



**POLITICAL
INTELLIGENCE**

The EU's China strategy: “de-risking, but not decoupling”

By Christopher Ball and Eleanor Doorley



The EU's China strategy: “de-risking, but not decoupling”

Introduction

The rise of China to a global economic and military power has seen the European Union recalibrate its relationship accordingly in recent years. China represents both an important market and key manufacturing hub for European companies and a major investor in the bloc, but its approach to intellectual property, technological advances, and trade policies means it is also an economic rival. So too on geopolitical issues, China's heft makes it a key partner in regional and global issues like climate change, but its domestic suppression of human rights, from the Uyghurs to Hong Kong, are anathema to the EU's democratic principles. Its aggressive foreign policy and claims on Taiwan and the South China Sea also challenge the so-called rules-based global order that Europe espouses. More recently, Washington's increasing rivalry with Beijing and China's possible influence in Russia's war on Ukraine has raised questions in the EU about whether China is more a cooperating partner, economic competitor, or systemic rival.

This Dods EU Political Intelligence report examines the EU's approach to its increasingly important relationship with China through the lens of foreign affairs and trade, including recent speeches by key policymakers and related policy developments.

Balancing partnership, competition, and rivalry

In March 2019, the European Commission published a key policy paper that recognised that China's economic power and influence had grown with unprecedented scale and speed and there was a growing appreciation in Europe that the balance of challenges and opportunities presented by the Asian giant had shifted. In the document, [“EU-China – A strategic outlook”](#), the EU said, “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.” The EU's response, it said, should be based on three objectives: deepening engagement to promote common global interests, robustly seek more balanced and reciprocal conditions for the bilateral economic relationship, and strengthening Europe's policies and industrial base to maintain its prosperity, values, and social model over the long term.

While the EU's approach to China has remained wedded to the partner, competitor, and systemic rival triptych, it has evolved since 2019. The EU has looked to pursue a [comprehensive strategic partnership](#) with China based on ensuring reciprocity, achieving a level playing field, and addressing asymmetries in the relationship. This has dictated bilateral cooperation on a range of concerns including energy, climate change, and digital policies. However, there has been a lack of alignment on other issues, such as trade, human rights, and foreign relations, from China's more ambivalent stance on Russia's invasion of Ukraine to its aggressive attitude to Taiwan and so-called wolf warriors, confrontational and outspoken Chinese diplomats.

In response, European Commission President Ursula von der Leyen delivered one of her most critical and important [speeches to date](#) on EU-China relations at a Mercator Institute for China Studies (MERICS) and European Policy Centre (EPC) event on 30 March, 2023. While it was good that China's economy had reopened after Covid and diplomatic engagement could resume, it was clear bilateral relations had become more difficult and distant in recent years with a hardening of China's strategic posture and increasing assertiveness, she said. The Commission chief also

pointed to China's restrictions on Lithuanian exports as evidence Beijing is ramping up its policies of disinformation and economic coercion and said China was moving into a new era of security and control, be it military, tech, or economic.

Nevertheless, von der Leyen said Europe should ensure open communication with Beijing, including through a resumption of the High-Level Economic and Trade Dialogue forum, and focus on strengthening the international institutions and systems that enable countries to compete and cooperate. "I believe it is neither viable nor in Europe's interest to decouple from China. Our relations are not black or white and our response cannot be either. This is why we need to focus on de-risk not de-couple," she said. While Europe did not want to cut economic, societal, political or scientific ties with China, the relationship needed to be rebalanced, the Commission chief said. This more hawkish EU approach has spawned a range of primarily trade defence policies, outlined in more detail below. Looking ahead, China's approach to Russia's war Ukraine and its adherence to international obligations on human rights would be key factors determining EU-China relations, she added.

In terms of engagement, several EU leaders have beaten a path to Beijing for talks with President Xi Jinping and other officials since the relaxation of China's zero-Covid policy. German Chancellor Olaf Scholz visited in November 2022, followed by Spanish Prime Minister Pedro Sanchez. On 6 April 2023, French President Emmanuel Macron visited Beijing accompanied by von der Leyen, just days after her pointed speech. In a press conference following the talks, the Commission President highlighted the importance of the EU-China relationship, with bilateral trade, totaling €2.3 billion per day in 2022. But she also called for a more level-playing field, saying China was excluding EU products in some sectors, such as agri-food products and medical devices. As a result of these trade restrictions, the EU was more vigilant about its dependencies, she added.

It remains to be seen if Europe's diplomatic efforts with China have moved the dial on its key concerns of Ukraine, Taiwan, and trade restrictions. In late April, Xi held his first talks with Ukraine's Volodymyr Zelenskiy since Russia's invasion, after promoting a 12-point peace plan in February. However, there is little sign Beijing is using its influence on Russia to end the war since Xi signed a "no limits" partnership with President Vladimir Putin shortly before the invasion.

Members of the European Parliament discussed EU-China relations at a plenary [debate](#) on 18 April where they called for a "coherent" strategy based on reciprocity, mutual respect, and the respect of international law. But the lawmakers put forward a range of views on how to proceed, reflecting the different opinions--and lack of cohesion--on China among the EU's member states. French Liberal MEP Stéphane Séjourné noted that there was a certain level of consensus in viewing China "as a partner, a competitor, and a rival all at once", a view echoed by some other MEPs across the various political groups. However, politicians from the Right, including Marco Zanni and Hermann Tertsch, called on the EU to distance itself from China. Hilde Vautmans from the Centre-Left and Green MEP Reinhard Bütikofer--the chair of the delegation for relations with China--said the EU's approach towards China had led to confusion and disjointed messaging. "The EU must not be divided over China because it has too much to lose", Vautmans said.

Taiwan was a key issue in the debate, with several MEPs saying China's military exercises in the Taiwan Strait were a threat to Taiwanese sovereignty. "China should not decide what happens to Taiwan; Taiwan should decide what happens with Taiwan," said EPP President Manfred Weber. Özlem Demirel, from the Left group, noted the beginnings of "a storm brewing in the Indo-Pacific" and advocated de-escalation.

However, the general approach articulated by von der Leyen has been echoed elsewhere by international partners and follows Europe's drive to reduce its dependency on Russian oil and gas. At a 19-21 May summit in Hiroshima, Japan, leaders of the Group of Seven [said](#) they were not decoupling from China but recognised that economic resilience required "de-risking and diversifying". Sections of the European business community have also voiced support for a balanced approach that does not harm their considerable interests in China. In a statement following von der Leyen's keynote speech, Markus Beyrer, Director General of BusinessEurope, [said](#), "Decoupling is not a solution to address the problems such as asymmetries in market access and the increasing politicisation of China's economy." However, others have noted that finding a European consensus on China will be hard. "Many member states have yet to define their China-related priorities," MERICS executive director Mikko Huotari and analyst Grzegorz Stec said in a March [article](#) setting out priorities for the strategy including expansion of the EU's defensive toolbox and reduction of strategic vulnerabilities.

De-risking, but not decoupling trade

China is one of the EU's largest trade partners, making commerce the most economically important area of the bilateral relationship. China is the EU's largest imports partner of goods and its third biggest export market after the US and UK, according to 2022 figures from [Eurostat](#). Among EU member states, the Netherlands was the largest importer of goods from China while Germany was the largest exporter.

Whilst the EU has exclusive competence over trade issues, the positions of the member states vary, with some countries adopting a more hawkish position and others more interested in preserving and in some cases deepening economic ties. While the leaders of Germany and France have visited Beijing in recent months to drum up trade, the Netherlands has aligned itself more closely with the hawkish American approach and introduced export bans on certain sensitive products to China. Lithuania is perhaps the member state with the worst bilateral relationship with China after Beijing hit the country with a trade embargo following its diplomatic outreach to Taiwan.

The EU supported the Chinese entry into the WTO two decades ago in the hope it would help encourage the development of an open market economy in the Asian giant and provide the basis for a rules-based trading agreement. The EU and China trading relationship reached a high point in late 2020 with an agreement in principle on the [Comprehensive Agreement on Investment](#) (CAI) which aimed to grant EU investors a greater level of access to China's market. However, the agreement was shelved after China imposed sanctions on several lawmakers and European entities in response to the EU decision to place restrictive measures on four Chinese officials and one entity over human rights violations against the Muslim Uyghur minority in the Xinjiang region. The EU's de-risking strategy followed with a range of policy and legislative measures including:

- Introducing a range of policies to make the EU economy and industry more competitive and resilient, including the [Critical Raw Materials Act](#) to encourage diversification of the supply of raw materials that are key for the green and digital sectors away from China; boosting competitiveness in the chips sector; and the [Net-Zero Industry Act](#) to ensure more green technology is produced in the bloc.
- Improving the use of the EU's existing toolbox of trade defence instruments, including new rules on foreign direct investment screening; the [anti-coercion instrument](#) to enable

the bloc to use import tariffs and other measures instead of waiting for the World Trade Organisation (WTO) to protect members states from economic coercion by third countries; and tighter rules against imports of goods made with [forced labour](#) and foreign subsidies.

- The development of new defensive tools for some critical sectors, including the Commission's new Economic Security Strategy which will map out where economic security needs to be strengthened and how trade and tech security tools could be improved. Josep Borrell, the High Representative of the European Union for Foreign Affairs and Security Policy, [said](#) in late March that economic security must become an integral part of the EU's foreign policy. He acknowledged Europe's dependence on China in key green areas, after Beijing built up the country's dominant position through state-directed investments and massive subsidies.
- Greater alignment with other partners, including the [Trade and Technology Council](#) with the US and the Global Arrangement on Sustainable Aluminium, as well as a continued drive to conclude more free trade agreements with other countries and trading blocs.

On technology, the European Parliament recently banned TikTok—owned by Beijing-based ByteDance—from staff work devices due to security concerns, though the EU has not followed the US and UK in clamping down on Chinese tech supplier Huawei. In a recent visit to China, German Foreign Minister, Annalena Baerbock, broached the possibility of imposing sanctions on Chinese companies involved in the exporting of semiconductors to Russia, prompting China to talk of retaliatory measures.

More recently, EU ministers held further discussions on “de-risking” trade with China at a [Foreign Affairs Council](#) on 25 May, 2023, in particular what instruments might be needed to handle existing and potential critical trade dependencies with the country.. The Commission explained its four-pronged de-risking strategy and gave ministers an update on preparations for the next EU-China High-Level Dialogue for Economy and Trade, due later in 2023. At the [9th EU-China High-Level Economic and Trade Dialogue](#) (HED) in July 2022, the two sides discussed a range of bilateral issues, including disruptions of supply chains caused by COVID-19 and the impact of Russia's invasion of Ukraine on food, energy and financial markets.

China is certain to remain a key focus of EU foreign and trade policy for the foreseeable future. The Commission is set to publish its European Economic Security Strategy on 20 June, which is expected to advance the de-risking strategy. Relations with Beijing are also due to feature in discussions when EU leaders meet in Brussels for the 29-30 June European Council. “EU-China policy will be on the agenda of our European Council in June,” Charles Michel, the President of the European Council, confirmed in a [tweet](#) in late April.

Christopher Ball is the head of Dods EU Political Intelligence and covers trade policy.

Eleanor Doorley is a Political Consultant at Dods EU Political Intelligence and covers foreign affairs.



About Dods Political Intelligence

We provide insight, intelligence and impact through our comprehensive suite of policy tools. Our services comprise of three main elements: *Dods Consultancy* – based in Brussels and London, our industry experts offer real-time analysis and impartial guidance on the latest policy developments and trends. *Dods Monitoring* – our platform offers instant alerts and contextual insight from over 13,000 sources across the UK and the EU. *Dods People* – the original who is who in politics, Dods Parliamentary Companion, was established in 1832. Today, our stakeholder management tools cover the UK and the EU, helping you identify and communicate effectively with key contacts.

Contact Us

For further information, please visit dodspoliticalintelligence.com or contact us at customer.service@dodsgroup.com or
UK customer service +44 207 593 5500 or
EU customer service +32 274 182 30