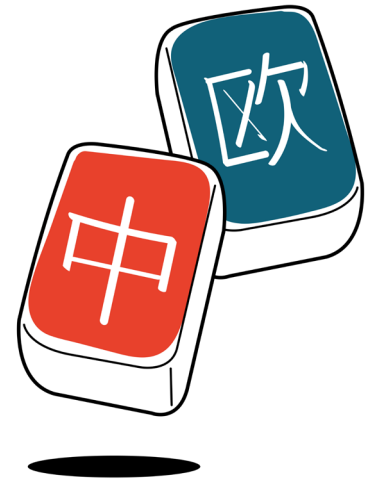


MAY 11, 2023

# MERICs

## Europe China 360°



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## ANALYSIS

### The EU's approach to China: What happened to systemic rivalry?

By **Francesca Ghiretti**

Recent visits of European representatives to China have rightfully placed much attention on diplomatic engagement and some on economic competition. The issue of systemic rivalry was largely ignored – with the exception of a few comments by European Commission President Ursula von der Leyen and German Foreign Minister Annalena Baerbock. During the first official visits in years amid growing tensions with China, it was an understandable omission of a touchy subject. But as the EU reviews its approach to China – currently a mix of re-engagement with von der Leyen's proposed *de-risking* – it would be a mistake to marginalize systemic rivalry.

As a framework, *de-risking* does a great job of encapsulating the complexity of the relationship with China while avoiding polarizing narratives. It addresses difficult aspects such as managing strategic dependencies while seeking a more positive agenda of diplomatic engagement and collaboration. As such, *de-risking* is open to multiple interpretations and flexible applications.

A testament to its flexibility is the adoption of the term by a multitude of actors who have not always seen eye to eye on China. For example, Jake Sullivan, US National Security Advisor, in a speech at the Brookings Institution in April showed support for *de-risking* instead of decoupling. Regardless of the difference in approach towards China between Washington and Brussels, the term seems to appeal to both audiences.

Systemic rivalry was a new element in the European Commission's 2019 Strategic Outlook on EU-China relations. Its three-pronged approach described China as a partner, economic competitor, and systemic rival. While *de-risking* seems well-suited to navigate in the context of partner and competitor, it is not as fitting for systemic rivalry.

One example is respect of the rule of law. While EU policies are carried out according to the rule of law, China has displayed a preference for the "rule by law". The difference of a mere preposition is significant: rule *of* law means that the law sets the rules and enforcers follow them regardless of political or contingent preferences. Rule *by* law means that the law is used ad-hoc to pursue political objectives.

Systemic rivalry is thus important for the bilateral relationship. Europe's identity is rooted in specific values and approaches that do not correspond to those of an authoritarian system such as China's. It must be preserved when dealing with China in bilateral agreements, inbound or outbound investments, trade, or any other aspect of the relationship.

In addition, when dealing with third countries and in international fora, the differences between these two approaches cannot be marginalized. This means, for example, promptly condemning the invasion of Ukraine, respecting WTO rules, or including clauses on environmental and labor standards when financing a project.

While de-risking offers a much-needed pragmatic line to safeguard our interests, it implies that our differences with China result merely from fears about economic performance and/or technological advancement of the EU. That is already the lens through which Beijing views much of the pushback from the EU. But the systemic differences between the two matter in how the EU interfaces with China because each advances a different view of society and the world.

Despite the sensitivity and difficulties these systemic differences pose to the bilateral relationship, pretending they are marginal will not promote the development of a healthy relationship between the EU and China. The concept of de-risking has many advantages, but it must not marginalize the issue of systemic rivalry.

**Read more:**

- IP Quarterly: [Six Priorities for “De-risking” EU Relations with China](#)
- European Commission: [Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre](#)
- The White House: [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution](#)

## UPDATE

### Zelensky-Xi call and China’s peace-branding - Proceed with caution

Over 420 days after Russia invaded Ukraine, Chinese President Xi Jinping exchanged the first direct, hour-long call with Ukrainian President Volodymyr Zelensky. While welcomed by the EU, this does not fundamentally alter the challenge of engaging China on its stance towards the war.

**What you need to know:**

- **Diplomatic buildup:** The call came on the heels of a series of China visits by European leaders, who attempted to dissuade Beijing from expanding support for Russia. That is not a given, as signaled by Xi’s amicable visit to Moscow in March and more recently during the mid-April Moscow visit of Chinese Defense Minister Li Shangfu, who stated that China-Russia ties “surpass the military-political alliances of the Cold War era.”
- **Potential trigger:** But Xi’s decision to pick up the phone now might have been aimed at reclaiming the narrative after statements by the Chinese Ambassador to France, Lu Shaye, caused a diplomatic storm. Days before the call, Lu commented in French media that ex-Soviet republics had “no effective status” in international law. This triggered a wave of pushbacks across the EU that subsided only after the Chinese Ministry of Foreign Affairs distanced itself from the statement and confirmed that China’s position remains unchanged.

- **Call outcomes:** Xi restated the rhetorical points established in China's position paper (often mislabeled as a peace plan) maintaining the practice of avoiding the word "war" by referring to the "Ukraine crisis" (乌克兰危机). China's readout from the meeting did not mention Russia even once. However, Beijing did take an opportunity to indirectly criticize the United States for "adding the fuel to the fire" of the conflict through military support for Ukraine. Yet, the call may reopen diplomatic channels as Kyiv appointed Pavlo Riabikin, former minister of strategic industries, as ambassador to Beijing, filling a post vacant since February 2021. And Li Hui, Beijing's special representative on Eurasian affairs is set to travel to Kyiv and "other countries" to seek a "a political settlement of the Ukrainian crisis."
- **UN surprise:** In a surprising move after the call, China voted in favor of a UN resolution on "Cooperation between the United Nations and the Council of Europe" that includes a sentence in the preamble acknowledging – without explicitly condemning – the "aggression by the Russian Federation against Ukraine." While China abstained from voting on the inclusion of the Ukraine-related paragraph, it voted in favor of adopting the overall resolution. That is a show of flexibility, but China's Mission to the UN indicated it does not support the Ukraine-related paragraph.

#### **What to watch:**

The fundamentals of China's position towards Ukraine have not changed, and Beijing continues its policy of leaning towards Russia while also trying to project the image of neutral peace broker.

Beijing's intensified peace-branding efforts present the EU with both a challenge and an opportunity. On one hand, by engaging with Beijing on its peace efforts, the EU provides China with a smoke screen for its practical engagement with Russia. On the other hand, if paired with effective strategic communication, the increased exchanges create space to show inconsistencies in China's position and limit Beijing's open support for Moscow. The Global Peace Summit planned by Ukraine can offer such an opportunity, for example.

The significance of the UN vote should be interpreted cautiously. As long as Beijing refrains from clearly labelling Russia an aggressor and calling the war a war, China's "peace-efforts" should be treated with skepticism.

#### **Read more:**

- SCMP: [Xi Jinping's talk with Ukraine's Volodymyr Zelensky earns approval from US and EU, as well as a bit of caution](#)
- MFA of China [CN]: [Xi Jinping Speaks on the Phone with Ukrainian President Volodymyr Zelensky - Readout](#)
- President of Ukraine's Office: [President of Ukraine had a phone call with the President of the People's Republic of China](#)
- Twitter: [Thread on the UN vote by Sergey Radchenko](#)
- SCMP: [China says its stand on Ukraine war 'has not changed' after UN vote](#)

## **Italy's MoU on the Belt and Road Initiative: To renew, or not to renew, that is the question**

Italy must decide whether to renew the Memorandum of Understanding (MoU) it signed with China in the framework of the Belt and Road Initiative in 2019. In theory, if no action is taken, the MoU will renew automatically. Considering the few economic advantages it brought to Italy, ignoring the process and letting it silently renew may be the best option for the Italian government. However, during her electoral campaign, Prime Minister Giorgia Meloni stated she did not favor renewing the MoU, bringing the matter to public attention. Now, a quiet renewal may be no longer possible.

Either way, Italy will send a diplomatic signal. If it renews the MoU, it will signal that risk management in the relationship with China trumps governmental preferences and alignment with Washington. If it does not renew, it will signal that, out of respect its own political preferences and alignment with Washington, it is willing to risk stability in its relationship with China. But such a risk may not be as great as assumed. In fact, when members of the 16+1 framework left, there were very few repercussions. If Italy simply argues it will not renew the MoU because it did not bring many advantages to the country, Italy may avoid stark repercussions. In turn, amid an effort to mend its relationship with Europe, China may mount a strong narrative blaming the US for Italy's decision, but not hit Italy.

### **Read more:**

- Bloomberg: [Italy Intends to Exit China Belt and Road Pact as Ties Sour](#)
- South China Morning Post: [Where did China's belt and road plans go wrong in Italy?](#)
- Financial Times: [Italy to hold talks with China about exiting Belt and Road Initiative](#)

## **RECOMMENDED READING**

### **Chinese FDI in Europe in 2022: EV battery investments cushion drop to decade low**

Chinese investment in the EU and the United Kingdom continues to decline, dropping to a decade low of just EUR 7.9 billion in 2022, down 22 percent compared to the year before, a new report by MERICS and Rhodium Group shows. This takes Chinese investment back to its 2013 level. As in 2021, consumer products and automotive remained the two top sectors, accounting for three quarters of total Chinese investment in Europe.

Battery investments cushioned the drop and are now the mainstay of Chinese investment in Europe, showing that the region has become a key part of China's global electric vehicle (EV) expansion. This facilitates a substantial shift in the nature of Chinese investment in Europe: driven by EV battery factories, greenfield investment now dominates Chinese investment activities in the region, reaching EUR 4.5 billion and 57 percent of China's total FDI in Europe in 2022.

Read the full report [here](#).

## SHORT TAKES

### **Dutch intelligence report says China is greatest threat to economic security**

While referring to Chinese companies and research institutions as “valued partners,” an annual assessment by the Netherlands’ intelligence service concluded that China is the “greatest threat to Dutch economic security.” The assessment considered commercial espionage, covert investments, technology transfers and other knowledge security challenges. The report follows a recent decision by the Dutch government to restrict exports of critical semiconductor technology to China.

- Reuters: [China 'greatest threat' to Dutch economic security, Dutch intelligence says](#)

### **Brussels proposes sanctions on Chinese companies supporting Russia’s war**

EU member states are currently discussing sanctions on seven Chinese businesses accused of selling goods to Russia that could be used in military equipment. So far, the EU has not targeted China in its sanctions related to Russia’s war on Ukraine, citing the lack of evidence that China has directly provided weapons to Russia. But some of the companies listed have already been sanctioned by the US over their alleged attempts to evade US export controls on Russia. Unanimous approval from all member states is required for the sanctions to be enforced.

- Financial Times: [Brussels plans sanctions on Chinese companies aiding Russia’s war machine](#)
- The Wall Street Journal: [EU Targets Chinese Companies in Russia Sanctions Push](#)

### **China’s foreign minister to visit Germany, France and Norway**

Following the French and German visits to China, China’s Foreign Minister Qin Gang visits Germany, France, and Norway between May 8 and 12. Close attention will be on whether Qin Gang reveals more details about Beijing’s ambitions to get involved in the peace process between Ukraine and Russia. The meeting with German Foreign Minister Annalena Baerbock comes ahead of June Sino-German government consultations in Berlin between cabinet ministers of both sides.

- Welt: [Baerbock empfängt chinesischen Außenminister in Berlin](#)
- Politico: [Shuttle Diplomacy](#)

### **German government denies plans to limit chip chemical exports to China**

Recent reports indicate that the German government is in the early stages of talks on limiting the export of chip chemicals to China. However, the Chancellor’s office stated it is not currently planning such a ban. This potential measure aligns with the German government’s recent efforts to reassess the bilateral relationship with China and reduce its dependence on China’s economy.

- Reuters: [Germany plays down report on banning chip chemicals to China](#)
- Bloomberg: [Germany in Talks to Limit Export of Chip Chemicals to China](#)

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