GLOBAL EUROPE CENTRE REPORT

EU-China Relations in 2023
Latest Developments

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Executive Summary

- The EU has become much more interventionist in International Politics, particularly in the last few months towards China, with recent overseas visits to Beijing by several EU leaders.

- China also appears to have adopted a more positive rapprochement in recent months towards the EU, alongside the new Ambassador (Head of The Chinese Mission to the EU) Fu Cong. However, it is not clear to what extent these recent moves by Beijing are genuine policy shifts or a form of 'strategic stalling.'

- **Uncertainty in 2023:** The EU-China relationship in 2023 will depend on the complex interactions of geo-political and economic trends. The relationship could grow more strained or competitive, but deeper cooperation is also possible, especially on global issues. A lot will depend on how other dynamics unfold and how both sides choose to approach their long-term relationship.
Introduction

● This report aims to provide a timely update on recent developments in European Union (EU)-China relations. The EU has changed its rhetoric on its own China policy after the declaration that called China a ‘systemic rival’ in 2019. The recently elected German Chancellor, Olaf Scholz has pledged to improve the declining EU-China relationship through a recent surprise visit to Beijing in November 2022 after the 20th National Congress of the Chinese Communist Party.

● During a 27 nation summit in late October 2022, European leaders pledged joint efforts to conduct a coherent set of geopolitical strategies towards China to prevent further escalation of the systematic rivalry.

● However, it is inevitable for several EU member states and the European Parliament to express concerns about the realignment of China’s economic diplomacy alongside commercial interests of the EU as a whole.¹

● The European Parliament has forged an EU wide consensus towards its China policy and pushed for stronger regulations on sanctions responses and human rights concerns. Aside from the rising geopolitical rift between the United States and China, the Russian-Ukrainian war has also been another significant factor in the consideration of the EU’s China doctrine.

● This report provides important recent updates on EU-China relations, with a specific focus on recent developments in 2022 and early 2023, alongside outlining projections ahead for the EU-China relationship in 2023.

The EU’s Strategic Autonomy Principle

Put simply, the EU’s Strategic Autonomy Principle is the EU’s ambition to be more independent and self-sufficient to advance its own economic interests, with the EU shifting from a regional to a global power. The EU’s Strategic Autonomy Principle refers to its ambition to be more independent and self-sufficient in addressing key global issues. The key aspects of strategic autonomy include:

- Technological capabilities. The EU wants to be more self-sufficient in key technologies such as AI and 5G. This is driven by concerns about over-reliance on other countries such as the US and China, as well as competitiveness.

- Economic power. Through policies such as digital taxation and scrutinizing foreign investments, the EU aims to have more economic power on the global stage. However, a limitation here is that the EU’s market remains deeply integrated with other major economies, making full autonomy extremely difficult.

- Global Governance influence. The EU wants to be an independent geopolitical actor that can advance its own interests and values. But its global influence is still relatively limited, in comparison to other major powers, and member states do not always agree on foreign policy, making a unified strategic autonomy hard to achieve.

**Key takeaways from the EU Perspective**

- The EU must define its Global Gateway strategically. The Global South is going to be the focus of much of China’s diplomatic and geoeconomic action in the future.
- Finding new markets and areas for production and securing supplies should be among its priorities. The EU should reach out to third countries with which to do business, not just to send aid.
- Notwithstanding the competitive basis of the different initiatives, the Global Gateway and the BRI can collaborate in limited sectors in third countries (i.e. on issues relating to debt relief).

**The EU’s Global Gateway Programme vs China’s BRI**

- The commitment to mobilize investments of up to €300 billion (most of it a repackaging of previously committed funds) over the 2021-27 period falls short compared with Beijing’s Belt and Road Initiative (BRI) whose annual funding – at a minimum of US$100 billion yearly – outcompetes the Global Gateway Programme.
- With its Global Gateway, the EU aims to build on the current momentum in the European Union’s agenda for green and digital transitions and to align them with its domestic policies, including the EU Digital Compass and the EU Green Deal.
- An EU Press Bulletin in late 2022 stated that: “Global Gateway investments are an offer to be discussed and implemented in agreement with partner countries, and they are in line with the strategic framework set at Summits and other high-level events where we engage on the highest diplomatic level with partners (such as the EU-AU Summit, Samarkand Central Asia Conference, EU-Western Balkans Summit, EU-ASEAN Summit, etc.).”
- However, there are also tensions and differences amongst a number of EU member states towards China, with some scholars such as Catherine Jones pointing to two opposing views (fragmentation) amongst the EU27.

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● These tensions include countries in Eastern Europe (Hungary and Poland) alongside Southern Europe (Italy) who have tended to be more positive about leveraging the economic benefits from China’s BRI. In contrast, Western European member states such as Germany and France have tended to be much more concerned about the political dimensions of China’s BRI, particularly with China targeting poorer economically underdeveloped EU countries.⁷
● Furthermore, there are also significant questions about how the EU’s Global Gateway Programme would be funded, especially in the current economic climate that Europe is experiencing.

International Trade

EU-China: A Stable Global Economy is a shared responsibility⁸

● The EU raised concerns related to the business environment, including the lack of a level playing field and the growing politicization of the business environment in China.
● This is leading EU companies to reconsider their existing operations and planned investments in the country.
● The EU reiterated that measures of economic coercion – including against Lithuania – are unacceptable.

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EU-China Trade Outlook in 2021

EU trade in goods with China, 2020-2021

EU trade balance of goods with China, 2021

EU-China Trade Balance by Member States (2021)

Source: Eurostat (online data code: ext_st_eu27_2020sitc)

Source: Eurostat (online data code: ext_st_eu27_2020sitc and DSt-018905)

**Climate and the Environment**

- The EU-China relationship is primarily deeply grounded in climate geopolitics, intertwining economics and trade, alongside security and technology, as well as agriculture and transportation. Given this, Brussels and Beijing are thus gradually developing a rhetoric of competition.\(^{10}\)

- On September 7\(^{th}\) 2022, at a public event focused on China-Europe cooperation on decarbonization, Wang Hongjian Charge d’affaires of Mission of the PRC to the EU stated that “green cooperation cannot be promoted in a vacuum”, highlighting that cooperation on climate is in Beijing’s view not compatible with geopolitical confrontation. Wang — sticking to the official line — also criticized the EU’s “protectionist measures” referring to the soon-to-be-introduced Carbon Border Adjustment Mechanism.\(^{11}\)

- Wang Hongjian also remarked that: “We must level the playing field for our companies operating in China and make sure that our dependencies do not turn into vulnerabilities. China plays a crucial role in many supply chains and our dependence on China for our green transition strategy is currently higher than our dependence on fossil fuels from Russia.”

- Josep Borrell, The High Representative of the European Union for Foreign Affairs and Security Policy / Vice-President of the European Commission, made the following statement in 2022: “China accounts for 90% of our magnesium needs, 90% of our rare earths requirements and 80% of the solar panels used in the EU. We need to work on reducing these excessive dependencies, addressing vulnerabilities and strengthen our resilience. We will continue engaging with our partners on China – including through the G7.”\(^{12}\)

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\(^{10}\) [https://eias.org/publications/op-ed/china-and-the-eu-in-climate-geopolitics%EF%BF%BC/#:~:text=The%20EU%2DChina%20relationship%20is,developing%20a%20rhetoric%20of%20competition.](https://eias.org/publications/op-ed/china-and-the-eu-in-climate-geopolitics%EF%BF%BC/#:~:text=The%20EU%2DChina%20relationship%20is,developing%20a%20rhetoric%20of%20competition.)


\(^{12}\) [https://www.eeas.europa.eu/eeas/g7-m%C3%BCnster-facing-together-main-geopolitical-challenges_en](https://www.eeas.europa.eu/eeas/g7-m%C3%BCnster-facing-together-main-geopolitical-challenges_en)
EU-China Emissions Trading System:

- The 1st meeting of the Project Steering Committee of Support for Emissions Trading Policy Dialogue and Cooperation Between EU and China, Phase2 was chaired jointly by the Department of Climate Change, Ministry of Ecology and Environment (MEE) and DG Climate Action (DG CLIMA), European Commission on 4th July 2022.\(^\text{13}\)

- A technical meeting on EU-China climate policy dialogue follow-up and cooperation proposals was held by the Department of Climate Change, Ministry of Ecology and Environment (MEE) and DG Climate Action (DG CLIMA), European Commission virtually on 16th September 2022.\(^\text{14}\)

Geopolitics

- European policymakers are increasingly worried about China’s influence in the media, education and other sectors. They also worry about misinformation and even political influence. The main focus of European policies on China is no longer the Chinese market, but rather a focus on how China is influencing European markets, societies and political systems, directly and through Europe’s neighbours.\(^\text{15}\)

- Russia’s invasion of Ukraine has been a strategic shock for Europe, the United States, and the world. In this new hyper-geopolitical environment, Europe is paying heightened attention to the long-standing threats posed by authoritarian governments.

- European leaders realize the old global order is eroding. The violation of Ukraine’s sovereignty and territorial integrity by Russia – a member of the UN Security Council, which is the supposed steward of that order – has arguably shattered any illusion of restoring it. The global order is now contested: Russia aims to diminish it altogether; China seeks to mould the rules around its own ambitions.

\(^\text{13}\) https://www.eu-chinaets.org/en/information/139
\(^\text{14}\) https://www.eu-chinaets.org/en/information/144
\(^\text{15}\) https://www.bruegel.org/blog-post/china-and-west-growing-apart-geopolitical-tensions-grow
Therefore, even as Europeans juggle immediate security, energy, and economic resilience pressures, they must not miss the new strategic imperative: to reshape the global order and build partnerships towards that end.16

Asia

Josep Borrell, The High Representative of the European Union for Foreign Affairs and Security Policy / Vice-President of the European Commission, made the following statement in 202217:

“Another geopolitical tension that I raised was the situation in the South China Sea, considering the increased militarisation and destabilizing actions, which threaten freedom of navigation and overflight, while affecting stability and security. The EU actively supports the ASEAN-led process towards an effective, substantive and legally binding Code of Conduct for this maritime area, respectful of the interests of third parties.”

During the EU-ASEAN Commemorative Summit, the EU and its Member States, in a Team Europe approach, announced the mobilization of €10 billion as part of Global Gateway to accelerate infrastructure investments in ASEAN countries. This package will focus on the green transition and sustainable connectivity in South-East Asia, underpinned by two Team Europe Initiatives: the Sustainable Connectivity Initiative and the Green Team Europe Initiative.18

Cross Strait Relations

Taiwan:
Remarks by High Representative/Vice-President Josep Borrell at the European Parliament debate on the recent developments in 2022:19

- “No one should unilaterally change the status quo of the Taiwan Strait by force.”
- “Our One China Policy does not prevent the European Union from intensifying our cooperation with Taiwan.”
- “Taiwan is vital to the EU’s position in global supply chain security.”

Italy’s Participation in the BRI & Sino-Italy Relations

- There have been a total of 17 EU member states who have signed cooperation agreements (A Memorandum of Understanding/MoU) with China’s BRI, with many Eastern and Southern European countries having endorsed the BRI. One recent country who signed an MoU with China’s BRI was Italy in 2019.20

- A preliminary analysis of BRI-related commercial agreements between Italian financial institutions and their Chinese counterparts shows that they have not resulted in any ground-breaking development. These Memoranda have apparently just added a “BRI” badge to pre-existing trends of collaboration.

- The BRI-related MoUs in the field of financial cooperation do not, for the time being at least, justify concerns that China may gain an economic foothold in Italy large enough to win it much political influence. A more realistic risk is that these MoUs may undermine a common European approach to China, weakening the negotiating stance of the EU.21

- A right-wing Italian Government would seek rigorous appraisal of the country’s controversial “Belt and Road” pact with China, Giorgia Meloni’s top foreign policy adviser remarked. “It’s a given that there will be a thorough review of the memorandum when it expires, in close consultation with European and Atlantic

partners,” said Giulio Terzi di Sant’Agata, a diplomat and former foreign minister, in an interview with the Formiche website.\(^{22}\)

- In the short-term, this signals that Italian foreign policy is likely to distance itself from China and to reassert its position at the heart of Europe and the Western alliance. China will have to look for new partners in the EU to influence European politics and is likely to do so. Given the tenuous position of Europe’s economy, there will undoubtedly be interested suitors, but for now, at least, they will not be in Rome.\(^{23}\)

- The Prime Minister Giorgia Meloni had a cordial bilateral meeting with the President of the People’s Republic of China, Xi Jinping, in the margins of the G20 Summit, in late 2022. Prime Minister Meloni expressed the Italian Government’s interest in promoting mutual economic interests, also with a view to increasing Italian exports to China.

- At the same time, President Xi Jinping and Prime Minister Giorgia Meloni recently acknowledged the ancient relationship between Italy and China, two age-old civilisations, underlying the success of the Italy-China Year of Culture. President Xi recalled the messages exchanged with President of the Republic Sergio Mattarella on that occasion. However, they have also called on dialogues for human rights discussions.\(^{24}\)

**EU Policy Shifts: A More Interventionist EU**

- In just four months so far in 2023, there have been a number of important developments in EU-China relations, with the Spanish Prime Minister Pedro Sánchez making a trip to China to discuss the Ukraine issue with President Xi Jinping in March 2023.\(^{25}\)

- Early April 2023 will also see both the European Commission President Ursula von der Leyen traveling together with French President Emmanuel Macron to China. The French President recently outlined the importance of engagement with China in order to put pressure on Russia.

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● These recent diplomatic efforts by the EU can be viewed as part of a wider rapprochement towards China, in the context of the intensifying Russia-Ukraine War and President Xi Jinping’s March 2023 visit to Moscow.26

● Most significantly, there has been a wider policy shift from the EU since the COVID-19 Pandemic, with a more interventionist EU, particularly regarding key issues of global governance and the wider unveiling of the EU’s Global Gateway Project on the 1st December 2021.

EU-China Relations: Projections for 2023

● A recent article from POLITICO has highlighted how in early 2023, there have been signs of re-engagement by China towards the EU and even towards the EU’s Strategic Autonomy Principle, alongside the recent visit to Europe of China’s Foreign Affairs Minister Wang Yi in January 2023.27

● There is also a new Chinese Ambassador to the EU, Fu Cong, who appears to want to strike a more positive dialogue with the EU.

● China has also recently tabled its latest proposal to the EU, in seeking three core policy areas: (1) Drop the questions on Russia’s invasion of Ukraine from the Bilateral Agenda, (2) End the EU-China sanctions of 2021, (3) Finalize the EU-China Comprehensive Agreement on Investment.28

● Therefore, the EU-China relationship in 2023 will depend on many geopolitical and economic developments that are hard to foresee. However, some possibilities include:

● If current tensions over trade, investment, technology, and human rights persist or intensify, the relationship between the EU and China could become more strained and

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27 https://www.politico.eu/article/china-eu-policy-strategic-stalling/
28 https://www.politico.eu/article/china-eu-policy-strategic-stalling/
competitive in 2023. There may be limited cooperation in some areas, but more conflict or decoupling in others.

- If the US-China conflict escalates, the EU may feel more pressure to align with the US. However, if EU-US relations deteriorate, the EU may pursue more strategic autonomy and be willing to cooperate more closely with China on issues such as climate change.

- China's domestic level economic development will also shape the relationship. If China's economy struggles or it faces more international criticism, it may welcome cooperation with the EU. However, if China feels more powerful, it may expect the EU to reflect that in the power dynamics of the relationship.

- Leadership changes on both sides (including the upcoming 2024 European Parliament elections) are also likely to impact the economic dynamics of the relationship in the near future. How a new EU leadership team and the next generation of Chinese leadership approach the EU-China relationship could lead to either more conflict or more collaboration.

- Therefore, there is no pre-determined path. The EU-China relationship in 2023 will depend on the complex interactions of geo-political and economic trends. The relationship may become more strained or competitive, but deeper cooperation is also possible, especially on global issues. A lot will depend on how other dynamics unfold and how both sides choose to approach their long-term relationship.

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Note: This Report was written one week before French President Emmanuel Macron and European Commission Chief Ursula von der Leyen’s visit to China in early April 2023.
Authors

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Previously, James was a Lecturer and Head of Undergraduate Admissions in the Department of Government & Public Administration at The Chinese University of Hong Kong, alongside being an Adjunct Professor on the MSSc in Greater China Programme at The Chinese University of Hong Kong. James was recently awarded the prestigious CUHK Vice Chancellor’s Exemplary Teaching Award (2021) alongside the CUHK Faculty of Social Sciences Exemplary Teaching Award (2021) for outstanding teaching. James was also previously a Visiting Scholar on the European Union Academic Programme Hong Kong (Funded by an EU Commission Grant).

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