and opportunities

CHALLENGE 1: DOMESTIC POLITICS AND THEIR IMPLICATIONS

The changing domestic politics of Germany and France, which both play decisive roles in the EU, may pose some uncertainties to the future of EU-China relations. An unprecedented three-party coalition government in Germany between the Social Democrats, Greens and Liberals has suggested changing China policy under the EU's external policy framework. Berlin's breakaway from Merkel's line, which prioritised economic engagement with China, will likely add more weight to the EU's increasingly tougher policy outlook.

In France, the prospects of Macron, who has maintained a relatively cooperative relationship with China, winning the 2022 election remain unpredictable, owing to challenges posed by the rise of populist Éric Zemmour and the sustained popularity of right-wing leader Marine Le Pen. In addition, surveys have found that negative feelings about China have worsened in the French public

over the past three years, who believes that the country's foreign policy should be aligned with that of the EU.³

The domestic politics of the US and China and their relationship will also have indications for the foreseeable future of EU-China relations. Due to mounting concerns over high inflation and the supply chain crisis, Biden's approval rates have been dropping to new lows, presenting a growing chance that the Democrats will lose Congress majority in the 2022 midterm elections. The 6th plenary session of the 19th CCP Central Committee affirmed China's great power diplomacy and pushed forward the 'Chinese Dream' of national rejuvenation through balanced development and security imperatives.⁴ This suggests a continuity in Chinese foreign policy, especially over the Taiwan issue.

With persisting tensions in the China-US relationship, the extent to which the EU is able and willing to assert 'strategic autonomy' remains to be tested. On 2 December, the EU and US released a lengthy joint

statement, pledging “continuous and close contacts” to “manage our competition and systemic rivalry with China responsibly.”⁵

CHALLENGE 2: THE CONTINUING PANDEMIC AND UNCERTAIN GLOBAL ECONOMIC RECOVERY

Nearly two years into the health crisis, COVID-19 did not vanish with vaccine rollouts. According to the World Health Organization (WHO) and the European Centre for Disease Prevention and Control, over 99% of new cases were attributed to the Delta variant, both worldwide and in the EU.⁶ There could be another 500,000 coronavirus-related deaths in Eurasia by February 2022, and 43 countries in the region will face high to extreme stress on its public health services.⁷ Many EU countries are considering or have initiated new lockdowns to curb the rising infection rates as winter looms. With the arrival of the unknown effects of the Omicron variant, global supply chain disruption, repeated social distancing measures that hurt the service sector, and high inflation could persist and drag the global economy down.

The International Monetary Fund (IMF) forecasts that the global economy will grow by +5.9% in 2021 and +4.9% in 2022, while the respective numbers in the euro area are +5.0% and +4.3%.⁸ It has also suggested that pandemic dynamics and supply disruptions are major factors in a sluggish global recovery. Furthermore, owing to COVID-19, the supply chain crisis and a shortage of goods, the EU has also seen the annual inflation rate reach 4.4% in October, compared to 0.3% a year earlier. Industrial producer prices climbed to 2.7% in September and are up by +16.2% year-on-year.⁹

As the EU’s two biggest trading partners, the US and China are also encountering setbacks in their economic recoveries. The IMF predicts that American economic growth will slow from 6.0% in 2021 to 5.2% in 2022, while China’s growth is projected to see a sharp drop from 8.0% to 5.6%.¹⁰ In October, the US saw the biggest inflation surge in over three decades, with a jump in consumer prices hitting 6.2%.¹¹ In a November meeting, Chinese premier Li Keqiang stated that China’s economy faces new downward pressures and reemphasised the government’s focus on “ensuring security in employment, people’s livelihoods and market entities” – a frequently used phrase during the pandemic’s peak.¹²

CHALLENGE 3: THE PERSISTENT IRRITANT OVER VALUES

The differences in political ideologies and systems between the EU and China have continuously caused disarray in their relationship. The EU and its member states have repeatedly stated that they attach great importance to its liberal values and interests, to which China is perceived as a challenge. The challenges caused by the differences in values have been exacerbated by events related to Xinjiang, Hong Kong and Taiwan. The most recent tension rapidly deteriorated diplomatic

relations between Lithuania and China. The EU considers these issues to pertain to its fundamental values, but striking over political disagreements on issues upon which China has no room to make concessions might result in situations where no one wins. Additionally, that the EU and US share “common values, interests and global influence”¹³ has made them systematic allies in a union to counterbalance a rising China and contain its influence. China may respond assertively.

Going forward, it is likely that the diplomatic and economic EU–China relations will continue to be undermined by political disputes, potentially posing negative effects on their cooperation in not only bilateral trade issues (e.g. ratifying the CAI) but also global issues (e.g. health, climate change).

OPPORTUNITY 1: SHARED COMMITMENT TO MULTILATERALISM

Despite existing differences and tensions between the EU and China, multilateralism and cooperative global governance still serve as the keystone of consensus between both sides. As Biden’s pledges to bring multilateralism back and rejoin WHO and the Paris Agreement are viewed widely as a drastic turn from the Trump era, a window has opened for the EU–US relationship to repair past damages and renew their multilateral cooperation. Furthermore, in the increasingly contested world of rising populism, crises and conflicts, many issues that transcend politics cannot simply be fully advanced without concrete plans and cooperative efforts between the EU, the US and China. The EU, internationally regarded as a better player of multilateralism than the US and China, should embrace its advantages, set the international agenda and revitalise global institutions while engaging with China and the US to find common ground in prioritising cooperation over competition.

To start, the EU, the US and China should contribute more resources and efforts to ensure fairer worldwide distribution of COVID-19 vaccines. The lessons learned from the still raging pandemic should be translated into WHO reforms to develop effective and timely solutions for coping with coronavirus variants and future health crises. Secondly, the Glasgow Climate Pact, derived from the recent UN Climate Change Conference (COP26), has significantly ramped up the call for greater action and financing climate change mitigation and adaptation. The US–China Joint Glasgow Declaration was a positive surprise and sends good signals for climate commitment from two of the world’s largest carbon emitters. As a strong advocate of the Paris Agreement and COP26, the EU is poised to enhance collective partnerships on climate with both countries.

Although the WTO’s Ministerial Conference (MC12) has been delayed due to Europe’s emerging COVID-19 wave, hopes have been placed on reforming the WTO, which still acts as the largest multilateral economic organisation. Its modernisation necessitates genuine multilateral involvement. China is in a good position to help retool the WTO and revive its multilateral agenda

for post-pandemic recovery, including a vaccine waiver.¹⁴ Moreover, the EU and China have both expressed a strong interest in restoring the Appellate Body, one of the organisation's most pressing issues. In the upcoming MC12, the two should seize the opportunity to work together and urge the US to help revive this important function of resolving trade disputes. Referring to the obvious bifurcations between the G20 and China over developing country-member status and special and differential treatment, plurilateral negotiations and agreements have been suggested to ease the divergence.¹⁵

Finally, the absence of a global data governance framework has hampered countries' ability to reap benefits from the digital economy. The EU takes a firm stand in data and digital services regulation. Having announced its application to the Digital Economy Partnership Agreement (DEPA), China should cooperate with the EU in establishing multilateral cooperation for digital governance, which can be matured soon.

OPPORTUNITY 2: GREEN COOPERATION

China has set targets to peak its carbon dioxide emissions by 2030 and become carbon-neutral by 2060. The EU has set plans to cut greenhouse gas emissions by at least 55% by 2030 to reach carbon neutrality by 2050. Renewable energies were under the spotlight in the 2020 EU–China Annual Energy Dialogue, which has served as the basis for cooperation between the two at the ministerial and policy levels. Specific objectives and measures were set for green partnerships in the EU–China energy cooperation platform, which is an instrumental mechanism in green collaboration and coordination between the two parties on issues like markets, integration, investment and regulation. Business opportunities across different sectors have emerged as the EU and China both head to their decarbonisation goals. China's latest FYP incorporates its plan to open up its energy sector, including renewable energy, to foreign businesses, creating more opportunities for EU companies for business partnership and investment in China.

In terms of new energy vehicles (NEVs), China is already the world's largest automotive market and aims for NEVs to account for 20% of all vehicle sales by 2025. At the same time, NEV sales rose by +137% year-on-year in 2020 in the EU. As NEVs gradually penetrate the European auto market, the EU remains a major market for Chinese NEV exporters. Regarding green hydrogen, the EU just launched a €2-billion industrial partnership to upgrade its strategy on clean hydrogen. Both commercial and

technological cooperation should be embraced with China, the largest hydrogen producer, responsible for one-third of the global total.

Finally, on 4 November, the Common Ground Taxonomy on climate change mitigation was released at COP26 by a working group co-chaired by the EU and China under the International Platform on Sustainable Finance. The report aims to analyse and support the green finance cooperation between the EU and China and provide references for cross-border financing. While the global standards on green finance remain ununified, the EU and China should further elaborate on this issue to reach a consensus to ensure greater transparency and environmental benefits.

OPPORTUNITY 3: CONTINUED CONFIDENCE OF EUROPEAN COMPANIES IN CHINA'S ECONOMY

In a recent EU Chamber of Commerce in China survey, 73% of the European companies operating in China reported positive earnings before interest and tax, and 68% are optimistic about the growth of their business sector over the next two years.¹⁶ With its application to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) not long ago, and the Regional Comprehensive Economic Partnership (RCEP) becoming effective in the new year, China continues to open up its market further, and prospects for cooperation between the EU and China remain somewhat positive. The CAI is not the only precondition for boosting enhanced trade relations between the two parties. Moving forward on negotiations over greater market access, stronger intellectual property rights and commitment to labour and sustainability standards, and eased entry restriction may also generate new opportunities in numerous areas (i.e. healthcare, energy, automobile, trade in services).

On climate change, China's 2030 and 2060 agendas on carbon peaking and carbon neutrality could benefit from EU policy advice and assistance in the circular economy, 'zero-waste' cities, clean energy technologies and soil pollution remediation.¹⁷ Finally, in joining hands to advance green and sustainable development, the next agenda of the EU–China relationship should prioritise coordinating on carbon pricing and green technology invention and implementation, including NEVs and hydrogen fuel. It should ensure a level playing field on the Chinese market for multinational corporations with green expertise, which would spur fair and positive competition for both EU and Chinese companies.

Recommendations and conclusions

From the Chinese perspective, the simple European juxtaposition between cooperation, competition and rivalry remains imprecise. For a long time, Beijing has consistently argued that the two sides need not be

systemic rivals. Competition benefits both players in the race to the top. Differences can be managed properly. Despite the headwinds, it is in both capitals' interests to broaden areas of cooperation and balance their pursuits

of win-win scenarios. Given the shared commitment to multilateralism and the strong trade and economic ties, the EU–China relationship in 2022 may move forward along the following recommendations:

1. Both sides should commit to **keeping multilevel communication channels open and undisrupted**. Summit diplomacy remains an effective means to ease tensions and build trust. As the EU–China summit and other high-level dialogues continue to drive the momentum in the bilateral cooperation, other communication conduits (e.g. the National People’s Congress–European Parliament Regular Exchange Mechanism) could also be explored in the COVID-19 context. The EU–China Human Rights Dialogue could be an alternative platform for Brussels to articulate human rights concerns toward China, preventing political issues and working towards economic cooperation. The CAI dilemma is a case in point.
2. Both sides should promote **more concerted efforts at the multilateral rules-making process**. Brussels and Beijing must coordinate with Washington and other external policies related to climate change and strengthen the multilateral climate governance system. The joint development of standards for a decarbonised global economy is poised to unleash the enormous global market power of the EU and China. The EU can also leverage the China–EU Joint Working Group for WTO Reform to identify frameworks for trading with China’s economy while restoring the Appellate Body’s dispute settlement mechanism. In addition, the EU’s digital governance drive aligns with the Asia-Pacific region’s initiatives, such as the RCEP, DEPA and CPTPP, in which China is or seeks to be a member. The European markets can cross-fertilise with China’s e-commerce infrastructure and key opinion leader-based digital marketing, while the EU’s emphasis on anti-trust mirrors Beijing’s regulatory scrutiny towards its tech giants.
3. The European and Chinese business communities should continue to **collaborate on policy advocacy** concerning market access, competitive neutrality, sustainable development, labour standards and such, regardless of the CAI stalemate. As China enters a new stage of development under its ‘dual circulation’ strategy, further measures to lower transaction costs, improve the business environment and enhance the efficiency of resource allocation can still be expected under the existing framework of reform and opening up.

4. Think tanks, non-profit organisations and trade groups in the EU and China should team up and **establish a joint task force**. Through collaboration, the task force could conduct research and co-organise events featuring business opportunities afforded by China’s drive to develop a green, consumption-based economy, especially within sectors like automobile, renewable energy, financial services and digital technology. Increased frequency and intensity of public discourse may foster public opinion and social consensus around the CAI.
5. Brussels and Beijing should hold **talks over infrastructure cooperation** in accordance with the G7’s Build Back Better World call. The EU’s Global Gateway plan and China’s Belt and Road Initiative need not be mutually exclusive. European companies have participated in China-led projects, such as the Maputo–Katembe Bridge in Mozambique and Spain’s Los Ceibos Hospital. Third-country cooperation on infrastructure investment is poised to ease the geopolitical aspect of infrastructure investments and advance the global development agenda.

The Chinese government reiterates that there is neither irreconcilable conflict of national interest nor geopolitical contest between the EU and China. Competition between the two sides ought to be benign rather than pernicious, while mutually beneficial cooperation with Brussels remains Beijing’s goal. As China works towards its second centennial goal of building a ‘great modern socialist country’ and the ‘whole-process democracy’, the EU–China relationship will navigate safely through the storm if both sides are guided by a rationale that puts people’s economic well-being first.

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Outlook on EU–China relations in 2022

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17 December 2021

Introduction

2020 was a tumultuous year for the EU–China relationship, marked by the many tensions associated with the pandemic (i.e. its origins and management) and the EU’s perception of Chinese diplomats’ rising aggressiveness, aptly labelled ‘wolf warrior diplomacy’. The deterioration in the bilateral relationship is exemplified by episodes like the summoning of the Chinese ambassador to France by the Quai d’Orsay following several offensive messages posted on social media, or the European Commission President Ursula von der Leyen suggesting that China was behind cyberattacks on European hospitals.

Despite these tensions, 2020 ended on a positive note with the (to many, unexpected) signing of the bilateral EU–China Comprehensive Agreement on Investment (CAI) in late December, right before the end of the German Council Presidency. Although the Agreement still needed to be ratified, everything seemed in place for the two partners to start afresh. But this turned out to be overoptimistic. Tensions were still simmering below the surface, and it did not take long before things started to fester again. As a result, 2021 was another tense year that brought more reasons for disappointment than hope.

A major turn occurred when the EU (soon followed by the US, the UK and Canada) decided in March 2021 to impose sanctions on four Chinese officials over suspected human rights abuses in Xinjiang.¹ China responded almost immediately but in a somewhat asymmetric manner. While the EU exclusively targeted officials who held (or still hold) leading roles in Xinjiang and could thus be deemed responsible for the human rights violations, China chose to

sanction 10 European individuals (i.e. diplomats, officials, academics, politicians) and 4 entities in the political as well as academic spheres. China’s move was deemed “unacceptable” by the EU.²

The CAI was a collateral victim of the spat. The European Parliament, which was among the targets of the Chinese sanctions, refused even to consider ratifying the deal and decided to put it on ice *sine die*. Further signs of deterioration could eventually be observed, particularly in relation to Taiwan. First, the visit of several Members of the European Parliament (MEPs) to Taiwan provoked Beijing’s ire. Second, Lithuania’s decision to allow the opening of a representative office using the name Taiwan in Vilnius led to a coercion campaign by China against what it deemed an offensive decision. The EU pushed back: on behalf of High Representative for Foreign Affairs and Security Policy Josep Borrell, the European Commission’s Executive Vice-President, Margrethe Vestager, expressed solidarity and support for Lithuania, arguing that the opening of a Taiwanese representative office does not breach the EU’s One China Policy.

These developments have given rise to a climate of persistent suspicion, and a negative perception of China now seems to prevail in the EU (in both public opinion and public circles). At the same time, China perceives the EU as being increasingly anti-China, following what it sees as a closer alignment with the US. As a result, the EU–China bilateral relation has arguably reached its lowest point in a long time, probably since the Tiananmen Square crackdown in 1989. This does not bode well for 2022.

EU–China relations in 2022

There is no denying that the EU has taken a firmer stance on China over the past couple of years, and this is likely to last. The shift away from what could be called naivety resulted from the EU’s rising awareness that it needs to

speak up and defend its interests and values. However, as underlined by Borrell, the description of China as “a negotiation partner, an economic competitor and a systemic rival”³ is still valid, confirming the multitrack

nature of the EU's China policy. While the 'economy first' approach used to reign supreme, with priority given to the 'partner or competitor' aspects of the relation, this is no longer the case. In the context of rising tensions, the emphasis now tends to be more heavily placed on the 'strategic rival' dimension. The EU is also unlikely to shy away from putting sensitive issues, such as human rights, on the table in its discussion with China.

Interestingly, the EU can also be expected to show a more united front on China. In Germany, within the newly formed 'traffic-light' coalition, two partners – the Greens and Liberals – advocate having a tougher line toward Beijing. This will change the dynamic in Berlin, perhaps bringing it closer to the French position.

Moreover, the EU has made significant progress in adopting 'autonomous measures', using internal mechanisms to address some of its outstanding issues with China unilaterally. It is worth stressing, however, that several measures that the EU has developed or put in place over the past few months are not targeting China exclusively.

The EU has developed its toolbox to be better positioned to defend what it considers to be its vital interests. By way of illustration, the EU has sharpened its trade defence instruments to better tackle unfair trade practices. Similarly, the anti-coercion instrument currently being prepared aims to give the EU a mandate to deter and counteract third countries' coercive actions, but it should not be seen as an anti-China instrument. The same holds true for the recently established foreign investment screening mechanism, which is non-discriminatory and merely aims to protect strategic industries out of national security considerations.

Lastly, the EU's rising interest in the Indo-Pacific region should not be perceived as an attempt to keep China in check, let alone contain China. It is simply a commitment to ensure that freedom of navigation prevails in the South China Sea and that the sea lines of communication are not blocked since they are of utmost importance for EU trade.

The EU's firmer stance should not be interpreted as a sign that it favours a confrontational approach vis-à-vis China. The main tenet of the EU's policy is its persistent willingness to keep socialising China.

In the face of today's challenging security environment, the EU has been pushing the notion of *strategic autonomy*. This is still a relatively ill-defined notion that covers many different things and encompasses the entire spectrum of foreign and security policy, and not just defence. Among other things, it suggests that the EU will act more independently or 'go its own way' – hence, the 'Sinatra doctrine' – and will not blindly follow its ally, the US.

With regards to China, although the EU and the US are on the same page in terms of values and tend to share the same assessment about Beijing's rising assertiveness and the associated risks, the EU's position is not fully aligned with the US. To be more specific, the EU does not favour a confrontational approach.

There are many different reasons which explain these differences, but the major one is that, in contrast to the US, the EU does not frame its relationship with China in terms of an economic race for the number one position. Among the three dimensions highlighted earlier – partner, competitor and rival –, the former two remain more important for the EU than for the US.

Main challenges and opportunities

RESTORING TRUST

In 2022, the main challenge will be to restore trust between the two parties and show that their willingness to cooperate is real. Some concrete achievements will be necessary for the relationship to get back on firmer ground.

Misperceptions and misunderstandings are additional fundamental issues that must be addressed. An example of the former is the expression *systemic rival*: China tends to reject it, while for the EU it simply acknowledges the wide gap that exists between the two parties' visions of the world and on global governance issues, but does not necessarily lead to an offensive or confrontational stance. Similarly, the EU often perceives the 'dual circulation' strategy currently promoted by China as an inward shift, while Beijing claims it is not about closing China off (although the reality on the ground may tend to

suggest otherwise). Only dialogue can help clear up such misperceptions and misunderstandings.

WHAT TO DO WITH THE COMPREHENSIVE AGREEMENT ON INVESTMENT?

The fate of the CAI and, more broadly, of the trade relationship between the EU and China will rank high on the list of priority topics to be discussed in the coming year. For obvious reasons, reviving the CAI as it was originally drafted is unlikely. From the EU's perspective, the CAI will only be unfrozen once there are no more Chinese sanctions on MEPs, which is not likely to happen any time soon. The problem is that China considers that the ball is in the EU's camp, while the EU considers that China must move first. Getting out of this stalemate will be a real challenge.

Although reviving the CAI as it was initially negotiated is probably a non-starter, it should still be possible to go ahead with some other more limited initiatives. It is in the EU's interest to have a deal with China (be it only to avoid being in a less favourable position than the US vis-à-vis China), as it is also certainly in China's interest given the size of the European Single Market. There is, therefore, scope for the two partners to find a way to reengage on trade and investment issues and salvage some of the commitments they made under the CAI (e.g. on labour standards).

HOW TO MAKE THE COOPERATION REAL?

Despite the tensions and the disagreements between the two partners, their shared interests should not be downplayed, particularly in global issues like climate change, healthcare, World Trade Organization (WTO) reform, or multilateral governance more broadly defined.

Climate policies are often considered one of the most promising opportunities for cooperation between China and the EU, but concrete actions have remained elusive so far. The two partners' major challenge in 2022 is to turn these rhetorical promises into concrete actions. In other words, they must 'walk the talk'.

The snag is that going beyond very general objectives may soon prove complicated. In the case of climate cooperation, the dialogue can easily be blocked, as the two countries do not have the same understanding of *green technology*, for instance. The discussion about taxonomies and the recent publication comparing the two partners' respective taxonomies – the Common Ground Taxonomy – is a step in the right direction, but requires more work.

In other potential areas for cooperation, the situation may be more uncertain. WTO reform is one such area of common interest, but where promises have not turned into reality. Whether the two partners manage to come up with concrete achievements or not will be a test of their determination to cooperate.

Recommendations and conclusions

To put the bilateral relationship back on track, action is needed in the following areas:

- ▶ maintain dialogue and keep all official channels of communication open for a pacified conversation;
- ▶ engage in as many dialogues as possible at various levels (i.e. official, Track 1.5, Track 2) to clarify respective positions and set aside misunderstandings;
- ▶ keep engaging in multilateral organisations;
- ▶ engage in a discussion on trade and investment issues; and
- ▶ go beyond paying lip service to cooperation on issues of mutual interest (e.g. climate change, healthcare, WTO reform).

A final caveat is in order: All the above remarks assume that the (economic) conditions of the two partners do not deteriorate further – but nothing is less certain. One major unknown is the evolution of the COVID-19 pandemic. Other uncertainties also weigh on both partners, such as the stability and soundness of China's financial system and the future of the Franco-German engine in the EU.

¹ The EU announced its sanctions first, naming four officials and one entity in Xinjiang. It was the first time the EU made use of its recently approved Global Human Rights Sanctions Regime.

² *Euronews*, "EU agrees first sanctions on China in more than 30 years", 22 March 2021.

³ European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (2019), *EU-China – A Strategic Outlook*, JOIN(2019) 5 final, Strasbourg: European Commission.

EU–China–Africa relations: The way forward

What are the relations between the EU and China in Africa, and the potential opportunities for coordination? What are some pragmatic views to improve and advance Africa's development priorities?

The EU's and China's relations with Africa: Challenges and opportunities for enhanced cooperation

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24 February 2022

Introduction

In recent years, Africa has been courted by a growing list of countries and regions using a range of dialogue and cooperation platforms to institutionalise relations. While China has been quite proactive and visible, attracting much scrutiny in Africa and beyond, the EU has also remained an important international partner for the continent, especially in trade and development cooperation. Besides the EU and China, other actors that have done their fair bit of courting include the US, Turkey, South Korea, Japan, Russia and India, which have set up their own cooperation mechanisms to regulate relations with the continent. The debate over a coordinated approach towards Africa's strategic partnerships has thus continued to gain traction,

with the African Union (AU) embracing this policy debate as part of its reform processes.

Analysing the EU's and China's relations with Africa, this Input Paper questions how Africa can assert its agency to engage with the strategic partners on its own terms to advance its development objectives. It outlines the key issues for consideration in the EU's and China's relations with Africa, the challenges and opportunities, and recommendations related to potential areas for collaboration to enhance Africa's agency. It builds on past work comparing the European and Chinese approaches to Africa, and potential areas for collaboration.

Key issues

Since the early years of the EU's poverty reduction efforts in the world, particularly in Africa, through the Lomé Convention of 1975 and the Cotonou Agreement of 2000, a new major global player in development cooperation has emerged: China. It has rapidly moved from being a recipient to an active source of development cooperation and development finance in Africa and much of the developing world. In fact, it has surpassed many countries as a significant trading partner for Africa. The way in which it has since organised its development cooperation has also ruffled some feathers of established donors in the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC), including the EU intermittently voicing criticism.

Specifically, China has often been criticised for not following the established path of development cooperation practised by the EU and its Western partners, including attaching political conditionalities to disbursements and programmes. Whereas critics have often lambasted these very same conditions as external impositions hindering the agency of developing countries, its proponents argue that they help shape the behaviour of their counterparts. Moreover, the latter argue that China-backed projects could create a debt burden and negatively impact governance measures due to a lack of conditionalities.¹

Nevertheless, this reveals a rather paternalistic attitude that fails to acknowledge the shortcomings of existing aid

programmes by developed countries. Whatever views or biases one may have towards China, one cannot simply dismiss the empirical evidence of its contribution to the global and African development landscapes. Similarly, while the EU has also faced its share of criticism for its approach to development cooperation, one cannot dismiss their continued role in Africa either, which, at times, is downplayed and thus underestimated. An example is that while there was much media attention and even outrage when China paid for the construction of the new AU headquarters in Addis Ababa through a grant, there is not as much coverage or outrage surrounding the fact that the EU has consistently funded most of the budget of the same institution, and in certain years covering as much as two-thirds.²

China has built vital economic infrastructure in Africa while also increasing its focus on training and education. This is evident in the role of Chinese construction and engineering companies in Africa and the ever-growing number of African students in China. Similar to its domestic experience and development philosophy, China has invested significant resources in building economic infrastructure in partner countries in Africa, where serious backlogs often exist. The EU has also continued

to be a significant funder of the AU and various regional economic communities (RECs) in the continent, at times even accounting for over 70% of their budgets. It remains an important trading partner through the Lomé Convention and makes efforts to negotiate new economic partnership agreements.

The growing relationship between Africa and China has also enabled African states to have more options when it comes to international development cooperation and development finance, arguably increasing their potential agency within the international development landscape. It will thus be important to ensure that geopolitical pressures between the US and its European allies, on the one hand, and China on the other do not lead to unhealthy competition on the continent that threatens to derail the development trajectory and focus outlined in the AU's Agenda 2063. African countries and pan-African institutions will have to ensure that they coordinate more on their engagements with strategic partners to ensure that relations remain focused on Africa's development agenda, as captured in Agenda 2063 and its 10-year implementation plans, and catalytic projects like the African Continental Free Trade Area (AfCFTA).

Main challenges and opportunities

While the EU and China both inaugurated their respective mechanisms for cooperation with Africa in 2000, the two powers have evolved rather differently over the past two decades. The first Africa–EU Summit took place in April 2000, and the first Forum on China–Africa Cooperation (FOCAC) just a few months later, in October. The latter was held amidst much fanfare because of its potential to create win-win partnerships and strengthen South–South cooperation at a time when China was proactively growing its global footprint.³

Despite disbursing less overall development assistance than the EU, China has managed to maximise its impact and visibility while introducing new mechanisms that do not necessarily conform to established OECD practices. The mechanisms often blend China's development cooperation with other types of financial flows to finance important infrastructure projects that traditional donors in Europe are more reluctant to support. They arguably have a higher risk appetite thanks to various Chinese policy banks – although the private sector has also grown its footprint following the foundation laid by the state, as evident in the outcomes of the last two FOCAC. China's cooperation mechanisms have contributed to African economic growth and employment opportunities, which are crucial for poverty reduction. Despite occasional challenges, China continuously presents opportunities for the continent, especially when factoring in its role in the latter's productive sectors.

A major challenge that the EU must overcome is the time lag between formulating new policy priorities and translating them into actual disbursements. This is mainly because of the EU's lengthy decision-making processes, where decisions on programming and spending resources only occur at critical junctures of seven-year budget cycles. Decisions are made at the beginning of the cycle and may be readjusted mid-term, leaving little wiggle room for significant course correction. This stands in stark contrast to the FOCAC. Here, clear and quantifiable commitments are made every three years while applying the necessary material and financial allocations from the public and private sectors to the adopted resolutions.

To maximise impact, the EU must ensure greater alignment between the positions adopted at summits and the resources allocated in between summits. This would ensure that, while the seven-year budget cycles remains an essential part of planning, the EU does not hinder its own ability to adapt to evolving priorities – especially those raised by African stakeholders. This has been one of the strengths of the FOCAC summits: over the years, China has largely fulfilled its pledges, which have gradually become more aligned with Africa's development priorities, as expressed in Agenda 2063. A clearer alignment between the adopted policies and the resources allocated thus assists in maximising the impact of various poverty reduction efforts.

Chinese development finance for African countries largely falls into two main categories: (i) development cooperation or concessional finance; and (ii) non-concessional or market-related finance. Recent years have seen China using these tools interchangeably in various projects and has included a growing relationship with the private sector to facilitate its growing role in Africa.

This has prompted OECD members to revise how they conceptualise official development assistance towards a concept known as ‘total official support for sustainable development’, which will enable EU members to blend various cooperation tools. This move was arguably influenced by what countries like China were already doing in the area of international development cooperation. This revision is significant, as OECD members seek ways to respond to a changing development landscape, creating further opportunities for African countries and regions.

While EU–Africa summits have been postponed or cancelled a few times because of political disputes (e.g. Western sanctions against Zimbabwe),

FOCAC meetings are consistently well attended by African officials at the highest levels. Development projects with China have, therefore, hardly been disrupted as a consequence of overt political disagreements since China is reluctant to interfere in the domestic political affairs of its counterparts. The EU should find ways of engaging with its African counterparts that do not lead to a breakdown of the relationship to such an extent that summits may be cancelled or postponed. This is important in protecting the roll-out of important development projects in Africa that impact poverty reduction efforts.

While North–South cooperation remains essential to the development prospects of African countries, South–South cooperation is seeing a greater emphasis from policymakers in Africa and will continue to play an important role in global efforts to eradicate poverty. In order to contribute more to poverty eradication efforts abroad, Northern donors must do a better job of understanding what has worked for Southern powers like China in the development landscape while also exploring possibilities for triangular cooperation partnerships.

Recommendations and conclusions

In order to advance its development interests and align the activities of its relations with external partners to internal priorities, Africa will have to unite its market power via the AfCFTA while leveraging its voting power in multilateral fora. The call for greater coordination persistently features in academic and policy debates. Amid the heightened US–China geopolitical rivalry played out in tech and trade wars, displaying mutual distrust, Africa should avoid getting caught in the middle of great-power competition. Instead, it should chart a development path that works towards meeting its priorities by strategically engaging a broad range of partners, including the EU and China.

African governments and civil society groups will also have to continue examining closely what the EU’s and China’s evolving domestic and external needs are while strengthening their institutional capacities to boost regional value chains, intra-African trade and cross-border infrastructure projects. This will enhance African agency by enabling greater coordination between nation-states, RECs and the AU, giving the continent more power and agency in an increasingly complex world order.

Drawing lessons from Africa’s coordinated response to COVID-19, a clear consensus is emerging that only greater coordination will enhance Africa’s agency.

African nation-states, RECs and the AU should also look into potential areas that may warrant triangular cooperation projects with the EU and China. These could involve cross-border infrastructure projects linking countries through road, rail and port infrastructure that supports the operationalisation of the AfCFTA. Furthermore, the projects could be accompanied by training initiatives that build the capacity of African partners to implement cross-border connectivity projects and ensure trade facilitation at their various border posts. Material resources and expertise would be pooled from the EU and China to implement development projects on the continent, ensuring greater coordination and reducing unhealthy competition. The African continent is not in a position to choose between the EU and China. Instead, it must work with them both in a strategic manner that advances its development objectives, as highlighted in Agenda 2063, and the various regional indicative strategic frameworks developed by the RECs.

¹ Mthembu, Philani (2020), “[What can the EU learn from China’s development efforts in Africa](#)”, *International Politics and Society*.

² Kagame, H.E. Paul (2017), “[The Imperative to Strengthen Our Union: Report on the Proposed Recommendations for the Institutional Reform of the African Union](#)”, African Union.

³ Mthembu (2020), *op.cit.*

Defining a new global order: The end of multilateralism?

Is the world drifting away from multilateralism and shifting into multipolarity? Do EU and Chinese interests regarding the role of multilateral organisations converge? How is EU multilateralism seen by Chinese eyes, and vice versa?

Multilateralism, as seen by the EU

31 May 2022

Introduction

As a multilateral enterprise, the EU is often seen as an example of how political entities can convene 27 countries to reach a consensus on multilateral cooperation toward promoting peace, its values and the well-being of its citizens. The EU's multilateral identity and role as a singular supranational organisation have also resulted in its unique stake in multilateral activities and continue to affect its participation in global affairs,

both globally and in specific regions. To the present day, the EU has been unflinchingly reinforcing and supporting a rules-based multilateral order in a world that remains heavily state-centred. This Input Paper surveys the background and practical implementation of multilateralism in the history of the EU and examines the prospects and dilemmas of EU–China cooperation in the European context of multilateralism.

Background

When looking at the origins of multilateralism in modern history, one could go as far as to argue that Europe is its birthplace. In 1920, the Paris Peace Conference welcomed the League of Nations, a nascent multilateral organisation that marked the end of World War I and placed peace and security at the heart of its mission. It was arguably the first modern intergovernmental agreement that embodied the essence of multilateralism and paved the way for the founding of the UN in the liberal world order post-World War II.

Early multilateral developments in Europe prior to the EU were achieved economically. The European Coal and Steel Community and the subsequent European Economic Community and Community Customs Union – later made compatible with the General Agreement on

Tariffs and Trade – bore trade and development as their key competences. As the 1990s and 2000s saw the boom of globalisation, and improved relations and growing interdependence between countries, the spectrum of European multilateralism expanded from internal to external.

In particular, the period between the 2003 European Security Strategy and the 2016 Global Strategy saw European multilateralism evolve from trade-and-economics-driven toward European identity and strategy. The EU was gradually empowered to become a unique entity that sometimes represents itself as a group, participating in not only occasions of global governance (e.g. UN agencies, World Trade Organization, G20) but also exchanges between the public and private sectors.

The practical implementation

For the EU, the will to build a robust and effective system of multilateralism is driven by a combination of economic, strategic, conceptual, diplomatic, security and humanitarian motivations. Article 5 of the Treaty on

European Union (TEU) stipulates that the EU can only act within the limits of the competences that member states have conferred upon it. As a result, the EU is simultaneously an economic giant and growing political

power, and a regional multilateral organisation. This forces Brussels to juggle different roles across various multilateral fora.

On economic and financial affairs, the EU has held different functions across institutional arrangements, namely the World Trade Organization (WTO), the World Bank and the International Monetary Fund (IMF). The WTO is where the EU plays the most established and active role, with the European Commission in the driving seat. In the World Bank and the IMF, the EU plays a less prominent role due to the complex institutional landscapes. In the area of monetary policy, for instance, the European Commission, the eurozone countries, the rotating presidency of the European Council and the European Central Bank all have a say. This often results in an uneven external representation.

The G7 and G20, the key multilateral platforms of world politics which are political and less institutionalised, have shown great flexibility in integrating the EU. The Union is not an official member of the G7 but is, in practice, the only non-state actor participating in its summits. The EU is a full member of the G20 but does not

partake in the rotating presidency. European delegations represent about a quarter of the seats in the G20 and almost half of the seats in the G7. Brussels' participation in the G7 and G20 summits has posed a challenge for the Union's coherence, given that the wide range of topics discussed does not correspond to an EU competence across the board.

The EU has long strived to speak with one voice in the UN, the world's largest multilateral platform. The bloc gained full legal personality in the UN in 2009. The creation of the 'enhanced observer status' in 2011 grants the Union a more active role than other regional organisations, especially within the General Assembly, but not any direct representation in the Security Council. UN agencies also deal with the EU differently from other regional organisations, often in line with the distribution of competencies at the European level. For example, Brussels played a leadership role in both the UN Framework Convention on Climate Change and the Paris Agreement. Yet EU efforts in shaping peacekeeping, humanitarian aid and reconstruction, especially in its neighbourhood (e.g. Syria, Yemen), have been flagged.¹

Main challenges and opportunities in EU–China bilateral relations

The EU's current strategy toward China, which some refer to as 'the trinity', simultaneously considers China a partner, competitor and systemic rival. China, as an emerging superpower, is seen by the Europeans as playing an increasingly active role in a wide range of multilateral bodies. Beijing has reiterated that its conception of 'true' multilateralism is based on "only one system in the world, that is the international system with the UN at its core, and there is only one set of rules, that is the basic norms governing international relations based on the UN Charter."² The EU, on the other hand, remains strongly wedded to the notion of inclusive multilateralism that brings all the relevant great powers together around shared global rules and norms, including the universality of human rights and fundamental freedoms.

Amid the COVID-19 pandemic and escalating US–China tensions, relations between Brussels and Beijing in the past two years have been strained on the account of the former's allegation of forced labour in Xinjiang, Hong Kong's new national security law and Taiwan's revival of independence. This has resulted in the European Parliament freezing the ratification of the Comprehensive Agreement on Investment. More recently, China's position on the Russia–Ukraine war spurred further unfavourable European public opinion toward Beijing. US President Joe Biden's visit to Brussels was meant to strengthen the transatlantic alliance against the Kremlin's threat to the rules-based international order and to which Beijing had been suspected of being privy.

Despite the constraints in the bilateral cooperation, European incentives to work with the Chinese remain. In fact, the ongoing Ukraine crisis may provide a strong impetus for the EU–China relationship. The war is hitting Europe so hard that its alliance with Washington is not sufficient to safeguard its interests. As the conflict drags on, more than 3.7 million have fled, creating a potential refugee crisis for the EU. Western sanctions against Russia have led to a price spike in food and energy, exacerbating inflation in Europe and elsewhere. Facing an increasingly uncertain security outlook in Europe, countries like Finland and Sweden are eying NATO membership, while others, namely Germany, are considering expanding their defence budgets.

Moreover, Ukraine sees the potential of a joint, EU–China-led conflict resolution. The EU's ambassador to China, along with ambassadors from countries including France, Finland, Portugal, Spain, Romania and Slovenia, urged China to play an intermediary role in brokering a quick ceasefire in Ukraine during an event organised by the Center for China and Globalization.³ Like the EU, China has significant interests in the war ending. China enjoys strong trade and economic ties with both Russia and Ukraine, which are also crucial components of its Belt and Road Initiative (BRI). Politically, it is not in Beijing's interests to rely solely on an anti-Western alliance with Moscow, as it could spark a closer alignment between the EU and US. At a time when China faces increasing human rights criticism globally, securing a multilateral resolution to the war could improve Beijing's standing with the West.⁴

In the meantime, EU–China economic ties have remained robust. 2021 saw a notable recovery in bilateral trade: China was the largest importer of EU goods (22.4%) and the second-largest exporter for Europe (10.2%).⁵ According to a 2021 survey by the EU Chamber of Commerce in China, 73% of European companies operating in China reported positive earnings before interest and tax, and 68% are optimistic about the growth of their business sector over the next two years.⁶ European carmakers have become more reliant than ever on the Chinese market. Mercedes-Benz and BMW logged record-high sales by volume last year, registering a jump in China’s share of global sales by 5 to 6 percentage points. Audi, too, saw its sales in China increase by 5.4%.⁷

Climate change has arrived at the heart of EU policy, and Brussels’ position is closer to Beijing than Washington. Through its five-year planning cycle, China has consistently addressed decarbonisation, with ever-greater priority on reaching the dual goals of carbon peak and carbon neutrality. Multilaterally, climate cooperation with China is in the EU’s interest, as the two share a commitment to UN-based multilateralism. Bilaterally, for the European Green Deal to be successful, the EU must work with China to build resilient supply chains for low-carbon technologies, develop sustainable finance standards, and revamp biodiversity frameworks and overseas investment.

With the digital transition as one of the guiding principles of the European Commission’s Horizon Europe Strategic Plan 2021-2024, digital governance might also play a role in the prospects of EU–China cooperation. The EU’s scrutiny of data protection and information privacy is reflected in its legislation and attitudes toward Big Tech companies. Regardless of the Joint

Statement on Trans-Atlantic Data Privacy Framework, EU regulations stand in contrast with the American approach to technology and internet companies, predicated on minimal government intervention. Meanwhile, China’s insistence on regulating Big Tech and safeguarding a safe(r) cyberspace is aligned with the EU’s Digital Markets Act and Digital Services Act.

EU–China cooperation on international development could also fall within the EU’s interests. However, the EU largely sees BRI as a Chinese strategy to expand influence and thus developed its Global Gateway to be a rival “value-based” programme.⁸ From a regional perspective, the EU is a beneficiary of the BRI, with trade rising by more than 6%. The cost of transportation is halved, generating large gains in terms of rail transit to Europe, especially in landlocked countries.⁹ Most EU member states have joined the Asian Infrastructure Investment Bank (AIIB). The EU must not underestimate the potential economic and financial benefits of closer engagement with China.¹⁰ Domestically, there has been a consistent call on Beijing to ‘multilateralise’ the BRI by upgrading the AIIB into a Global Infrastructure Investment Bank (GIIB).¹¹

In addition to coordination and collaboration in Europe under the BRI and Global Gateway frameworks, the EU and China also have shared interests in investing in Africa. China has built vital economic infrastructure in Africa and increased its focus on training and education. The EU also continues to be a significant funder of the African Union (AU) and other regional economic communities. Geopolitical pressures between Europe, the US and China must not lead to unhealthy competition in Africa. The need for coordination between Brussels and Beijing with their African partners to advance the AU’s Agenda 2063 is an area that could yield joint initiatives.

Conclusion

Multilateralism is said to be in Europe’s DNA. Today, a complex international landscape poses many challenges to the EU’s multilateral enterprise, from the patchy and unequal way it is represented in multilateral institutions to its geopolitical interplay with other major global players like China, the US and Russia. For Europeans, the EU must be firmer and formulate a vision of global governance in which it plays a key role in shaping a multilateral order that is based on clear rules.

The crisis in Ukraine reinforced the EU’s long-time suspicion about China’s commitment to a rules-based international order. However, it also opened a window of opportunity for the two sides to cooperate on restoring peace and stability in Ukraine. At the EU–China virtual summit on 1 April, the EU called on China to support its efforts to bring about an immediate end to the war,

following discussions over China’s sanctions against Members of the European Parliament and restricting market access. Both sides also agreed to continue cooperation on climate change and resume the EU–China High-Level Digital Dialogue, despite Brussels’ consistent concerns about the human rights situation in China.¹²

The relationship between the EU and China is frequently implicated in the intensifying US–China strategic rivalry and their clashes over values. An increasingly popular proposition in the US is that the two systems cannot be reconciled. This proposition, however, is not in the EU’s interests. Cooperation and competition have always coexisted between great powers. The challenges and opportunities for the bilateral relationship will hinge upon how the great powers will position themselves in this multipolar context.

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 - ⁸ Grieger, Gisela (2021), "[Towards a joint Western alternative to the Belt and Road Initiative?](#)", PE 698.82, Brussels: European Parliamentary Research Service, p.10.
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 - ¹⁰ Menegazzi, Silvia, "[Why the EU must engage with the AIIB, East Asia Forum](#)", *East Asia Forum*, 05 May 2017.
 - ¹¹ Huiyao, Wang (2021), "[Bretton Woods 2.0? Rebuilding Global Governance for the Post-pandemic Era](#)" in Wang Huiyao and Alistair Michie (eds.), *Consensus or Conflict? China and Globalization in the 21st Century*, Singapore: Springer, pp.113-226.
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Multilateralism in China's foreign relations: A normative-rhetorical tool for suasion and system reform

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31 May 2022

Introduction

Like its main competitors, China has its own set of conceptions of *multilateralism* (多边主义) and frequently employs rhetoric about multilateralism for diplomatic suasion. Unlike its competitors, however, the frequency and character of China's rhetoric underwent significant changes in recent decades, and is now regularly employed to contest 'Western' ideas of multilateralism.¹

To get a clear picture of the role of multilateralism in China's foreign relations, comparing its multilateral behaviour with the yardstick of international relations or political science theory, as is the Western norm, is insufficient.² As this Input Paper illustrates, a more useful understanding is obtained when multilateralism is situated in its domestic context, in terms of the political functions it (and its associated concepts) is expected to fulfil.

Establishing what foreign policy concepts mean and do is no mean feat. They are, by definition, polysemic – meaning different things to different people.³ One way to approach a concept is by studying its *genealogy*, and its *entanglements* with other concepts. This Input Paper therefore opens with a historical overview of the conceptual development of multilateralism in China. This gives us a good idea of its importance and main function, but not of the broader *range of meanings* the concept conveys in the diverse settings that make up global politics. To explore this dimension and assess the political utility of multilateralism, the Input Paper discusses the different logics which inform its application in the second section. In the third section, it applies the overall assessment to the EU–China relationship.

Multilateralism, from Jiang to Xi

The conceptual development of *multilateralism* in China is fundamentally shaped by the Chinese Communist Party's (CCP) understanding of 'correct thought' as the basis for action, and the leadership's assessment of China's international situation.⁴ The former is a stabilising factor, in the sense that invoking multilateralism, like other formulations (提法)

and ideas (理念), is consistently understood as a political act. The latter accounts for most changes in when and how state representatives use multilateralism, and the formulations they associate it with. What can be gleaned from these changes in the context of China's evolving foreign policy thought (外交思想)?

Following a long period of suspicion during the Mao era and relative neglect in the Deng era, the notion of *multilateralism* became more common in official and scholarly circles in the 1990s.⁵ This occurred as China attempted to improve its international reputation and neighbourly relations, and to hedge against expected US pressure in Asia.⁶ Accordingly, scholars Zheng Qirong and Niu Zhongjun identify a qualitative shift in its multilateral *diplomacy* (多边外交); from ‘passive participation’ to ‘a conscious and selective initiative-taking’ attitude.⁷ This did not lead to the adoption of *multilateralism* as a foreign policy concept, however, as this notion was perceived to be ideologically dominated by ‘the West’ and therefore ill-suited to legitimate China’s multilateral diplomacy. Together with *multilateral diplomacy*, multilateralism was also avidly debated in Chinese scholarly circles.⁸

The conscious separation of these concepts differentiates China’s understanding from that of its competitors, and establishing the precise relationship between the two is an ongoing process that continues to this day. A first adjustment occurred when the Chinese Ministry of Foreign Affairs (MFA) adjusted its definition of *multipolarity* (多极化) in 2003 to include more multilateralism-oriented language, such as the ‘democratisation of international relations’ (国际关系民主化).⁹

During the early Hu era, multilateralism gained official approval and saw increased use as a rhetorical cudgel against hegemonism, unilateralism and power politics (i.e. a veiled reference to the US). From 2006 onward, the notion of a ‘harmonious world’ (和谐世界) included

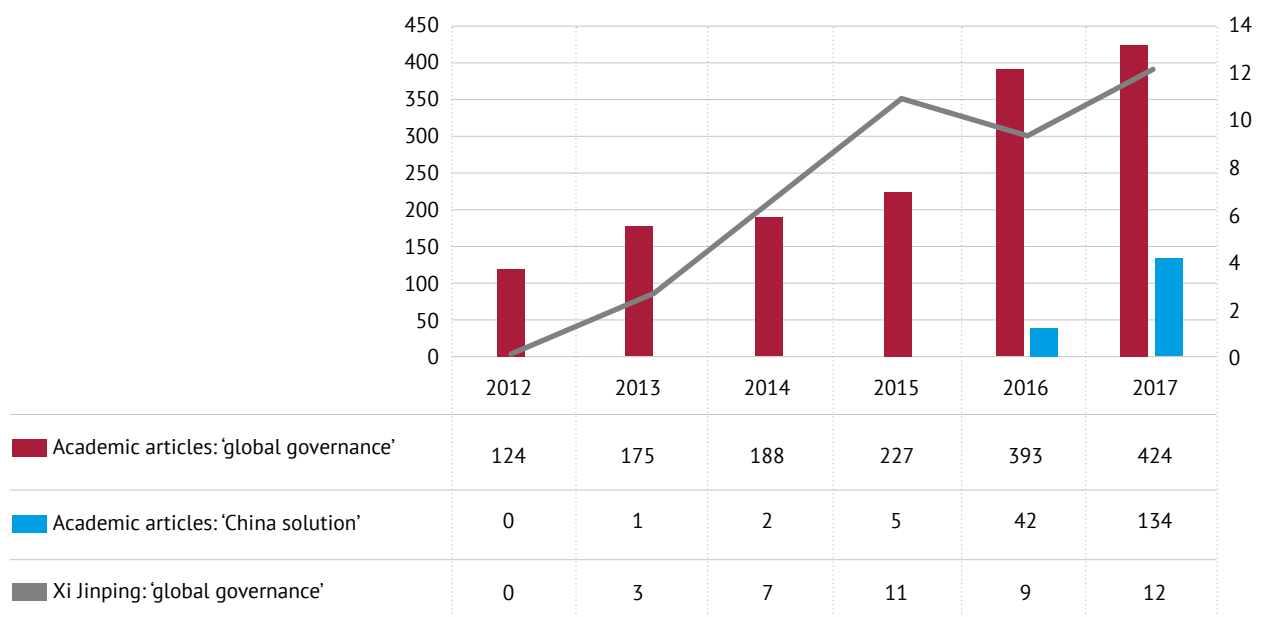
multilateralism as an important element, presenting China as a force for peace and cooperation in a discordant world.¹⁰ Zheng and Niu posit that at this point, multilateralism was raised from the strategic (战略性) to the philosophical–conceptual (理念) level, thereby raising its profile in the CCP’s foreign affairs vocabulary.¹¹ Following formal approval, scholars also increasingly turned to international organisations (IOs) as an important arena for achieving national goals, and China became actively involved in IO reform.¹²

In the wake of the 2008 financial crisis, Chinese debates about the future of the international system and US–China relations became more hawkish. At the same time, China’s foreign policy was subjected to greater bureaucratic fragmentation, popular pressure and international scrutiny. The need for a vision to provide coordination and manage expectations informed an adjustment in China’s foreign policy paradigm from ‘keeping a low profile’ (韬光养晦) to ‘actively achieving something’ (积极有所作为) and, in the Xi era, to ‘striving for achievement’ (奋发有为).¹⁴ As the debate increasingly shifted to how China could reshape the ‘unjust’ international order, notions like *discourse power* (话语权), *docking* (对接) and *global governance* (全球治理) became increasingly popular, especially in scholarly circles (see Figure 1).¹⁵

Changes to the foreign affairs vocabulary in the early Xi era accelerated this development, and novel concepts stress China’s ambition and agency in international politics, including in multilateral *arenas*.¹⁶ *Multilateralism* frequently appears in communications about the Belt and Road Initiative (一带一路) and the Human Community of

Fig. 1

USE OF PHRASES ‘GLOBAL GOVERNANCE’, ‘CHINA SOLUTION’ AND THEIR SYNONYMS IN XI JINPING’S SPEECHES AND CHINESE SOCIAL SCIENCE JOURNALS (2012-17)



Source: Pu and Wang (2018)¹⁵

Fate (人类命运共同体; HCF), formulations that redrew the Hu-era Going Out Strategy (周出去战略) and *harmonious world* concept to match this ambition.¹⁷ At this point, multilateralism remained instrumental to outward image management, but was still not central to the leadership's view of the external environment. This is illustrated by the absence of *multilateralism* in top-level discourses about global governance (全球治理) and system reform.¹⁸ A 2016 speech by President Xi to the Politburo Standing Committee shows that system reform continued to be associated with *multilateral diplomacy* instead of *multilateralism*. He argued that “[the] global governance structure hinges on the balance of international power” and that China should “continuously enhance its ability to speak and act internationally” and “take the initiative to assume international responsibilities commensurate to its capacity”.¹⁹

Although the conception of *multilateralism* has remained remarkably stable since 2005, recent events suggest that changes may be afoot.²⁰ In October 2019, the MFA's Policy Planning Department put forward the notion of ‘multilateralism with Chinese characteristics’ (中国特色多边主义).²¹ Then, following global tensions over the origins of the COVID-19 virus and the relaunching of the Quadrilateral Security Dialogue in 2020, the leadership started to contrast ‘true’ multilateralism (真正的多边主义) with ‘pseudo-multilateralism’ (伪多边主义).²² The long-term impact of these developments is uncertain. They could signal that multilateralism's domestic profile is growing, portending a possible future as a top-level concept alongside the HCF. It is more likely, however, that as external contestation of China's international behaviour sharpened, it felt the need to legitimise that behaviour and delegitimise its competitors' rhetoric.²³

The major functions of multilateralism in Chinese diplomacy

The particular genealogy of the concept of *multilateralism* within China's foreign policy apparatus and its various purposes in diplomacy render its range of meanings extensive. In fact, five interconnected logics guide its use.

First, China's conception of *multilateralism* is derived from its assessment of the international situation and its practical experiences, and not the other way around. As scholar Wang Jianwei points out, “multilateralism might put some checks and balance[s] on American power.”²⁴ Whereas multilateralism mainly served economic modernisation before President Xi's time, it now serves to underline the ‘righteousness’ of China's behaviour and delegitimise that of the US.²⁵ Multilateralism is thus associated with China's national character and acts as a normative yardstick for evaluating international behaviour, especially that of great powers. By practising multilateralism, China distinguishes itself from the hegemonic conduct (霸权行径) of other great powers in history and positions itself as a morally superior actor. The argument that China ‘has always’ practised its (virtuous) form of multilateralism often reinforces this. To paraphrase politics scholar Jonathan Holslag, China's rhetoric of multilateralism is “a continuation of *realpolitik* by other means”.²⁶

Second, per the CCP's adaptation of Marxist class theory, the global practice of multilateralism is assumed to be shaped by the ideational influence of powerful countries.²⁷ As China becomes stronger, it is only natural that its conception of multilateralism becomes more influential. Attempts to resist it are rearguard actions doomed to failure. The argument that China's practice is ‘of the times’, ‘follows world opinion’ or ‘brings real benefits’ – unlike that of its competitors – often reinforces this. Recently, such arguments have been given a Confucian overhaul with President Xi's ‘correct concept of righteousness and interests’ (正确义利观).

Third, from 2005 onward, multilateralism became a key legitimating device for China's global governance preferences. For instance, in response to the Trump administration's unilateralism, the CCP leadership presented itself as a defender of multilateralism, global trade and globalisation at the Boao Forum for Asia, World Economic Forum, China International Import Expo, and second Belt and Road Forum for International Cooperation.²⁸ In the Xi era, this logic frequently appears in discussions of discursive power and the need to build a discourse system (话语体系).²⁹

Fourth, multilateralism eases relationships, enabling value diffusion and the recognition of China's righteous behaviour by other states and IOs. ‘Uploading’ Chinese concepts to the UN level and other states repeating Chinese rhetoric makes for both domestic and international legitimacy. As such, recent years saw a litany of memorandums of understanding between China and states or IOs on the BRI, as well as the inclusion of HCF into Human Rights Council documents.³⁰

Fifth, to gain recognition for the righteousness of its form of multilateralism, China consistently mentions it in connection with its official foreign policy principles (e.g. non-interference, mutual respect) to stress that it is a genuine expression of its values. This focus on abstract principles allows China to indirectly legitimate important dimensions of its preferred practices of multilateral cooperation, such as bi-multilateralism via strategic partnership relationships (战略伙伴关系) and China-centric agenda setting.³¹ Since 2016, China has also increasingly presented multilateralism alongside examples of multilateral diplomacy that it considers useful models for the future.³²

Quo vadis? The EU's and China's multilateralism

According to researcher Feng Yuan, China is entering a mode of 'competitive multilateralism', turning it into "the most important method to reshape international order and form China's identity".³⁵ What does this entail for an EU–China relationship already subject to various structural stress factors? Based on the five-part typology above, what are the challenges and opportunities?

There is a risk that the EU will perceive China's use of multilateralism for image management and delegitimisation of the US' role in the world as an ideological challenge. This sense can be found in not only the European Parliament but also the Commission's 2019 Strategic Outlook:

"China has expressed its commitment to a fair and equitable global governance model. At the same time, China's engagement in favour of multilateralism is sometimes selective and based on a different understanding of the rules-based international order."³⁴

Again, this misses the fact that multilateralism is understood differently in China and fails to consider the likelihood that China's 'selective multilateralism' simply mirrors its pursuit of national goals by multilateral means.

On the other hand, the Chinese side is also ill-equipped to address 'conceptual gaps' in EU–China relations, often misreading not only the EU's balance of values and interests but also the deep significance of rules-based multilateralism in internal EU politics.³⁵ Moreover, given the disparity between conceptions, instances like the EU Mission's 2018 campaign about multilateralism often appear disingenuous to the European public.³⁶ Moving forward, the balance between challenges and opportunities in the relationship will be shaped by how both sides respond to this dissonance in perspectives.

One possibility would be to reject each other's vision wholesale and adopt a 'resist and limit' approach anchored in a 'principled' multilateralism, as some in the EU advocate.³⁷ But European proponents often do not consider that the EU has very limited sway over China's multilateral diplomacy in light of its proven ability to marshal international support and create outside options.³⁸ They also tend to downplay Chinese status quo behaviour and the areas both sides agree on, such as the centrality of the UN.³⁹ China's conception of the international system is often similarly coloured by black-and-white thinking.

Another possibility would be to adopt a form of 'pragmatic multilateralism', recognising different readings of multilateralism for what they are and advancing cooperation on an issue-by-issue basis. This is how China moved closer to the EU's position over the years. A recent Joint Communication on the topic points to a similar dynamic taking place on the EU side.⁴⁰ Specifically, the European Commission seems to have subordinated the EU's pursuit of multilateralism to the reality of a multipolar world, in line with its novel self-identification as a geopolitical actor.⁴¹ If confirmed by the Council, this would constitute a major development in the decades-long tug of war between the two over which principle should guide the relationship.⁴²

This convergence of worldviews, albeit limited in scope, may provide an opportunity to enhance the scope for effective multilateralism.⁴³ This is because the deprioritisation of multilateralism as a goal in and of itself may create space for competition over its meaning and practice. Competing with China by, for instance, experimenting with novel initiatives in region-to-region fora like the Asia–Europe Meeting, would deflate the impression that there are two ideal models of multilateralism which countries have to choose from. Such a creative and competitive mode of action would allow the EU to continue to position itself as a champion of multilateralism without souring the political atmosphere of the bilateral relationship by negating China's vision as a whole.⁴⁴

A turn to competition would also allow the EU to signal openness to different forms of multilateralism and promote its preferred form by exemplary action.⁴⁵ According to political scientist Tang Shiping, the Chinese leadership remains undecided whether to reshape an unjust international order by leading an aggrieved developing world or by working with a broader range of partners.⁴⁶ At a time when changes in the international order follow a pattern of two-way socialisation and the demand for leadership and public goods is high, the EU still enjoys considerable opportunities for shaping this choice.⁴⁷

Conclusion

This Input Paper shows that China's conception and use of *multilateralism* stem from a process of gradual appropriation and tweaking, turning it from a subversive idea into a cornerstone of the foreign affairs vocabulary.⁴⁸ This selective embrace infused the concept with distinct characteristics that suit CCP ideology and China's diplomacy. Whereas ambiguity about multilateralism's meaning enabled the EU and China to paper over a major conceptual gap in the relationship in the past, China's increasingly overt contestation of the term will reduce space for such a tacit agreement.

If the EU and China want to find a new *modus vivendi* on multilateralism, considerable political courage and creativity from both sides are required. Despite significant domestic and international opposition, both parties seem to recognise that their path to political purchase (势) or *virtù* in the international system is shortened when they find a workable middle ground. Understanding how multilateralism matters differently on both sides is a basic condition for such efforts.

- ¹ Throughout this paper, *multilateralism* refers to the concept as it is understood and used by the Chinese Communist Party leadership and diplomatic actors. It specifically excludes 'multilateral diplomacy'.
- ² See e.g. Nathan, Andrew J. and Boshu Zhang (2021), "[A Shared Future for Mankind: Rhetoric and Reality in Chinese Foreign Policy under Xi Jinping](#)", *Journal of Contemporary China*, Volume 31, Issue 133, pp.1-15.
- ³ See Freedon, Michael (1998), *Ideologies and Political Theory: A Conceptual Approach*, Oxford: Oxford University Press.
- ⁴ Schoenhals, Michael (1992), *Doing Things with Words in Chinese Politics: Five Studies*, Berkeley: University of California; Wang, Hongying (2000), "[Multilateralism in Chinese Foreign Policy: The Limits of Socialization](#)", *Asian Survey*, Volume 40, Issue 3, pp.475-491. See also Tsai, Wen-Hsuan and Nicola Dean (2013), "[The CCP's Learning System: Thought Unification and Regime Adaptation](#)", *The China Journal*, Volume 69, pp.87-107.
- ⁵ Johnston, Alastair Iain (2008), *Social States: China in International Institutions, 1980-2000*, Princeton: Princeton University Press. See also Feng, Yuan (2020), *China and Multilateralism: From Estrangement to Competition*, New York: Routledge, p.32.
- ⁶ Christensen, Thomas J. (2015), *The China challenge: Shaping the choices of a rising power*, W. W. Norton. Wu, Guoguang and Helen Lansdowne (2008, eds.), *China Turns to Multilateralism: Foreign Policy and Regional Security*, Routledge.
- ⁷ Zheng, Qirong and Zhongjun Niu (2012), *Chinese Multi-lateral Diplomacy*, Beijing: World Affairs Press. Also illustrated by its inclusion in the foreign affairs guideline: 'great powers are key factors, neighbouring countries are the priorities, developing countries are fundamentals, and multilateral institutions are stages' (大国是关键、周边是首要、发展中国家是基础、多边是舞台). Feng (2020), *op.cit.*, p.32.
- ⁸ E.g. 国际经济与政治 articles (2001), Volume 10, pp.1-44; Sohn, Injoo (2012), "[After Renaissance: China's Multilateral Offensive in the Developing World](#)", *European Journal of International Relations*, Volume 18, Issue 1, pp.77-101.
- ⁹ Men, Jing (2012), "[The EU and China: Mismatched Partners?](#)", *Journal of Contemporary China*, Volume 21, Issue 74 pp.333-349.
- ¹⁰ Wang, Hongying and James N. Rosenau (2009), "[China and Global Governance](#)", *Asian Perspective*, Volume 33, Number 3, pp.5-39. Another legitimating formulation is peaceful development (和平发展), which was intended to counter the China threat theory (中国威胁论) perceived to be emanating from the US. See Scott, David A. (2013), "[Multipolarity, Multilateralism and Beyond ...? EU-China Understandings of the International System](#)", *International Relations*, Volume 27, Issue 1, pp.30-51.
- ¹¹ Zheng and Niu (2012), *op.cit.*; Shambaugh, David L. (2013), *China Goes Global: The Partial Power*, New York: Oxford University Press, pp.19-20, 123.
- ¹² 教学与研究 (2005), "多边主义与中国外交", Volume 8, pp. 1-17; Wang, Yizhou (2002), "国家利益再思考", *中国社会科学*, Volume 2, pp.160-170; *China Internet Information Center*, "[China's Position Paper on UN Reforms](#)", 08 June 2005.
- ¹³ Pu, Xiaoyu and Chengli Wang (2018), "[Rethinking China's Rise: Chinese Scholars Debate Strategic Overstretch](#)", *International Affairs*, Volume 94, Issue 5, p.1026.
- ¹⁴ Smith, Stephen N. (2021), "[China's 'Major Country Diplomacy': Legitimation and Foreign Policy Change](#)", *Foreign Policy Analysis*, Volume 17, Issue 2; Feng (2020), *op.cit.*, p.65.
- ¹⁵ Kohlenberg, Paul J. and Nadine Godehardt (2021), "China's Global Connectivity Politics: A meta-geography in the making" in Paul J. Kohlenberg and Nadine Godehardt (eds.), *The multidimensionality of regions in world politics*, New York: Routledge, Ch.10. See also Pang, Zhongying (2012), "全球治理的转型—从世界治理中国到中国治理世界?", *国外理论动态*, Volume 10, pp.13-16; Qin, Yaqing (2013), "全球治理失灵与秩序理念的重建", *世界经济与政治*, Volume 4, pp.4-18.
- ¹⁶ E.g. *new type of international relations* (新型国际关系), *major-country diplomacy with Chinese characteristics* (中国特色大国外交). See *Xinhua*, "[习近平出席中央外事工作会议并发表重要讲话](#)", 29 November 2014.
- ¹⁷ Liu, Hongsong (2020), "[Chinese Perception of China's Engagement in Multilateralism and Global Governance](#)", *The Pacific Review*, Volume 33, Issue 3-4, pp.469-496; Chan, Seng In and Weiqing Song (2020), "[Telling the China Story Well: A Discursive Approach to the Analysis of Chinese Foreign Policy in the 'Belt and Road' Initiative](#)", *Chinese Political Science Review*, Volume 5, pp.417-437; Cheung, Sophie (2020), "China's Vision for Global Governance: A Community of Shared Future for Mankind", *Mapping China Journal 2020*, pp.56-90. The 'Human Community of Fate' is more commonly translated as 'Community of Shared Future for Mankind'. However, this does not capture the concept's origins in the notion of *Schicksalsgemeinschaft*, nor its organicist connotations. See Mitchell, Ryan (2022), "[The Human Community of Fate: A Conceptual History of China's Ordoglobal Idea](#)", *Humanity: An International Journal of Human Rights, Humanitarianism, and Development*, Volume 13, Number 3.
- ¹⁸ Le, Yucheng, "为全球治理体系改革和建设不断贡献中国智慧和力量", *光明日报*, 22 November 2017.
- ¹⁹ Xi, Jinping, "加强合作推动全球治理体系变革 共同促进人类和平与发展崇高事业", 28 September 2016a; Sun, Jisheng (2021), "[China's Efforts to Shape and Improve Its International Discursive Power: Diplomatic Practice](#)", *The Hague Journal of Diplomacy*, Volume 16, Issue 2-3, pp.334-347.
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- ²² Chen, Zhimin, "[真正的多边主义的理论内涵](#)", *人民日报*, 17 January 2022; Zhang Guihong, "[维护和践行真正的多边外交 \(思想纵横\)](#)", *人民日报*, 18 November 2021; People's Republic of China (2021), "[Position Paper on China's Cooperation with the United Nations](#)".

- ²³ Another example of this behaviour is the rhetoric on *democracy*, which similarly distinguishes between 'real' (真实) and 'pseudo-democracy' (为民主). Chinese Ministry of Foreign Affairs, “外交部发言人就美国举办‘领导人民主峰会’发表谈话”, 11 December 2021.
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- ²⁵ Feng (2020), *op.cit.*, p.81; Sohn (2012), *op.cit.*
- ²⁶ Holslag, Jonathan (2011), “[The Elusive Axis: Assessing the EU-China Strategic Partnership](#)”, *Journal of Common Market Studies*, Volume 49, Issue 2, p.309. Wuthnow, Joel; Xin Li; and Lingling Qi (2012), “[Diverse Multilateralism: Four Strategies in China’s Multilateral Diplomacy](#)”, *Journal of Chinese Political Science*, Volume 17, Issue 3, pp.269-90.
- ²⁷ Feng (2020), *op.cit.*, pp.6-8, 23.
- ²⁸ Xi, Jinping (2020), *The Governance of China, Vol. III*, Beijing: Foreign Languages Press.
- ²⁹ Sun (2021), *op.cit.*; Xi, Jinping, “习近平在哲学社会科学工作座谈会上的讲话”, 17 May 2016b.
- ³⁰ Sun (2021), *op.cit.*
- ³¹ Chung, Chien-Peng (2008), “[China’s Approaches to the Institutionalization of Regional Multilateralism](#)”, *Journal of Contemporary China*, Volume 17, Issue 57, pp.747-764; Sohn (2012), *op.cit.*; p.81; Jakóbowski, Jakub (2018), “[Chinese-Led Regional Multilateralism in Central and Eastern Europe, Africa and Latin America: 16 + 1, FOCAC, and CCF](#)”, *Journal of Contemporary China*, Volume 27, Issue 113, pp.659-673.
- ³² Examples include the Shanghai Cooperation Organisation, Belt and Road Initiative, Asian Infrastructure Investment Bank, Asia-Pacific Economic Cooperation, BRICS, the G20, Conference on Interaction and Confidence-Building Measures in Asia, East Asia Summit, Association of Southeast Asian Nations Regional Forum, and various regional multilateral fora. Alden, Chris and Ana Cristina Alves (2017), “[China’s Regional Forum Diplomacy in the Developing World: Socialisation and the ‘Sinosphere’](#)”, *Journal of Contemporary China*, Volume 26, Issue 103, pp.151-165. Since 2017, there are also references to the South-South Human Rights Forum, World Political Parties Summit and instances of ‘host diplomacy’.
- ³³ Feng (2020), *op.cit.*, p.28.
- ³⁴ European Commission and High Representative of the Union for Foreign and Security Policy (2019), [EU-China – A strategic outlook](#), JOIN(2019) 5 final, Strasbourg, p.2.
- ³⁵ Pan, Zhongqi (2012), *Conceptual Gaps in China-EU Relations: Global Governance, Human Rights and Strategic Partnerships*, Basingstoke: Palgrave Macmillan; Scott (2013), *op.cit.* See also Callahan, William A. (2007), “[Future Imperfect: The European Union’s Encounter with China \(and the United States\)](#)”, *Journal of Strategic Studies*, Volume 30, Issue 4-5, pp.777-807; Geeraerts, Gustaaf (2015), “China, the EU and Global Governance in Human Rights” in Jianwei Wang and Weiqing Song (eds.), *China, the European Union, and the International Politics of Global Governance*, New York: Palgrave Macmillan, p.60.
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- ³⁷ Huotari, Mikko and Katja Drinhausen (2020), “Advancing Liberal Multilateralism” in Mikko Huotari, Jan Weidenfeld and Claudia Wessling (eds.), “[Towards a ‘Principles-First Approach’ in Europe’s China Policy](#)”, Berlin: Mercator Institute for China Studies, Ch.4.
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- ³⁹ Johnston, Alastair Iain (2019), “[China in a World of Orders: Rethinking Compliance and Challenge in Beijing’s International Relations](#)”, *International Security*, Volume 44, Issue 2, pp.9-60.
- ⁴⁰ European Commission and High Representative of the Union for Foreign and Security Policy (2021), [Joint Communication on strengthening the EU’s contribution to rules-based multilateralism](#), JOIN(2021) 3 final, Brussels.
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- ⁴² Michalski, Anna and Zhongqi Pan (2017), “[Role Dynamics in a Structured Relationship: The EU-China Strategic Partnership](#)”, *Journal of Common Market Studies*, Volume 55, Issue 3, pp.611-627; Men (2012), *op.cit.*; Scott, David A. (2014), “[Trust, Structures and Track-2 Dialogue in the EU-China Relationship: Resetting and Resettling a ‘Strategic Partnership’?](#)”, *Asia Europe Journal*, Volume 12, pp.21-34; Scott (2013), *op.cit.*
- ⁴³ See Michalski, Anna and Zhongqi Pan (2017), *Unlikely Partners: China, the European Union and the Forging of a Strategic Partnership*, New York: Nature America Inc.
- ⁴⁴ The tendency of member states to lift multilateral issues to the EU level could facilitate this kind of pivot. On the other hand, the European Parliament’s growing concern with China and principled multilateralism since 2018 would be an inhibitor.
- ⁴⁵ Keukeleire, Stephan and Bas Hooijmaaijers (2014), “[The BRICS and Other Emerging Power Alliances and Multilateral Organizations in the Asia-Pacific and the Global South: Challenges for the European Union and Its View on Multilateralism](#)”, *Journal of Common Market Studies*, Volume 52, Issue 3, pp.582-599. Christiansen, T.; Emil J. Kirchner; and Uwe Wissenbach (2019), *The European Union and China*, London: Red Globe Press, pp.181-182.
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