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EU-China *Relations*



President Macron, Commission President von der Leyen head to Beijing.

French President Emmanuel Macron and European Commission President Ursula von der Leyen are visiting China for the first time since the outbreak of the Covid pandemic. Macron's invitation to the Commission President to join him on the visit aims to project the image of a united EU in the high-level meetings, including with Chinese President Xi Jinping.

The joint visit comes as European perceptions of China continue to deteriorate as a result of China's stance on Russia's invasion of Ukraine. Whereas China continues to message European stakeholders that it is taking a balanced position on the war, with Beijing's EU ambassador even describing the "no limits" partnership as "nothing but rhetoric," China's words and actions are viewed in Europe as support for Russia. For the two European leaders, the war in Ukraine will be at the top of their agenda, and both will weigh in with Xi and others to use China's influence over Russia to bring it to the negotiating table. Beyond that, the two leaders' different approaches to China reflect the challenges that Europe faces when calibrating its interests with China. Von der Leyen has echoed many U.S. concerns about China and is calling on Europe to reduce perceived dependencies on China's economy. Macron, by contrast, has brought a large business delegation to China in the expectation that economic ties can serve as a stabilizing factor in the relationship and even incentivize China to modify its stance on the war in Ukraine. As these diverse and even conflicting goals find their way into European rulemaking, companies will need policy and organisational resilience to anticipate and adapt to the shifting geopolitical landscape.

European distrust of China is on the Rise

Distrust and competition between the EU and China are growing. This can be observed in the greater scrutiny by EU regulators of Chinese tech, such as Tiktok and Huawei, and



number of new trade defence measures the EU adopted to counter China's trade practices. Among the greatest concerns in EU capitals is China's declared "no-limits"-friendship with Russia, of which the real limits have yet to be determined. While growing Chinese purchases of Russian oil and gas - a financial lifeline to the Kremlin – failed to prompt a concrete European policy response, greater support by China for Russia in the war, and in particular through deliveries of lethal weaponry, would cross a red line. Macron and von der Leyen will no doubt convey Europe's willingness to incur economic costs and sanction China in such an event.

Stopping the Slide in Relations

Europe is keen to avoid such a geopolitical and economic scenario. Despite whatever misgivings European stakeholders have about China in general and its stance on the war in particular, European leaders as a whole have no interest in a deeper deterioration of relations. Thus, the EU is pursuing a delicate balancing act. In a surprising tough speech on March 30, von der Leyen called for greater strategic autonomy and a "bolder" European approach towards China, stressing that the goal was not to "decouple" but to "de-risk" its economic relationship. Going beyond the wordsmithing, the Commission continues to tighten scrutiny of investment flows and trade in sensitive technologies with China but abstains from outright restrictions on trade and investment. The Commission President has signalled also new openness by vowing to reassess the Comprehensive Agreement for Investment (CAI), concluded between the EU and China in December 2020. It is extremely unlikely, however, that the CAI will be revived any time soon, as the agreement remains very controversial among EU Member States. Still, the Commission will commit to continued Chinese access to the single market as a carrot for China.

French President Emmanuel Macron has struck a different emphasis. Under the banner of promoting greater European sovereignty, France has been actively working on preserving Europe's room for manoeuvre in its China policy and resisting what many in Paris perceive as Washington's pressure to follow a more offensive "de-coupling" strategy. In this view, EU-Chinese relations should not become victims of a geopolitical conflict, but be a mitigating, de-escalatory force. The delegation of 53 French business representatives that are accompanying Macron is a case in point, showing that France does not shy away from selectively deepening its economic ties. Macron deems China's involvement in finding a peaceful solution in Ukraine as crucial and is ready to invest significant political capital to convince China to deploy its leverage over Russia. A key question will be the extent to which Macron could commit to resist U.S. pressures for Europe to follow its China policy in exchange for Chinese efforts in Ukraine.

Chinese views of Europe

China still views Europe as an indispensable economic and commercial partner. It remains keen to maintain as unfettered access as possible to the European markets and technologies it needs for its modernization aspirations. The treatment that European CEOs



received at the recent China Development Forum is a case in point, as Chinese leaders from the new Premier Li Qiang downwards attempted to reassure CEOs that China continues to welcome European companies into the Chinese market. In geopolitical terms, China views Europe through the prism of its deepening conflict with the United States. Above all, it wishes to prevent Europe from making common cause with Washington in the latter's approach to China. Chinese leaders will continue to attempt to support differentiated European policies towards China through economic incentives while also suggesting that a too close alignment with Washington could come at the cost of Europe's access to China's market. It is unclear how serious China takes European concerns over its stance on the war in Ukraine. Many Chinese stakeholders doubt that the EU has much independent agency in its approach to the war and is instead compelled to follow Washington's lead against – in Chinese eyes – its true interests in stable economic ties with China. Still, Chinese stakeholders have been emphatic in their responses to European concerns by insisting that China has no intentions to deliver lethal weaponry to Russia.

European companies: Managing the Geopolitical Landscape of EU-China Relations

For European companies, the process of “de-risking” the EU-Chinese relationship will be filled with greater uncertainty. Where “de-risking” ends and “decoupling” starts will be constantly subject to the evolving political landscape. That will be strongly shaped not only by European policy actions, but by the intersection of European interests with those of Beijing and Washington. Within the framework of the EU's balancing act, changes in policy and in rhetoric will be numerous, even if they are often difficult to predict with any specificity. To hedge their operations against these risks, businesses need both policy and organisational resilience, meaning that they must have the capacity to understand current geopolitical developments, and adapt their strategy and business models accordingly.

Further questions or comments?

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