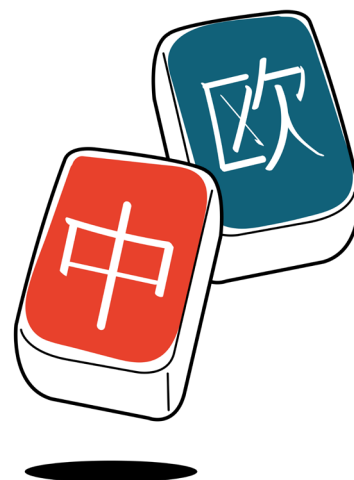


DECEMBER 8, 2022

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Europe China 360°



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ANALYSIS

EU-China relations in 2022: Through trials and tribulations

Throughout 2022 security challenges posed by China have become an issue of increasing concern for Europe. From economic, through cyber and hybrid to more traditional – in the context of potential military action against Taiwan, these challenges exist in multiple domains.

In a lineup of new strategic documents there is a visible shift in the framing of China. This is apparent in the release of the EU's [Strategic Compass](#) in March, [NATO's Strategic Concept](#) in June, the [input paper](#) by the European External Action Service in October and following the European Council's economic security concerns about China. Strategic change of this trajectory is unlikely in the wake of the [20th Party Congress' outcome](#), which in the words of EU High Representative [Josep Borrell](#) "largely confirmed what we already knew."

And yet, while the broad strokes of this security-conscious re-evaluation of the EU's China policy seem to be emerging into a consensus, the debate still rages on about into what actions should this translate. Especially after two years of halted exchanges, there is a growing appetite to re-open direct channels of communication with Beijing.

Selected political events relevant to EU-China relations in 2022

- *January 27* – EU launches a WTO dispute with China over Beijing's economic coercion of Lithuania
 - *February 4* – China and Russia declare a "no-limits partnership" with Russia's invasion of Ukraine soon to follow
 - *February 4-20* – EU leaders – with exception of Polish President Andrzej Duda – decline invitations to the Beijing Olympics
 - *March 21* – Adoption of EU Strategic Compass with reference to challenges posed by China
 - *April 1* – EU-China Summit focused on disagreements
 - *June 29-30* – NATO Summit in Madrid adopts Strategic Concept describing China as a "systemic challenge"
 - *July 19* – EU-China High-level Economic and Trade dialogue
 - *August 11* – Estonia and Latvia leave the 16+1 format
 - *November 4* – German Chancellor Olaf Scholz visits Beijing
 - *November 15-16* – Several European leaders meet Xi Jinping on sidelines of G20 summit in Bali
 - *December 1* – European Council President Charles Michel visits Beijing
-

Russia factor as a double-edged sword

Russia's invasion of Ukraine and Beijing's tacit support of Moscow accelerated this security reevaluation, putting the challenges of dependencies and foreign interference high on the agenda of policymakers. The Beijing-Moscow partnership paired with the People's Liberation Army's (PLA) military exercises around Taiwan compounded Europe's security- and bloc-politics thinking towards China. Particularly, in [Central and Eastern Europe](#) these events accelerated the corrosion of China-CEE cooperation, resulting in the [departure of Estonia and Latvia](#) from the 16+1 format.

Still, somewhat counterintuitively, the invasion also had a stabilizing impact on EU-China relations – at least in the short term. The economic pressure and energy crisis created by sanctions towards Russia reduced the EU's threshold for repercussions, that would otherwise have allowed for a critical reevaluation of its economic relations with China. These circumstances further [limit the appetite](#) of European businesses to diversify away from the Chinese market, with its comparative appeal to the European one. Second, China's commitment to Russia keeps many across the EU under the impression that Beijing can impact Moscow's behavior – including limiting the usage of nuclear threats – although both Beijing's will and its capability to play this role [remain questionable](#).

Costly diplomatic engagements

Against this background, the EU and China resumed direct exchanges with high-level meetings on the sidelines of the [G20](#) and successive visits to Beijing visits from German Chancellor [Olaf Scholz](#) and European Council President Charles Michel. Visits by French President Emmanuel Macron and Italian Prime Minister Giorgia Meloni are set to follow next year, yet high-profile visits from Chinese leaders to Europe have so far not been scheduled.

Direct exchanges with China's party and state leader Xi Jinping are valuable at a time when he has surrounded himself only with loyalists, exacerbating his risk of operating within a sycophantic echo chamber. But prior to their visits, European leaders need to be mindful to coordinate their position – both across the EU and with like-minded partners – and not to shy away from issues of contention with Beijing, seeking concrete, verifiable commitments from China. President Michel's visit is an [example](#) from which lessons need to be drawn.

The transatlantic route, a direct connection with turbulence

The swift coordination on sanctions against Russia marked a pinnacle for EU-US collaboration, thanks in no small part to the Trade and Technology Council (TTC). On December 5, the EU and US held their third Ministerial Summit of the TTC, just days after the two held a [dialogue on China](#) (December 2) and a [dialogue on the Indo-Pacific](#) (December 3). Back at the end of November in Bucharest, NATO Ministers discussed China in terms of its members' resilience, technological edge, and need to work with partners to face challenges in the Indo-Pacific.

However, it hasn't all been smooth sailing. The new export controls imposed by the US on October 7, and especially, the US Inflation Reduction Act have presented new frictions

between the two, but they are being addressed; the latter has spurred the creation of an ad-hoc working group.

Furthermore, at the TTC's summit the EU and US agreed to launch the [Transatlantic Initiative for Sustainable Trade](#). After the TTC, the US suggested that the EU impose new [tariffs](#) on China's aluminum and steel exports. The justification of the tariffs is to combat carbon emissions, but the main concern relates to China's unfair competition with American and European producers. However, an agreement between the EU and US may not be so easy to reach. First, the EU has already expressed concerns regarding the legality of the move under WTO rules, a matter of high importance to the Commission and DG Trade, who regard upholding WTO regulations as a necessary precondition for such actions. Second, the EU may find it difficult to exclusively target China with these measures. On the one hand, China's over-production in the sector may facilitate the EU to justify the move, on the other hand, the issue taps into a broader push by the US for EU policies to target China, like in the EU's [export controls](#).

2023 outlook - the Swedish Presidency

Next year, Sweden will hold the Presidency of the Council of the European Union for the first half of 2023, followed by Spain for the second half of the year. Responsibility for implementing regulations with implications for China may land at the feet of the Swedish presidency, such as the anti-forced labor regulation, the anti-coercion instrument, or the review of the investment screening regulation.

Now, China may not be Sweden's number one foreign policy or EU Council Presidency priority, but it is likely to rank high on the list. Whereas, dealing with Russia and the war in Ukraine, as well as its own accession to NATO are more pressing issues for Stockholm. However, past [issues between Sweden and China](#) (i.e., China's arrest of Swedish citizen Gui Minhai, and the subsequent cancellation of trade missions to Sweden by China in response to a Swedish NGO awarding Gui a prize in 2019) as well as current developments such as the ban on Huawei have made Sweden an important and experienced stakeholder in the European debate on China. The Swedish Presidency will have the difficult role of working on a united approach to China when old habits of bilateral engagement and member states' divergent interests are likely to emerge once more. The publication of Germany's China policy will be a key moment, one which is likely to spur questions about each EU member state's approach to China.

Read more:

- MERICS: [CCP's 20th Party Congress – What does it mean for the EU?](#)
- MERICS: [How China views the EU amid the Russia-Ukraine war: Contradictions of transatlantic relations and strategic autonomy](#)
- European Commission: [EU-US Trade and Technology Council addresses common challenges and responds to global crises](#)

REVIEW

Managing dependencies on China

The EU has been stepping up its game to increase understanding of its dependencies on China and how to better manage them to insure greater European resilience.

What you need to know:

- **The assessment:** As part of the EU's update of its New Industrial Strategy, in 2021, the EU undertook an [assessment of its strategic dependencies](#) followed by a [second stage of in-depth reviews](#) in 2022. Strategic dependencies have been defined as “dependencies that are considered of critical importance to the EU and its Member States’ strategic interests such as security, safety, health and the green and digital transformation” but also as areas and products that are most difficult to diversify. The report includes the review of six strategic dependencies for the EU: raw materials, batteries, active pharmaceutical ingredients, clean hydrogen, semiconductors as well as cloud and edge technologies.
- **The policies:** At the end of 2022, the EU can exhibit an extensive list of policies designed to enhance its own resilience and decrease over-dependencies. Officially, none of the policies listed target China per se, but they derive from overdependencies on China. Legislation such as the [Chips Act](#), [Critical Raw Materials Act](#) (Commission adoption planned for first quarter of 2023), [Batteries Regulation](#), [Due-diligence regulation](#), free trade agreements, and the [Material Security Partnership](#) bring together Australia, Canada, Finland, France, Germany, Japan, the Republic of Korea, Sweden, the United Kingdom, and the United States.
- **Challenges ahead:** The EU has now been able to assess its situation and adopt an adequate toolbox to better respond to identified over-dependencies. However, many member states have not followed Brussels in suit in either assessing their dependencies on China or thinking about how to decrease over-dependencies.

Quick take: “Diversification” is seen as the EU and member states’ solution when it comes to dependencies. There are some good examples, such as the Netherlands, where diversification talks appear to be following an attempt to understand where and how to diversify strategically. However, there are many more inferior examples, as most member states are either relying on Brussels’ lead or are either unwilling or unable to understand where their vulnerabilities lie and how to manage them. Only a collective buy-in can turn diversification from a slogan into a strategy.

Read more:

- European Commission: [Commission presents an updated in-depth review of Europe's strategic dependencies](#)
- European Commission: [Strategic dependencies](#)

SHORT TAKES

New China-related strategies for Germany and France

Major European players and frameworks are moving forward with their discussions on approaches to China. In Germany a draft of the much-anticipated China Strategy prepared by the German Ministry of Foreign Affairs was leaked. It included criticism of "massive human rights violations" and a reevaluation of economic engagement with China over sustainability and dependency considerations. While in France, the National Strategic Review, although not China-focused, outlined France's defense policy from now until 2030. The review highlights "heightened competition" with the PRC and further assesses that China seeks to "supplant the US as the world's leading power" and remodel the international system in coordination with Russia.

- Der Spiegel [DE]: [The government's secretive China strategy](#)
- POLITICO: [Germany weighs harder line on China and its 'massive human rights violations'](#)
- The French Republic [FR]: [National Strategic Review 2022](#)

Panel stage for two disputes at the WTO

The EU pushes ahead with the dispute against China at the WTO. Two panels will be created; one for the famous case of the trade restrictions imposed on Lithuanian products and components following the decision by Vilnius to open a Taiwanese Permanent Representation; the other is to ensure European high-tech patent holders can enforce their rights and protect their patents from theft by China. The decision is not ground-breaking, but not only is it a step forward on two important issues, so too is it a way for the EU to uphold the multilateral system by going through the WTO rather than responding bilaterally. However, bringing cases against China to the WTO, will not be enough.

- South China Morning Post: [EU pushes ahead with WTO cases against China over Lithuania coercion and hi-tech licences](#)
- European Commission: [EU requests two WTO panels against China: trade restrictions on Lithuania and high-tech patents](#)
- World Trade Organization: [China — Measures Concerning Trade in Goods and Services](#)

The end of UK-China "Golden Era"

After deciding not to label China a national security threat, UK's Prime Minister Rishi Sunak has determined the end of the so-called UK-China Golden Era. A brainchild of former PM David Cameron and his Chancellor of the Exchequer George Osborne, the Golden Era was aimed at fostering ever closer relations between the two countries. The Golden Era ended soon after Cameron left office, but the decision by Sunak to declare it is significant.

- BBC: [Rishi Sunak: Golden era of UK-China relations is over](#)

China reaches out to Central and Eastern Europe (again)

Jiang Yu, recently appointed Special Representative for relations with Central and Eastern Europe (CEE) by China's Ministry of Foreign Affairs (MFA), completed her second visit to the region in November. The trip repeats Jiang's previous outreach in September and that of her predecessor, Huo Yuzhen, in April. Jiang's newest mission appears to have been a communication exercise with limited success. Beijing is likely to continue to struggle to reinvigorate the 14+1 format following the departure of the Baltic states and disruption caused by Beijing's tacit support of Moscow.

- Twitter: [Wang Lutong \(Director General for European Affairs at China's MFA\) on Jiang's visit](#)
- MERICS: [Jiang Yu — China's new Special Representative for Central and Eastern European Countries](#)
- MERICS: [Can China win back Central and Eastern European states?](#)

Czech Presidential race - China component

Czechia is scheduled to hold its presidential elections between January 13–14 with Miloš Zeman, a long-time proponent of engagement with Beijing and a key but controversial figure in Sino-Czech relations, leaving office. Among the current top three contenders – former Prime Minister Andrej Babiš, Petr Pavel and Danuše Nerudová – only Babiš lacks a particularly assertive view on relations with China. Following the elections, it is possible that both the Czech government and presidential palace will converge on a more values-driven and security-minded China policy, increasing the chance of Czechia's departure from the 14+1 China–CEE cooperation format.

- E15.cz [CZ]: [What kind of relationship should the Czechia maintain with Russia and China? We ask the presidential candidates](#)
- MERICS: [Is the Czech EU Presidency bad news for China?](#)

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