THE STATE OF EU-CHINA RELATIONS

A QUARTERLY COMMENTARY FROM HIIA

2023 Q3

Hungarian Institute of International Affairs

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Cooperation or confrontation? The EU needs a clear China policy

Chinese top diplomat Wang Yi and the European Union's High Representative Joseph Borrell had a phone call on 8 August. The two agreed that cooperative partnership is the most important feature of China-EU relations, and that there will be an EU-China Summit later this year. Mr. Wang and Mr. Borrell also underlined the fact that the grand connectivity strategies of the two blocs, i.e. the EU's Global Gateway and China's Belt and Road Initiative (BRI) are not contrary but complementary to each other.

Although this seemingly insignificant phone call did not receive much attention, its political context makes the discussion particularly noteworthy. Two months earlier, Ursula von der Leyen, the President of the European Commission called for a diplomatic and economic de-risking of relations with China. Two months after the phone call, Ms. von der Leyen announced that the EU may impose punitive tariffs against cheap Chinese electric vehicle (EV) imports – a clear blow to Beijing's Europe strategy.

Is this a good cop-bad cop game, played by Mr. Borrell and Ms. von der Leyen? A European strategic ambiguity, to outmanoeuvre China and other great powers? Or are we just seeing clickbait slogans, being used to conceal a paralyzed mechanism in a rapidly changing world?

The stakes are high. The EU's international influence is at stake. Thus, Ms. von der Leyen's vision of a "Geopolitical Commission" is also at stake.

The EU's position within the international system relies on two capacities. The first is normative power, which refers to the capacity to define what qualifies as "normal" in global politics. In this regard, the EU has traditionally been a strong player, representing the values of Western democracy and encouraging countries around the world to adopt them. The second capacity is regionalism, and the EU has aimed to serve as a model for integration in regions across the globe. Normative power and successful regionalism go hand in hand.

This is also well-understood in Beijing. China's BRI celebrates its tenth anniversary in October, a value-neutral alternative to regionalism with huge ambitions in Southeast Asia and Africa – regions where the EU has been promoting multilateralism since the 1980s. Meanwhile, President Xi Jinping's three global initiatives aim to establish China as a normative power.

China is a strategic competitor to the EU. It is time to decide whether cooperation or confrontation is the right approach to meet this challenge.

At the crossroads

The four-day visit of Valdis Dombrovskis, Executive Vice-President of the European Commission, to China at the end of September did not resolve any critical issues in China-EU relations. Instead, it concluded with a promise to establish new mechanisms and communication channels to manage these relations. The negotiations generated a long list of complaints from both sides, as the parties struggled to portray themselves as the victim of each other's unfair and protectionist trade and investment practices. A positive sign emerged when Dombrovskis eventually got straight to the point in his speech at Tsinghua University: "We stand at a crossroads (...). We can choose a path towards mutually beneficial relations (...). Or we can choose a path that slowly moves us apart." Indeed, this is a make-or-break moment for China-EU relations, and the fact that the parties have recognized this marks a significant improvement.

The main theme of the visit, as well as the related European discussions of the past few months, centred on "de-risking," despite its elusive definition. Ironically, while Europeans had never discussed the risks of their China relations as much as they do now, these relations have never been riskier. In 2022, the EU recorded record-high bilateral trade with China, amounting to EUR 865 billion , but this trade is highly unbalanced, with the EU experiencing a trade deficit of EUR 396 billion, the highest in history. It appears that, of the two entities, it is China who is engaged in de-risking, not the EU. Conversely, Europe is becoming increasingly dependent on China.

Even so, Dombrovskis attempted to convey an image of a strong Europe that can engage with China from a position of strength, and the Western press has enthusiastically commended the top trade chief's assertiveness. It is true that China has serious economic problems and requires access to European markets and technology, leading to a softer tone from the Chinese negotiators than expected. However, numbers do not lie, and Europeans should not forget that dependencies are mutual. Beijing demonstrated this in the summer by imposing export restrictions on two niche metals, gallium and germanium, which are critical for electric cars and chips, indicating their ability to target vital areas if necessary. Less China-bashing and a more realistic and pragmatic China policy from the EU would serve European interests much better. Rather than trying to weaken our rivals, we should prioritize strengthening ourselves, particularly in the field of technology.

De-risking in German style: the implications of the "Strategy on China"

The long-awaited "Strategy on China of the Government of the Federal Republic of Germany" was published in mid-July. The elaboration and finalization of the document took quite a long time because harsh political criticism had to be reconciled with economic and trade interests. It seems that through its thorough and diligent work, the German bureaucracy has been successful in doing so.

The Strategy on China offers a comprehensive account of what has been generally regarded in Europe as the objectionable practices of the Chinese government, ranging from human rights violations to economic espionage. However, as regards economic relations, a policy of de-risking is only recommended in very specific and narrow areas, like the pharmaceutical industry or battery manufacturing. De-risking seems to be more the exception than the rule, and banning further German investment in China is not even considered.

All in all, what is the message for the decision makers in Beijing? The direct message is that while bilateral economic cooperation will essentially remain unimpeded, it should not be expected that political criticism will be moderated for the sake of facilitating economic and trade relations. This is a clear divergence from the Merkel era, when Berlin avoided the deepening of political disagreements between the two countries. It seems that Beijing is willing to put up with this new German stance, since there have been no retaliatory measures made in response to the Strategy. In practical terms, bilateral economic relations will proceed as before, with some precautions and in a less cordial manner, but business will basically remain business as usual. However, the more subtle message incorporated in the document is that it reflects a fragile compromise between China hawks and doves. The hawks have accepted the framework proposed for cooperation with China – for the time being. Should political relations deteriorate, the hawks will demand considerably more restrictions on trade and investment concerning China.

In fact, I would argue that the hawks have agreed on the compromise in the first place because they expect that some political tension will arise between the EU and China at some point. Indeed, there are several possibilities. First and foremost, if Beijing's relation to Moscow with respect to the war in Ukraine changes in an objectionable way, that may cause tension. A deepening conflict between China and Taiwan may also have repercussions in Europe. The North Korean nuclear threat may generate a crisis in the region, which can have a negative impact on EU-China relations. Nevertheless, there is reason to believe that keeping a fragile balance between two such cautious and experienced players as Berlin and Beijing is a difficult but in no way impossible task. Thus the results of the hard work of German bureaucracy may have a longer lifespan than expected.

The EU's China EV probe: the first step towards a trade war?

In September, the European Commission launched an anti-subsidy probe into Chinese electric vehicles. The Commission will have 13 months to decide whether to introduce tariffs on China-manufactured EVs above the standard 10% rate for cars. The current investigation is the highest-profile case since launching an EU probe into Chinese solar panels in 2012, which almost triggered a trade war between the two parties. A decade ago, the outcome of the probe was an EU decision to raise duty on Chinese solar panel exports. Beijing immediately retaliated by launching an anti-dumping and anti-subsidy probe into wine imports from the EU and threatened to conduct another probe against luxury cars. In the end, the two parties settled the dispute through negotiations and managed to avoid a trade war.

The main question is whether an EU-China trade war can be avoided in the present case. The stakes seem to be higher and the circumstances to be worse now compared to the solar panel story. The automotive industry is a cornerstone of the European economy, and a successful shift to electromobility would be crucial to keeping its global competitiveness. In addition, the current probe will be concluded in a completely different geopolitical environment, and it follows a turbulent period in EU-China economic ties. As the recent track record of US-China trade tensions highlights, every new tariff has induced a retaliation from Beijing, similarly to the solar panel dispute a decade ago. All these point in the direction that China will punish European car makers if the outcome of the EU probe is a tariff hike on China-made EVs. If we are honest, if Brussels' investigation only considers whether the playing field is level, the outcome of the case should be a market protection measure. And past experience shows that this will most likely lead to a tit-for-tat game with China.

Nevertheless, there are some factors that give cause for more optimism. Firstly, automotive industry associations – especially German ones – are wary of the possible effects of the case on their Chinese and overall business. It is no coincidence that the probe into EVs was initiated by the Commission and not by a chamber of industry, as it happened in the case of the solar panels a decade ago. And let us not forget that BMW and Renault also manufacture EVs in China for the European market. It is even more meaningful that instead of muscle flexing, Chinese leaders appeared to be ready to look for a compromise or solution during the recent visit of EU top trade chief Dombrovskis in Beijing. Amid an economic slowdown and falling FDI inflow, China seems to be in a desperate need to preserve trade and FDI relations with the European Union.

The Commission has 13 months to decide, and a lot can happen during that time that influences whether the EU probe will trigger an escalating trade conflict with China or not. In some sense, the US-China trade war has already reached the east coast of the Atlantic, considering that the Netherlands have introduced export control measures on certain technologies, and Beijing has done the same for two critical minerals. However, it does matter whether trade restricting measures are limited to a handful of industries and technologies, making escalation avoidable or if parties introduce tariffs across the board. Whichever occurs, the European Commission must concentrate the same effort on creating the conditions for European players to catch up with their Chinese counterparts in EV technology. In the long run, this is the foundation of future competitiveness for a key industry of the continent.