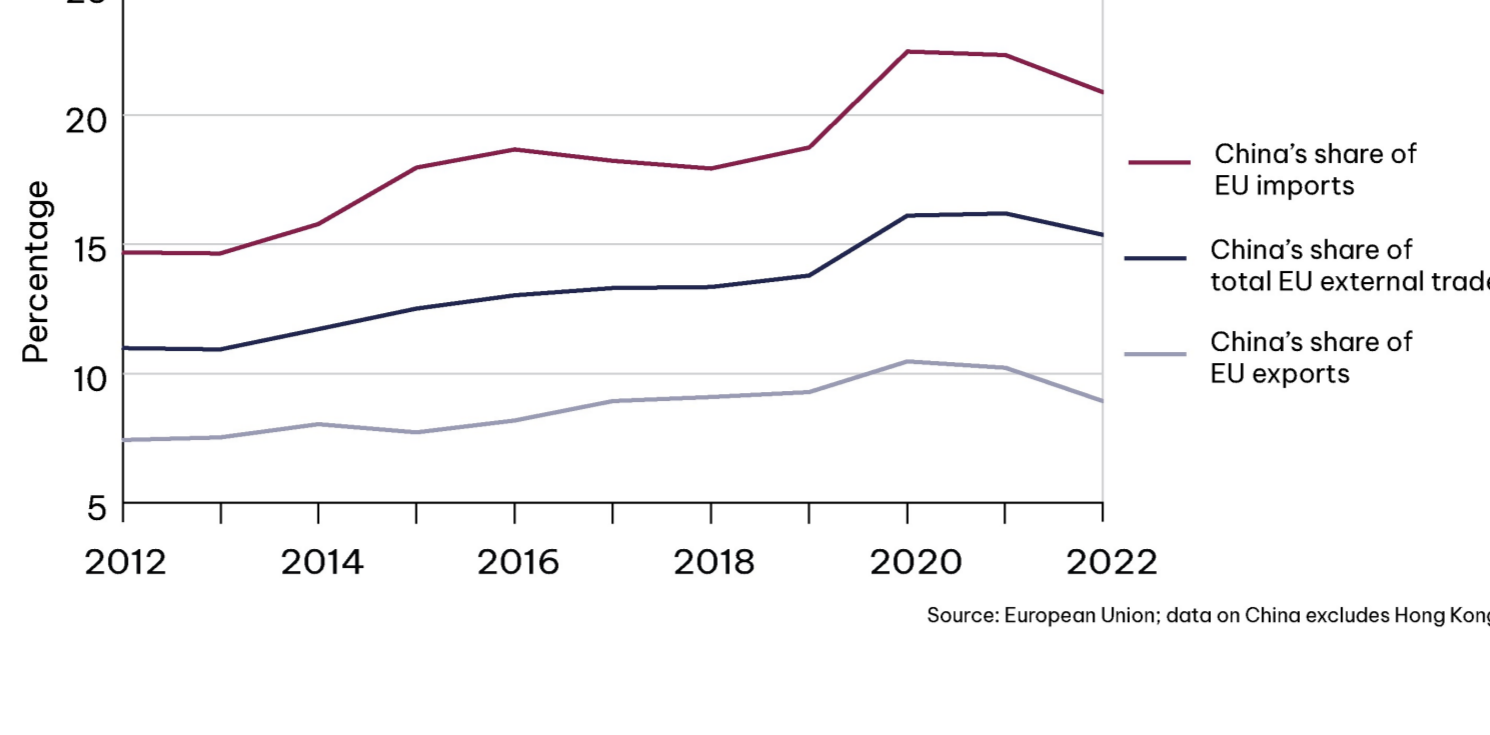


Parsing Europe's Conflicted China Policy

China-EU Trade Since 2012

- Despite European efforts to "de-risk" from China, the country remains the European Union's second-largest trade partner after the United States. -



Europe's Evolution on China

Over the last few years, European leaders have switched their approach to Beijing from primarily one of forward-leaning engagement to one of select and uneven "de-risking."

As recently as late 2020, the European Union (EU) planned to ink an ambitious investment agreement with China – despite the incoming Biden administration's **concerns**. China's state media **championed** it. Western **columnists argued** that the approaching consummation of the deal reflected Beijing's rising global status and Washington's own diminished position.

Much has changed in the three years since.

In May 2021, the EU froze ratification of the investment deal after Beijing imposed sanctions on European lawmakers critical of China's human rights record. In April 2023, the EU approved USD 47 billion to secure continental semiconductor production and wean the bloc off China.

EU Commission vs. EU Members

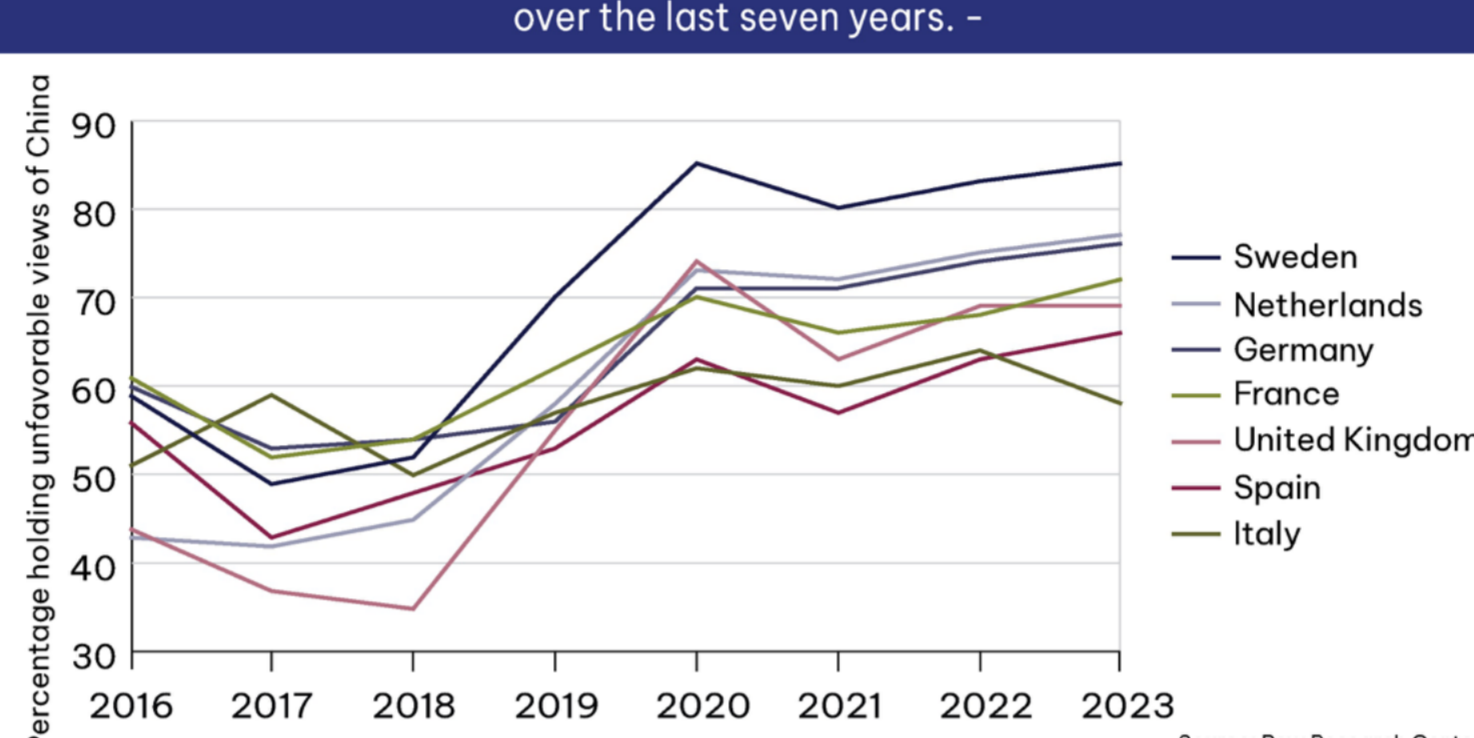
Still, it is important to account for the EU's constituent parts in considering the future direction of the continent. Leaders of the European Commission (the EU's executive branch) serving in Brussels, who are not as beholden to publics and elections, tend to be more hawkish on China than most EU member state leaders. Many national leaders still see trade and investment links with China as important contributors to economic growth, sometimes creating a divide between EU rhetoric and national-level policy implementation.

Meanwhile, European publics have **soured** on China, as reflected in polls and the increasingly anti-China orientation of the mostly symbolic European Parliament. But polls also **show** that Europeans are highly concerned about their own economic well-being. Most citizens do not currently view China issues through the prism of economic issues, but if they did, they may become less willing to bear the economic costs of "de-risking" from China, which remains the EU's second-largest trade partner behind the United States.

Separate April trips to China by European Commission President Ursula von der Leyen and French President Emmanuel Macron demonstrated Europe's divisions. Whereas von der Leyen criticized Beijing's economic and human rights practices, Macron brought a business delegation and championed economic ties with China. Similarly, while the European Commission in June proposed an Economic Security Strategy that prioritizes reducing dependencies on China in strategic sectors, Macron urged Europe to not become "America's followers" on China. Similarly, German Chancellor Olaf Scholz also stands out as one of the most dovish politicians in Berlin with respect to China.

European Views Of China

- The percentage of Europeans holding unfavorable views of China has increased over the last seven years. -



The European Spectrum of China Policy

The Baltics, the Nordics, and some central eastern European countries are the most forward-leaning EU members in countering China, given their past exposure to Beijing's economic coercion and disputes revolving around Taiwan (impacting **Lithuania**, the **Czech Republic**, and increasingly **Poland**) and human rights, as well as China's position on the Russian invasion of Ukraine.

- EU members Denmark, Sweden, Estonia, Latvia, and Lithuania have **banned** China-based Huawei from their 5G networks. Sweden has also banned **TikTok** from government devices.
- **Denmark, Finland, Norway** (a non-EU member), and **Sweden** have introduced new investment screening mechanisms. Norway also **froze** free trade agreement (FTA) discussions with China last year.

Non-EU member the United Kingdom, along with EU members Germany and the Netherlands, are moving in a parallel direction despite domestic private sector pushback.

- Under Conservative leadership, the United Kingdom has joined AUKUS and is now **considering** rules to limit some China-bound investment in line with the White House's recent executive order (EO). Top officials from the opposition Labour party, which is currently far ahead in **polls** ahead of next year's elections, have **expressed** support for AUKUS and a continued **tough** line on China.
- In July, after months of internal debate, Germany published its first-ever China **strategy**, which explicitly urges firms to "de-risk" their investments beyond China. German Chancellor Scholz remains hesitant to adopt a harder line on China but members of his **coalition** and cabinet have pushed him in that direction.
- This past June, the Netherlands – the Silicon Valley of Europe – **imposed** curbs on China-bound semiconductor exports at Washington's urging and over some domestic opposition. The Netherlands also continues to criticize China but seeks functional economic ties with Beijing. Upcoming November federal **elections** will likely not move the needle on China policy unless **Frans Timmermans** – an EU veteran – does well in the election. Voters are more focused on the economy, the environment, and migration.

Italy is moving moderately in the same direction, with Prime Minister Georgia Meloni criticizing China's human rights record and **planning** to pull Italy out of Beijing's Belt and Road Initiative (BRI). But her government is wary of economic retaliation by Beijing and **aims** to soften the BRI blow by offering China other exclusive investment deals. Meloni seeks an enhanced trans-Atlantic leadership role and may thus increasingly align with the United States and the EU in the run-up to Italy chairing the G7 next year.

France shows less China-related hawkishness, with Macron calling for European "strategic autonomy" – a foreign policy independent of the United States, particularly on China – and improved ties with Beijing. He also **stifled** NATO's efforts to open a Japan office, in line with France's long-time skepticism of the alliance but also to avoid angering China. Macron does, however, want to boost the EU's defense capabilities so that he can exert more influence over it and also enhance the French defense industry, in which the government is heavily invested.

- Austria, Belgium, Ireland, Portugal, and Spain roughly fit in the France category as well, although upcoming elections in Spain may produce a policy change.

By far the most dramatic change in China's standing has taken place in Central and Eastern Europe. Prior to Russia's invasion of Ukraine, hunger for investment from China and effective diplomatic work through the so-called China-Central and Eastern Europe (China-CEE or "17+1") initiative, started in 2012, led to remarkably strong investment links, from Greece in the south to Estonia in the north. Now, all three Baltic states and the Czech Republic have ditched the initiative, which has not held an in-person summit since 2019. Beijing's close association with Moscow has been the main cause of this deterioration.

Hungary is by far the most "pro-China" EU member, with the government of Prime Minister Viktor Orbán **welcoming** investment from Beijing and backing China's peace plan for Ukraine.

- Nations of the former Yugoslavia also continue strong communications with China.

TAG Take

EU members, especially when working as a bloc in Brussels, are increasingly united in looking to reduce economic reliance on Beijing. The EU is pursuing FTAs elsewhere in the Indo-Pacific, with Australia, India, Indonesia, the Philippines, and Thailand. Few are near completion, but the FTAs would give European companies an **advantage over U.S. counterparts.**

Most EU members are also courting investments from non-China-based firms in sensitive sectors like electric vehicles and semiconductors, **offering both EU-level incentives and separate national ones to companies from "friendly" places such as Japan, South Korea, and Taiwan.** Additionally, the EU is ramping up rare earths and critical minerals **assistance** for partners like the Philippines, largely to reduce the bloc's reliance on China for those minerals.

Europe's China divisions manifest mostly in terms of overall rhetoric, defense cooperation, and economic security measures. Baltic, Nordic, some central European, and European Commission leaders have urged increased investment screening, as well as a harsher public line and deeper defense cooperation with like-minded partners to deter China – even at the expense of possibly losing some trade with Beijing. But powerhouses France and Germany remain hesitant, and their leaders worry about China-related economic disruptions. Germany's **recession** and France's economic-related **protests** make a change in policy an unlikely near-term prospect.

The EU as a whole will probably struggle to become the predictable ally on China that Washington desires, especially on economic security measures restricting trade and investment. For instance, although Brussels reportedly **promised** in late 2022 to work on a mechanism like the recent U.S. EO to restrict some high-technology investment in China – and von der Leyen **championed** the idea more recently – the bloc has made little progress due to opposition from many member states.

The United States, working with partners such as Australia and Japan, will likely continue to push individual European states on China. And if **U.S. companies find suitable Indo-Pacific alternatives to China, Europe-based firms may follow**, particularly on critical and sensitive technologies.

*This report was prepared by **Charles Dunst** and **Jacqueline Borsboom.***



THE ASIA GROUP

Washington DC • New Delhi • Hanoi • Shanghai • Tokyo

THEASIAGROUP.COM

