China-EU roller-coaster relations:
Where do we stand and what to do?

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1. Brief history of Europe's shifting relations with China

After a long period of engagement since China entered the World Trade Organization (WTO) in 2001, its ties with the European Union (EU) took a distinct turn in March 2019 when the European Union, in its "EU-China Strategic Outlook", moved to a three-pronged position on China, namely that of partner, competitor and systemic rival.[1] This was seen as quite a drastic move from a past dominated by engagement and interdependence. A good example of this endeavour is the EU-China 2020 Strategic Agenda for Cooperation, initiated in 2013, and the start of negotiations for a bilateral investment agreement in the same year, which was concluded in December 2020 under the new name of the Comprehensive Agreement on Investment (CAI) but never ratified for reasons which will be explored later.

The question to ask ourselves is how to explain the EU's sudden move from engagement to a much more complex relation with China.

2. Reasons behind the shift

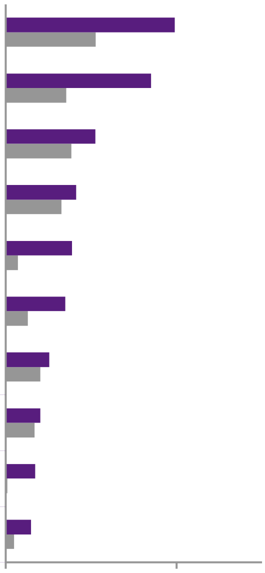
Some analysts of EU-

This, in my view, misses two important points: firstly, the rapidly dete
economic relations between the EU and China, at least from
perspective; and secondly, key political events which have marked
during the last few years. The most obvious one is Russia's invasion o
but also reciprocal sanctions, as will be explained.

2.1 Economic factors behind the EU's shift

EU member states have benefitted very differently from China's economic rise, with Germany having long been the largest beneficiary. Such benefits, though, have started to wane, not only for the EU as a whole, but also for individual member states.

[1] The EU-/ҜƛƴƖ· ǎǘǋI·ǘŜƎƛǑ ƻdzǘƒƻƻƙ (TKŜ 9¦ /ƻƳƳƛǎǎƛƻƴ I·ƴŘ ǘKŜ I ƛƎK-fŜǾŜƒ wŜǇǊŜǎŜƴǘI·əǾŜ hŶǑŜ, 2019), ƘǧǇǎƳƘƘǑƻƳƳƛǎǎƛƻƴΦŜdzǊƻǇI·ΦŜdzƘǎǜǎǘŜƳƘǓƒŜǎƘнлмф-лоƘǑƻƳƳdzƴƛǑI·əƻƴ-eu-china-a-ǎǘǋI·ǘŜƎƛǑ-ƻdzǘƒƻƻƙΦǇŘŦ



2.1.3 EU strategic dependencies for sourcing

The EU's high dependence on China for critically important products became apparent during the pandemic, especially for pharmaceuticals and protective equipment. In fact, recent work conducted by the EU Commission points to a large number of critical dependencies for the EU.[1,2] More specifically, looking into EU imports for critical infrastructure including energy, telecommunications, healthcare, agriculture, and IT, we find that some of the key imports for such sectors are dominated by China.

Below is a table with a cutoff point at 40% of total EU imports for key components or products that go into critical infrastructure. It is hard to judge to what extent these dependencies are risky and how important each product category is, but it offers a sense of where the EU stands with general critical dependencies beyond the work carried out by the Commission.

Table 1. EU's dependency on imports from China by product

Product category	Dependency on China for imports (as % of total)	Import value 2022 (EUR)
Monitors and projectors	74%	€8.8bn
Automatic processing machines and units thereof	73%	€48bn

Floating docks, submersible platforms, light vessels (port equipment)	65%	€360mn
Electrical apparatus for **line** telephony (mainly used in offices)	63%	€52.5bn
Electric transformers, static converters, and inductors	63%	€14bn
Generators	58%	€1.2bn
Forklifts and work trucks	54%	€930mn
Electrical machines and apparatus	52%	€3bn
Sirens and alarms	51%	€1.9bn
AC generators (used in hydro, wind, NG power plants, etc.)	49%	€180mn
Harvesting, threshing, and other agricultural machinery	44%	€1.3bn
CCTV equipment	44%	€2.4bn
Medical, surgical, and dental furniture	41%	€207mn
Air or vacuum pumps, gas compressors and fans (industrial)	40%	€3.6bn
Agricultural machinery for soil preparation	40%	€329mn

Source: Eurostat, Bruegel

The EU's economic dependence on China has become even more apparent with the advent of the green energy transition, given its increasingly dominant position in the manufacture of green energy products such as solar photovoltaic (PV) panels, representing 87% of global production and supplying

2.1.5 *China's outbound FDI is decreasing globally*

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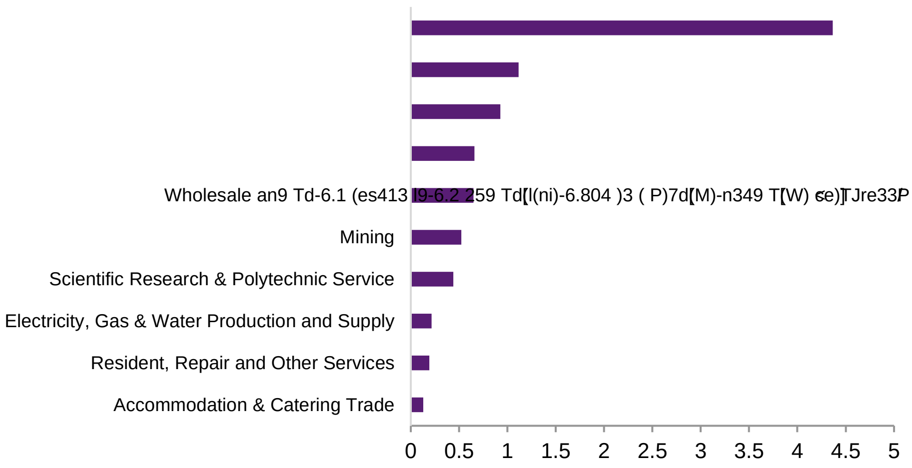

Moving to mergers and acquisitions (M&A), the EU has been an important target for Chinese overseas M&A in the last decade, but this has been waning both in absolute terms and as a percentage of the total, especially in 2023. (Graphs 15 and 16). The sector attracting the most M&A from China in the EU has been the automotive sector, which is an interesting finding given the recent loss of competitiveness of the EU's automotive sector relative to China, especially when it comes to electric vehicles. (Graph 17).

It is also worth noting that China's greenfield investment in Europe is growing in importance, constituting 57% of the total in 2022 and up from just over 3% in 2014, according to the same report by Rhodium. The bulk of China's greenfield investment is in EV battery factories, with over €14bn invested through the five biggest deals since 2017 alone. More than half comes from CATL's 2022 investment of €7.6bn to build Europe's largest planned EV battery factory in Hungary. Based on the above, one could wonder whether the EU will manage to keep a resilient value chain in the EV space without becoming too dependent on Chinese battery makers, not only for imports but even for production in Europe.

2.2 Security and political issues

Although this testimony focuses on the economic aspects of EU-China relations, one must consider factors that go beyond or intersect with the economic to fully grasp the deterioration of relations. There are political issues, especially Russia's invasion of Ukraine, that must be held alongside purely economic considerations. Moreover, China's increasing presence in critical European infrastructure is becoming a focal point following the introduction of political sanctions and is affecting trade and investment relations.

2.2.1 China's presence i

outmaneuvered by the Romanian government over a deal to build two nuclear power plants in the country.[12]

Telecommunications infrastructure has probably become the most sensitive issue among the different aspects of China's presence in European infrastructure and, in particular, 5G. In fact, Huawei is present in 19 EU member states and only a third of member states have banned the use of Chinese components in 5G infrastructure,[13] despite an EU , “SeaMeWe-6”.[15] This is part of a broader Chinese initiative to build a new global subsea cable network to control future key Internet infrastructure.[16]

2.2.2 Sanctions and other retaliatory measures

As part of its autonomous measures, the EU imposed targeted sanctions on Chinese o cials and entities over human rights concerns related to the treatment of Uighur Muslims in China's Xinjiang region.[17] These sanctions involved travel bans and asset freezes.

China retaliated against these targeted sanctions on 22 March 2021 by sanctioning 10 EU nationals and 4 EU entities, including Members of the European Parliament and of the Council's Political and Security Committee.[18] The consequences of such actions on EU-China economic relations and, in particular, on the EU-China pUpIT(u)unon tinC0Tto c0 B62 [(c)-0.8uTJ0-5.5 (t)05 0 Td[8 ( )]T

2021 ended up in the EU Parliament’s decision to refuse any discussion on CAI until these sanctions were lifted. Since then, CAI is pending ratification and the prospects that the situation changes any time soon are quite slim.

3.2 A set of sticks: the EU autonomous measures

As the EU was moving towards the negotiation of CAI, the environment changed radically, first externally, as the Trump administration started its trade war with China but also with a huge surge of Chinese investment into European companies, many of which in strategic companies as well as much harsher competition in third markets supported by China’s bold industrial policy based on massive subsidies.

While the EU has stepped up the use of autonomous measures to deal with non-market economies, it is important to note that the EU has not followed the US in terms of raising tariffs on China, as is shown by the share of tariff versus non-tariff EU imports from China having remained the same notwithstanding the large increase in total imports (Graph 20).

Beyond tariffs, the EU Commission has developed a number of autonomous measures (Table 2). One key example, also because of how it may have been influenced by the Committee on Foreign Investment in the United States (CFIUS), is the EU Foreign Direct Investment Screening Regulation, which came mechanisms, with 18 out of 27 Member States having one in place at the moment.[24]

Table 2: Some of the EU autonomous measures

[illegible]	[illegible]
Anti-dumping regulation	Jun 2016
Foreign investment screening mechanism	Oct 2020
Foreign subsidies regulation	Jan 2023
Anti-coercion instrument	Jun 2023
Corporate Sustainability Due Diligence Directive (CSDD).	Jun 2023

[redacted]
means, and in particular as regards health, digital and green technologies. The Net Zero Industrial Act (aiming at 40% of the clean tech being produced in the EU) is the key instrument pushed by the commission for this goal together w.8 fg 8

Finally, on the trade front, while the EU has stepped up its efforts to sign new trade and investment deals, the progress is still slow, especially for major economies in Asia. To accelerate this process and offer a clear signal that the EU is back for business, it seems important to follow the United Kingdom in its recent accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP). While the EU Commission does not appear keen to pursue this route, given its long-standing role as broker of its own trade and investment deals, I am convinced that the signalling effect of being part of CPTTP would be extremely important for Asia and the Pacific. This would be even more the case if the US were to follow the same path.