

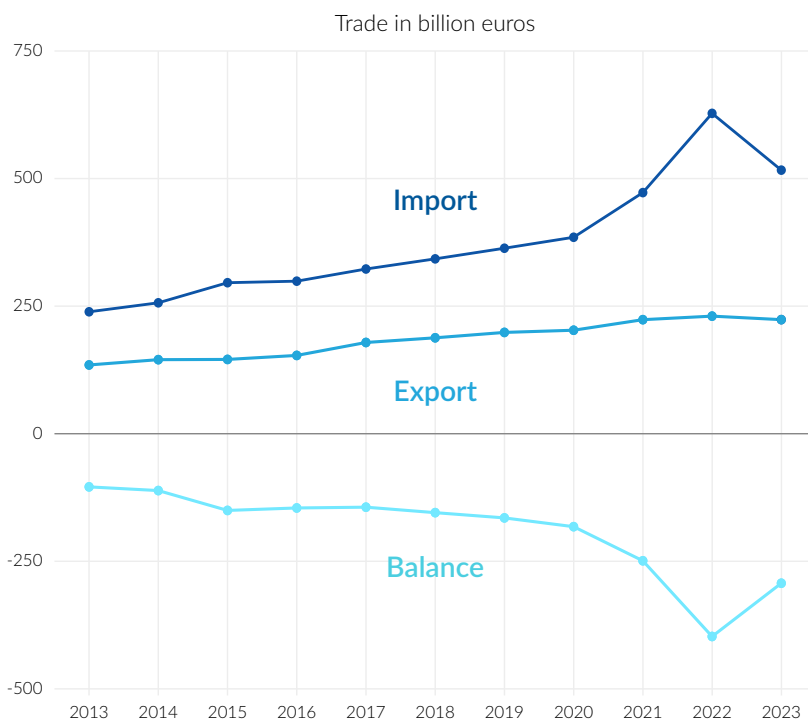
Dealing with China: Accelerating De-Risking

China aims to reshape the global order to its advantage, striving to catch up with or surpass the US in the global political and economic competition, with the ultimate goal of becoming the world's leading hegemon.

The EU and China are closely interconnected through trade and investment. In 2020, they reached a preliminary agreement on a Comprehensive Agreement on Investment (CAI).

Since then, relations have deteriorated: In 2021, EU sanctions over human rights abuses in Xinjiang and Chinese counter-sanctions stalled the CAI. Tensions escalated when China intimidated Lithuania over Taiwan. However, the worst blow happened in 2022, when Beijing declared its no-limits friendship with Russia and maintained a “pro-Russian neutrality” in Putin’s war of aggression against Ukraine. Previously, the EU saw China’s competitiveness mainly as an economic opportunity. However, it now views it also as a security risk, particularly in terms of economic security. This adds a new dimension to the 2019 triad of „partner, competitor, rival“ that defines EU-China relations. China’s potential to disrupt trade and economic interactions for political reasons means that future relations are likely to be marked by divergence, distance, and a focus on de-risking.

Trade balance of the European Union with China 2013–2023



Source: Eurostat (2024)

How China views the EU

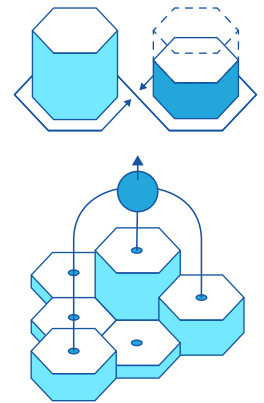
From the Chinese perspective, the EU is strategically weak, therefore malleable, with significant economic power that could position it as a global „swing state.“ China hopes the EU will pursue an “independent China policy”, balancing between Washington and Beijing. However, it is also wary of a united transatlantic bloc, as can be seen in its relations with Russia. To counter this, Beijing often employs a „divide and rule“ strategy, offering special treatment or incentives to individual EU member states. As the US is increasingly closing its markets to China, the latter needs the EU as a sales market due to its own weakening economy. This dependency could give the EU leverage if it can present a unified stance towards China.



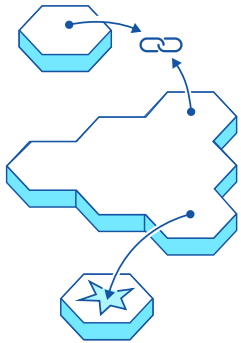
Key challenges in EU-China relations

Lack of reciprocity, i.e. equal market access, with no level playing field for economic relations. As China rolls out its “dual circulation” strategy and other policies aimed at squeezing foreign companies out of its market, discrimination against EU companies continues, while EU markets remain largely open to Chinese businesses.

Non-market economy practices. China’s state-capitalist system, where central and local governments have significant control over resource allocation, differs markedly from Western market economies. State subsidies create market distortions, such as overcapacity and unfair competition. This has led the EU to impose provisional duties on Chinese-made electric vehicles (EVs) to counteract these distortions and protect fair competition.

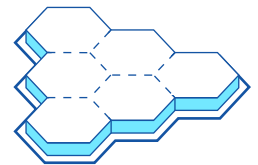


Russia/Ukraine. Russia’s war against Ukraine is detrimental to Europe’s security architecture and a key threat to Europe. China is supporting Russia, barely refraining from breaching western sanctions. It is in Beijing’s interest to keep the US and its allies busy in Europe, allowing it to act more freely in its own neighbourhood. Closing ranks with Russia makes China at least an indirect threat to European security interests.



Taiwan. Taiwan is a key concern for the EU as a global trading and democratic power. Maintaining peace and stability in the Taiwan Strait and preventing any coercive change to the status quo are of utmost importance. Moreover, Taiwan and Ukraine should not be considered separately, as they are globally interconnected issues: The course of the war in Ukraine and further expressions of political support can have a significant influence on China’s approach to Taiwan.

EU unity. In an increasingly geopoliticized and fragmented world, the EU needs unity to be able to throw its full weight behind its new role as a geopolitical actor. Moreover, national solos undermine a cohesive EU-China policy, as China skilfully uses divide-and-rule tactics to pit member states against each other. For instance, Hungary’s independent China approach and Germany’s position on EV tariffs highlight how individual national interests can weaken a unified EU stance.



Recommendations to advance the EU’s de-risking agenda: The European Parliament could

- **boost EU-wide coordination on China:** Elevate the urgency for member states to align with a unified „Team Europe“ approach, highlighting China as a growing security threat.
- **enhance de-risking strategy:** Complement the current defensive de-risking agenda with proactive measures for managing cooperation with China as a systemic rival.
- **advance trade agreements:** Speed up the negotiation and ratification of trade deals, including flexible approaches to non-trade issues, especially with Global South partners.
- **revise trade defense tools:** Continuously update the EU’s trade defense mechanisms, introducing new tools and effectively using existing ones.
- **support industrial resilience:** Back policies that enhance EU supply chain resilience (e.g. CHIPS Act, Critical Raw Material Act).
- **reduce market fragmentation:** Push to complete the Capital Markets Union and minimize fragmentation within the Single Market.
- **strengthen Taiwan ties:** While maintaining the one-China policy, deepen relations with Taiwan across various levels.

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Links

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