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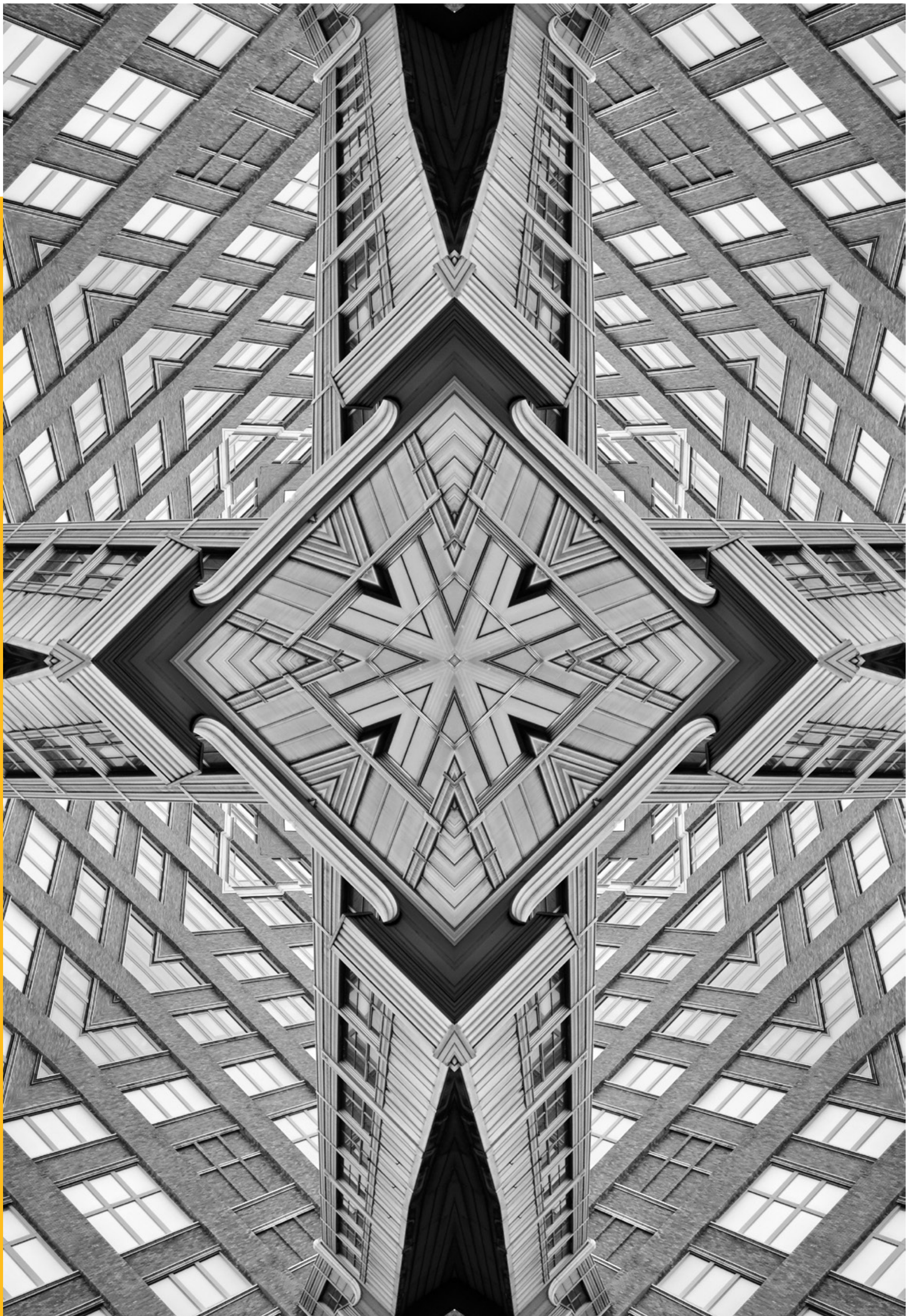

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Between Rhetoric and Strategy: Analysing Evolving European Approaches Towards China

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Abstract

Europe's relationship with China has transformed in recent years, with Chinese behaviour and actions now increasingly at odds with European values and interests. As Europe adjusts to new global realities amid a full-fledged war, the European Union (EU) and its member states are recalibrating their strategies and relationships with China. This paper aims to decipher these evolutions by assessing the EU approach and those of certain key European nations that have released security strategies that include sections on China. Given China's status as a critical trade partner for many European countries, striking a balance between economic interests and security risks is a common thread that underpins most country-specific approaches to China, with many taking their cue from and being embedded within the broader EU framework.

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Introduction

Several factors have transformed Europe's relationship with China in recent years. Human rights abuses in Xinjiang, crackdowns in Hong Kong, China's weaponisation of supply chains during the COVID-19 pandemic, economic coercion against Lithuania, a lack of reciprocity in trade, aggression in the South China Sea, tensions in the Taiwan Strait, Chinese espionage in European countries, and Beijing's revisionist tendencies have increasingly put China at odds with European values and interests. At the same time, the EU's trade deficit with China stood at €400 billion in 2022,[1] the EU-China Comprehensive Agreement on Investment (CAI) still awaits ratification by the European Parliament, and bilateral summits have failed to accomplish much (the 2022 meeting was described as the "dialogue of the deaf" by Josep Borrell, the EU's High Representative for Foreign Affairs and Security Policy).[2]

The Russia-Ukraine war has forced Europe to apply and extrapolate the lessons learnt from its over-reliance on Russian energy to rethink its lopsided strategic and economic dependencies on China. Moreover, the strengthening of the transatlantic alliance and Europe's dependence on American security have constrained the space for European strategic autonomy in the face of heightened US-China great power competition. Recent events, such as the signing of a 'no-limits partnership' between China and Russia, the Chinese Communist Party Congress, and Chinese President Xi Jinping's increasingly authoritarian leadership style, have further instigated negative shifts in European perceptions of China.

As Europe adjusts to new global realities, the EU and its member states are recalibrating their strategies and relationships with China. This paper explores how these evolving perceptions have shifted policy in the individual member states and the EU.

The EU Trinity: Setting the Scene for Member States

The year 2019 marked a turning point in EU-China relations; in its EU-China Strategic Outlook, the EU used a three-pronged characterisation of China as "a partner, economic competitor, and systemic rival".[3] In the years since, a delicate balance involving partnering with China on global challenges such as climate change while demanding trade reciprocity, pushing back against coercion, and recognising China's attempts to promote alternative governance models to the rules-based global order has underpinned the EU's approach to the country.

In March 2023, European Commission President Ursula von der Leyen described China as "more repressive at home and more assertive abroad" while "deliberately using dependencies and economic leverage to ensure that China gets what it wants from smaller countries".[4] The EU debate in Brussels has primarily centred around the issue of 'de-risking'—a softening of the previously touted 'decoupling'[a,5]—that involves reducing critical dependencies on China in areas such as raw materials, minerals, and critical industries (for instance, semiconductors and batteries) by diversifying trade partners and sources of supply while building more resilient supply chains. To these ends, the EU has developed a range of mechanisms, tools, and initiatives, such as the Critical Raw Materials Act and the EU Chips Act. In addition, the EU is enacting robust export controls, developing anti-coercion instruments, and conducting both inbound and outbound screening of sensitive technologies and strategic infrastructure.

While the details of operationalising 'de-risking' are being worked out, the EU has set the tone for several of the bloc's member states, resulting in some unanimity in their national approaches towards China.

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a "Decoupling refers to a complete separation of ties between two or more economies. It involves dismantling existing trade and investment relationships, severing supply chains, and establishing new economic partnerships elsewhere. De-risking, on the other hand, is a more nuanced and gradual approach that focuses on mitigating specific risks associated with economic engagement with a particular country. It involves diversifying supply chains, identifying alternative sources of goods and services, and implementing measures to reduce exposure to potential disruptions." For more, see: Alex Capri, "China decoupling versus de-risking: What's the difference?," Hinrich Foundation, December 12, 2023, https://www.hinrichfoundation.com/research/article/trade-and-geopolitics/china-decoupling-vs-de-risking/#:~:text=Alex%20Capri&text=Like%20decoupling%2C%20de%2Drisking%20is,risks%20have%20been%20dealt%20with.

The most recent EU-China summit in December 2023 focused on ironing out economic irritants, including Chinese subsidies and overcapacities undermining European industry and Europe's widening trade deficit with China. The meeting, which, like with previous summits, failed to produce a joint statement, took place right after von der Leyen's hawkish speech that emphasised the "explicit element of rivalry" in the relationship and warned against "China's changing global posture".[6]

Despite Brussels's more coherent approach and the hawkish attitudes of Eastern European member states, the countries' China policies are complicated by the confluence of domestic political considerations, with parties oscillating between more moderate business-friendly stances and tougher positions. Western European nations such as Germany are keen to prioritise economic ties, as evidenced by several recent high-level visits to China, often accompanied by large business delegations. Others, such as France, prefer to script a 'third way' instead of being pulled into a zero-sum bipolar contest, particularly as the uncertainty of the 2024 US presidential election looms large. Moreover, even if governments are willing to come on board, businesses intertwined with Chinese markets for their profits may be more elusive to adaptation.

Ultimately, the success of the EU approach will depend on how member states navigate their bilateral ties and individual interests with China. However, despite challenges in getting the bloc's members on the same page, European capitals across the continent are approaching their relationships with China more strategically, with the discourse on China continuously becoming more security-centric.

Denmark: Working with Global Partners

Denmark and China signed a strategic partnership in 2008 to strengthen bilateral relations. However, since 2018, concerns over Danish dependence on China have increased, partially motivated by the two countries' different approaches towards trade and security issues.[7]

This shift in perception manifested in Denmark's foreign and security strategy, released in January 2022,[8] just before Russia invaded Ukraine, which includes a whole section devoted to China. The latest strategy, released in May 2023, echoes similar lines.[9] In line with the EU's characterisation of China as a "competitor, partner and rival," both documents refer to the need to strike a balance between managing challenges and cooperating with China on mutual interests such as sustainability and the green transition, which are stated priorities for the Denmark-China partnership. The 2023 strategy acknowledges that Denmark has been "too naive" and is thus evolving its approach as an "appropriate reaction to China's conduct".

Danish perceptions of China are changing in tandem with broader security shifts in Denmark, including the decision to reverse the Danish opt-out from the EU's defence and security policy following a referendum where 67 percent of Danes voted to join the Common Security and Defence Policy.[10] The bulk of the 2023 strategy focuses on Danish and European security, with 21 mentions of China (Russia has been mentioned 42 times).

The discourse surrounding China in Denmark has focused on security concerns relating to critical infrastructure, such as Huawei's presence in Danish telecoms networks, resilient supply chains, cooperation around climate change, and the significance of the Chinese market for Danish businesses. China's investments and increasing strategic footprint in Greenland, showcased by a bid to construct Greenland's airport infrastructure in 2018, also raised Danish concerns about Greenland falling into the Chinese "debt trap".[11]

Danish Foreign Minister Lars Løkke Rasmussen's trip to Beijing in August 2023 generated widespread criticism from opposition parties even while being backed by bodies such as the Confederation of Danish Industry.[12] Denmark and China signed a Green Joint Work Programme for 2023-2026 during the visit.[13] China's centrality to the green agenda as a key exporter of critical raw materials used in technology such as wind turbines renders the country a crucial partner for Denmark as a wind energy pioneer.

The Danish strategy calls for reducing critical dependencies from China, such as raw materials and technologies, yet not decoupling or negating opportunities for Danish exports while also demanding a more level playing field for Danish and European companies. In various instances, China is clubbed with Russia, both viewed as "actively seeking to increase their influence" globally. Overall, China is described as a revisionist state seeking to alter international rules in its favour.

Denmark emphasises working through a common EU approach with global partners. The US is considered Denmark's most important ally. This complicates Denmark's ties with China and reduces strategic autonomy in the context of increasing US-China competition. Thus, Denmark's relations with China may increasingly be defined by the contest between Washington and Beijing and steps taken at the EU level in Brussels.

Germany: The End of Wandel durch Handel?

Germany is perhaps the most relevant European country when it comes to China—China is Germany's largest trading partner, and the German economy has the most significant exposure to China in Europe. For years, Germany followed the policy of *Wandel durch Handel* (change through trade) that aimed to inspire change through trade in hopes of seeing a less authoritarian and more open and democratic China. The German *Zeitenwende*, spurred by Russia's invasion of Ukraine, led to a rethink of Germany's one-sided dependencies on Russia and China, resulting in the release of a much-awaited China strategy in June 2023.[14] The 64-page document recalibrates Germany's relationship with China in the context of broader shifts in German economic and security policies. In November 2022, German Chancellor Olaf Scholz wrote, "As China changes, the way we deal with China must change too".[15]

Despite adopting the EU's trinity in characterising China, the German strategy places greater importance on the 'rival' element, asserting that China aims to perpetuate "economic and technological dependencies with a view to using these to assert political objectives and interests".[16] In tandem with the EU approach, it urges 'de-risking' from China in critical sectors and diversifying trade partners towards more 'like-minded' nations in the Indo-Pacific, Latin America, and Africa. In the context of Chinese human rights violations and security concerns, greater scrutiny of inbound and outbound investments in China, particularly in sensitive technologies, is a crucial aim.

Critics have pointed to gaps in the strategy. While the document urges a reduction of strategic dependencies, it remains ambivalent on where it would source critical raw materials and technologies, such as solar panels central to the green transition, areas in which China is a dominant supplier.[17] Despite the emphasis on protecting Germany's critical infrastructure, governmental actions, such as Scholz's controversial decision to allow Chinese company COSCO to invest in the Hamburg port terminal, run counter to the document's assertions. In the absence of critical specifics, such as binding requirements, incentives, or company bailouts in the event of escalating geopolitical tensions, the strategy essentially makes 'de-risking' a choice for companies, several of which are hugely dependent on China for their sales and revenues. In an indication of just how intertwined German business is with Chinese markets, one in three German cars are sold in China,[18] and 34 percent of all European investment in China between the 2018-2021 period came from only four German companies (BMW, BASF, Volkswagen, and Mercedes-Benz).[19] Moreover, that the document was a difficult compromise between the parties in Germany's ruling traffic light coalition was reflected in the final draft, where potent measures put forth by the Greens party, such as stress tests for German companies to measure China-related risks, were eventually left out.

How effectively Europe's growth engine will be able to strike a balance between maintaining economic competitiveness and reducing dependencies will influence policy across the continent and determine the success of the EU approach.

Sweden: The Ultimate Hawk

Following Russia's invasion of Ukraine, Sweden abandoned centuries of neutrality and applied to join NATO. At the same time, Sweden's perspective of China has also turned among the most hawkish in Europe.

Sweden's views on China have shifted dramatically since 2015. Numerous drivers, such as China's wolf warrior diplomacy,[20] the case of Swedish bookseller Gut Minhai's arrest in China,[21] and Chinese human rights violations, have altered perceptions. According to a 2020 survey of global attitudes towards China, 85 percent of Swedes had an unfavourable view of China, the second highest after Japan.[22]

Sweden first outlined its approach to China in a white paper published in 2019.[23] More recently, the Swedish Defence Commission's report released in June 2023 refers to "autocratic and revisionist states like China and Russia" as the primary threats to a rules-based international order.[24] While Sweden's 2017 National Security Strategy mentioned China only thrice, the 2023 report makes 331 references to China, demonstrating the extent of change.[25]

Even though Sweden anchors its China policy in the overall European framework, as reiterated by Prime Minister Ulf Kristersson's centre-right government, the Swedish report does not adopt the EU's three-pronged characterisation of China, instead only labelling China a "threat", albeit not a direct military threat. Russia is referred to as the "most serious and long-term threat", and security in the Asian and European theatres is linked by alluding to increasing Russia-China cooperation. Central to the Swedish approach is collaborating with global partners like the US.

Building solidarity on China-related issues was a key goal during Sweden's presidency of the Council of the EU in the first half of 2023.[26] Like other European countries, Sweden intends to reduce strategic dependencies on China. To achieve this, it advocates for free trade agreements with like-minded nations, deepening the EU single market and scrutinising Chinese investments in areas such as wind power. Going further than the other European nations that have encouraged companies not to involve Huawei in 5G rollouts through incentives and other measures, Sweden has banned Huawei. Yet, China remains relevant to Sweden's export-oriented economy; Swedish companies such as H&M and IKEA are majorly invested in the Chinese market, rendering achieving an economic level-playing field even more crucial for Sweden.

The UK: From 'Golden Era' to 'Epoch-Defining Challenge'

In March 2023, the UK's original 2021 blueprint for post-Brexit global engagement ('Global Britain in a Competitive Age: Integrated Review of Security, Defence, Development and Foreign Policy'[27]) was upgraded to a new document titled 'Integrated Review Refresh 2023: Responding to a More Contested and Volatile World' (IR Refresh), that aimed to reassess British priorities by factoring in newer events such as Russia's war on Ukraine.[28]

The IR Refresh, which reinforces the UK's "Indo-Pacific tilt," devotes two out of 59 pages to China, referring to the country as an "epoch-defining and systemic challenge" to the international order.

The so-called "golden era" of UK-China relations is considered officially over, reiterated by UK Prime Minister Rishi Sunak in his first foreign policy speech after assuming power in 2022.[29] China's 2019 crackdown on protesters in Hong Kong, Britain's former colony, coupled with internal human rights violations in Xinjiang and aggression towards Taiwan and the South China Sea, have contributed to enhancing the UK's negative perceptions of China.

Yet, the IR Refresh falls short of labelling China as a threat despite pressure from Sunak's predecessor, Liz Truss, and other hawkish elements within the Conservative Party to adopt a more rigid stance towards Beijing. On the other hand, Russia is referred to as "Britain's most acute threat", and the strategy highlights the perils of the deepening Russia-China partnership. The document adopts a three-pronged approach towards China, which involves strengthening national security protections, aligning with partners to push back against Chinese coercion, and engaging directly with China on trade and climate change matters.

Government officials such as then-Foreign Secretary James Cleverly, who visited China in July 2023 (five years after former Foreign Secretary Jeremy Hunt's last visit in 2018), are pushing for greater engagement based on China's status as the world's second-largest economy.[30] This is particularly significant in the context of an economic recession in the UK and an inflation rate of over 8.7 percent in May-June 2023, compared to 7.1 percent in the EU and 2.7 percent in the US.[31] Most recently, the appointment of former Prime Minister David Cameron as foreign secretary in November 2023 has raised questions on the potential consequences of the UK's China policy. During his term as prime minister (2010-2016), which coincided with the "golden era" of UK-China ties, Cameron advocated deeper cooperation with China and declared the UK's ambition "to be China's leading partner in the West".[32] But his current appointment takes place under fundamentally altered political circumstances, and Cameron's future China policy may well tow Sunak's line.

In addition, Brexit has pushed London to seek closer economic relations outside the EU, rendering China a vital trading partner and market for British companies. Simultaneously, the UK is also limiting critical dependencies, such as by banning Huawei from its 5G network and deepening cooperation with partners to strengthen national security. Under the UK's National Security and Investment Act, the UK blocked the Chinese takeover of its largest chipmaking factory, Newport Wafer Fab in Wales.[33]

Crucially, the IR Refresh states that the UK's relations with China are not set on a "predetermined course". The UK prefers cooperation and stability but conditions these on China's choices, such as moving towards greater authoritarianism. The strategy also lays out plans to build local expertise and capabilities on China, including encouraging Mandarin language skills among civil servants.

The IR Refresh was followed by a report on China by the Intelligence and Security Committee of Parliament in July 2023,[34] which delves into case studies of Chinese influence and espionage in three major areas—academia, industry and technology, and civil nuclear energy. The UK also released several sector-specific strategies to complement these strategies, such as a semiconductors strategy[35] and a refresh of its critical minerals strategy.[36]

With general elections looming in 2024 and the strong prospect of a Labour victory, the UK may further tighten its China policy. The left-leaning party will likely be more hostile towards China and tougher on human rights.

Czech Republic: Developing a Hawkish Stand

The Czech Republic's political relations with China have ebbed and flowed over the years. President Miloš Zeman was generally considered the leading force behind the country's active dialogue and economic ties with China. However, under Petr Pavel's presidency since March 2023, the Czech Republic has gone from one of the most China-friendly countries in Europe to one of the most hawkish. Bilateral ties have faced a downward spiral since 2018 when the Czech National Cyber Agency released a warning on national security risks on Huawei and ZTE, followed by China threatening litigation against the cyber agency.[37]

The shift in outlook towards China can also be seen in the security strategy released in June 2023. As compared to the 2015 strategy,[38] the current plan is much more direct in calling out threats and risks to the Czech Republic, with China described as a country that "poses a fundamental systemic challenge globally and also in terms of direct influence operations in democratic countries, including the Czech Republic."[39] The strategy describes China's actions as revisionist and calls out its military build-up, cyber espionage, and diverse types of coercion (including economic and hybrid interference). It also points towards China's growing assertiveness and identifies Chinese investments in critical areas as a source of concern. More importantly, the strategy highlights that the changing global security environment is being shaped by Russia and China's increasingly "joint anti-systemic drive", which includes attempts to transform the rules-based global order. It points out that "the architecture of global strategic balance is crumbling because of Russia's disregard for treaty-based commitments and China's unwillingness to get involved".

While the trend in attitude towards China seems to be negative, a different trajectory is being witnessed in the relations between the Czech Republic and Taiwan. Over the past two years, Prague has emerged as Taipei's closest partner in Europe, with Pavel stating that "China and its regime is not a friendly country at this moment, it is not compatible with Western democracies in their strategic goals and principles" and that he "stands ready to meet Taiwanese President Tsai-Ing Wen at some stage and wants stronger ties with Taiwan."[40] This was followed by the visit of a delegation led by the Czech Speaker of the Lower House to Taiwan, with discussions on arms and military cooperation.[41]

France: Balancing Cooperation and Competition

Although it acknowledges the profound changes within China, France appears to want to preserve its economic interests for as long as possible. Therefore, over the past few years, the French position on China has emerged as a balance between competition and cooperation. While France's overall position has hardened over issues related to human rights in Xinjiang, China's wolf warrior diplomacy during the pandemic, and its expanding military presence in the Indo-Pacific, Paris has been careful to tread a delicate path with Beijing, even as its outlook has changed.

In its 2013 white paper on defence and national security,[42] France recognised China as "one of the powers that structures globalisation" and with which it would work to promote global partnerships. Its 2021 strategic update,[43] however, points towards China's emergence as a strategic rival, calling out its increasing military and technological investments and its expansionism in all directions. The 2022 version delves deeper into the issue, devoting a separate section to the developments within China and their impact on the world order,[44] highlighting that due to "increasingly intense strategic competition and confrontation, the position of liberal democracies has been weakened because they are defending an international order whose foundations (international law, multilateralism, values, etc.) are being openly challenged by several States."[45] The update calls out both Russian and Chinese operations for undermining their political systems and national cohesion. It points towards the growing convergence between Moscow and Beijing "directed against the expression of Western objectives and offering opportunities for political alignment against the West."[46] Interestingly, it also calls out China's investments in infrastructure, especially in Africa, which create risks of dependencies, espionage, and restrictions.[47]

While France, like many European countries, recognises the challenges emerging from China, it has opted to strike a balance between cooperation and competition. This duality was visible during French President Emmanuel Macron's visit to Beijing in April 2023, where he pushed for advancing economic relations, including the sale of 160 Airbus planes and the opening of a new Airbus assembly line in China to double its capacity in the second-largest aviation market in the world. More importantly, what stood out during the visit was his statement on Taiwan: "The question Europeans need to answer… is it in our interest to accelerate [a crisis] on Taiwan? No. The worse thing would be to think that we Europeans must become followers on this topic and take our cue from the US agenda and a Chinese overreaction." He added that Taiwan as a crisis was "not ours" and that Europe should stay out of it and not become "America's followers".[48] Macron's statement contradicted the EU

Commissioner's line on Taiwan, raising questions about whether France was now taking a different position from that of the EU.

The Netherlands: Towards Protectionism?

The Netherlands released its first policy on China in 2013, emphasising attracting Chinese investments.[49] An updated policy followed this in 2019,[50] where the Dutch government reflected on what China's rise has meant for the Netherlands and Europe. The core idea of the policy was "open where possible, protective where necessary." This policy followed the EU's strategy on China, calling the country a competitor and a partner. Since the release of the policy, the Dutch government has taken several steps to safeguard its critical sectors from an increased Chinese presence, including more significant investments in the domestic chip-making and semiconductor industry. For example, the government invested €1.1 billion in Project PhotonDelta,[51] bailing out the Royal IHC shipbuilding company from bankruptcy and a possible Chinese take-over.[52] The Netherlands also became the first European country to impose new export controls on microchip manufacturing equipment to China.[53] This was done to prevent the Dutch technology from being used for military purposes or to manufacture weapons of mass destruction. Also, the Netherlands has adopted an investment screening regime[b] that entered into force on 1 June 2023.

In its latest National Security Strategy, released in 2023, China is mentioned in terms of two interconnected issues that will potentially impact the Netherlands' overall security. First is the growing geopolitical rivalry between the US and China. According to the strategy, this manifests primarily in the military and economic fields and potentially creates high-risk dependencies. This may lead to problems for the Netherlands as the US is its ally partner, and China has been flagged for not following international rules. Second is the increasing bonhomie between Russia and China, which is challenging the existing global order. Both countries are engaged in geostrategic competition with the West and are considered to be undermining the international and multilateral system to align with their long-term visions. According to the Dutch strategy, these developments will lead to a multipolar world where the Netherlands will have to "realign itself based on the changing global balance of power".

b The Act on security screening of investments, mergers and acquisitions entered into force on 1 June 2023, introducing an investment screening framework based on national security considerations. This Act will complement existing sector-specific screening mechanisms in energy and telecommunications. For more, see: "Investment Screening", UNCTAD, https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4328/netherlands-introduces-fdi-screening-regime

Once considered enthusiastic partners for China, the Baltic countries are now recalibrating their outlook towards Beijing. This is due to growing concerns regarding trade imbalances, human rights violations by China, and the failure of the 17+1 mechanism[c] to deliver on its promises. These issues are further compounded by China's declaration of a "no-limits partnership" with Russia.[54]

Lithuania: Making Strategic Choices

Lithuania's relations with China have been on a downward spell since the release of its National Threat Assessment in 2019, which called out Chinese espionage activities in the country and noted that Beijing was seeking that "Lithuania would not support [the] independence of Tibet and Taiwan and would not address these issues at the international level."[55] The situation deteriorated further with the election of the Ingrida Šimonytė government in 2020, which pledged to follow a 'value-based foreign policy' and to "actively oppose any violation of human rights and democratic freedoms, and…defend those who are fighting for freedom around the world, from Belarus to Taiwan".[56]

A low point in relations was in 2021 when Vilnius declared its plans to open a trade representative office in Taiwan, followed by Taipei's decision to open a 'Taiwanese Representative Office' in Lithuania, the first in Europe to be called Taiwanese.[57] Lithuania's withdrawal from the 17+1 grouping followed this. Lithuania, terming the grouping "divisive from a European perspective as well as non-effective",[58] called for a collective EU effort to deal with Beijing. This resulted in Lithuania-China bilateral relations coming to a standstill.

These events were followed by an updated National Security Strategy in 2021, which, for the first time, listed China and Russia as the two authoritarian actors that pose a challenge to Western democracies. The strategy document termed Chinese ideology contradictory to Lithuanian national interests and values. The 2023 national threat assessment featured a separate section on China, which noted that Beijing has used its new policies, such as the Global Security

c A Beijing-led grouping that was founded in 2012 to expand cooperation between China and Central and Eastern European countries, and promote economic and infrastructure development in the region.

Initiative,[d] "to shape the global security agenda and create a counterbalance to Western alliances."[59] The strategy document also expresses concerns over the increasing cooperation between Russia and China, especially in the aftermath of the Ukraine conflict. It highlights that while Beijing's goal of increasing cooperation with Moscow has not changed, the Ukraine crisis has resulted in the emergence of some difficult questions for China, including finding a "balance between its 'non-interference policy', partnership with Russia, and the necessity to uphold its image in the West because of its economic interests."[60] It also discusses the situation in the Taiwan Strait, noting that while a military invasion remains a remote possibility, China will increase its aggressiveness towards Taiwan. The document notes that, in the medium term, Lithuania expects China to pursue its policies to reduce its dependence on the West to curtail its "critical vulnerability if it came under sanctions in the event of a military invasion of Taiwan."[61]

Estonia: An Evolving Security Outlook

Like many other European countries, Estonia sees Russia as an immediate threat and China as a long-term threat. In recent years, Tallinn has sought to bolster its national security by passing the Electronics Communications Act in 2005, which was amended in 2020 and empowers the intelligence services to review the safety of all telecommunications structures and future development of networks and freezes Huawei out of its communication structures.[62] Moreover, in 2022, Estonia also withdrew from the 17+1 grouping.[63] The 2023 International Security and Estonia report lays out the country's concerns regarding China's international posture, including Beijing's ideas of reforming the global order, its increasingly confrontational approach towards its neighbours, and its increasing ambitions of technology hegemony.[64] Highlighting the change in China's outlook, the report points out that "China's rhetoric and worldview have clearly changed. Previously, China presented itself as a great power with regional ambitions – now China no longer hides its ambition of becoming a global superpower."[65]

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d Released in 2022, the Global Security Initiative includes six commitments: (1) a commitment to the vision of common, comprehensive, cooperative, and sustainable security; (2) a commitment to respecting the sovereignty and territorial integrity of all countries; (3) a commitment to the purposes and principles of the N Charter; (4) a commitment to taking the legitimate security concerns of all countries seriously; (5) a commitment to peacefully resolving differences and disputes between countries through dialogue and consultation; and (6) a commitment to maintaining security in both traditional and nontraditional domains. For details, see: "Jointly Implementing the Global Security Initiative For Lasting Peace and Security of the World," Ministry of Foreign Affairs, PRC, https://www.mfa.gov.cn/eng/wjbxw/202311/t20231102_11172214.html)

The report highlights three specific issues pertaining to China. First, under Xi's leadership, Beijing is moving towards deepening "authoritarianism and confrontation with the West". The report notes that the Chinese intelligence believes the Global Security Initiative can effectively "disrupt the Western security architecture." Second, it points out that Beijing has increased its anti-Taiwan efforts to constrict the "existential space of Taiwan." While the report notes that China is very unlikely to attack Taiwan, it acknowledges that this may change. The report also notes that in the event of a conflict with Taiwan, Western sanctions may not deter China - just as they have not had any effect amid China's actions in Hong Kong and Xinjiang. Third is the changing nature of relations between China and Russia. The report notes that while some pre-war trends have strengthened (such as Russia's increasing role in China's global ambitions), there is an increasing inequality in the partnership. For China, relations with Russia are 'useful' as they present a contrast— "an aggressive and unpredictable Russia allows China to maintain the image of a fair and peaceful power while pursuing same goals as Russia". The report opines that China and Russia will continue to compete for influence in non-Western organisations such as the Shanghai Cooperation Organisation and BRICS. Russia and China are united by their desire to strengthen anti-Western sentiments among the member states of these organisations and involve them in the plan to reduce the dominance of the US dollar. An interesting aspect noted in the report is China's scrutiny of Russia's actions in Ukraine. The report seems to make a connection that Russia's actions in Ukraine have emerged as a case study for China on what not to do in the face of Western unity and determination. Beijing has closely monitored the impact on the global balance of power and seems to be drawing lessons on making "better choices" for effective strategy "if its confrontation with West becomes significantly sharper" should it find itself in similar international isolation.

> "Once considered enthusiastic partners for China, the Baltic countries are now recalibrating their outlook towards Beijing due to concerns regarding trade imbalances, Chinese human rights violations, the failure of the 17+1 mechanism, and China's no limits partnership with Russia."

The Outliers

While EU member states reassess their relations with China, two key countries, Greece and Hungary, have taken an alternate approach, making them outliers.

Greece: A Slow but Unsteady Shift?

China-Greece relations saw an upswing under Aléxis Tsipras's rule (2015-2019), with the goal of Greece becoming China's gateway into Europe. Greece's economic vulnerability, the Eurozone's austerity measures, and the country's strategic location in the Eastern Mediterranean made it an easy target for Chinese investments. Like Hungary, close trade and investment ties with China translated into a reluctance to confront Beijing in political areas and vetoing of EU statements against Chinese aggression in the South China Sea and human rights abuses.

This momentum in ties carried forward under the conservative government of Prime Minister Kyriakos Mitsotakis. Xi's visit to Greece in November 2019 was heralded as a "new era" in Sino-Greek ties, with Mitsotakis telling Xi, "Your company and China as a whole believed and invested in my country when many felt that investment prospects in Greece were nonexistent."[66] At the core of these significant investments is COSCO's 67 percent stake in the strategic Greek port of Piraeus, referred to as the "dragon's head" of China's Belt and Road Initiative (BRI) in Europe. As a maritime nation with the largest number of merchant fleets worldwide, China is an important customer for Greek shipping firms. Greece's view of China witnessed a shift during the pandemic when China's projection of itself as a benefactor led to negative perceptions and some ambivalence regarding Chinese presence in the country.[67] Controversies surrounding the Piraeus port, such as a fatal accident in the container terminal in 2021, have affected Chinese investments.[68] Chinese companies have been left out of public tenders, and deals such as the privatisation of Greece's railway operator TrainOSE and the sale of Greek insurance company Ethniki Asfalistiki were halted.[69] In 2021, Mitsotakis declared that "Greece is not particularly dependent on Chinese investment" and that Greece's 5G network would be "Huawei-free".[70]

The Greek economy has rebounded in recent years, with GDP growth of 8.4 percent in 2021 and 5.9 percent in 2022.[71] With this, Athens is also performing a balancing act—reaffirming its Western and EU orientation (Greece follows the three-way EU characterisation of China) while balancing ties with China and the US, particularly in the context of tense relations with Türkiye and disputes in the Aegean Sea.

Hungary: China's European Trojan Horse

From blocking Sweden's membership of NATO and reluctance to shed Russian energy to blocking military aid to Ukraine, Hungary has shown through many instances that it is an outlier in the EU. These differences with the rest of Europe are also starkly visible in the country's China policy, earning Hungary the nickname of China's Trojan Horse in Europe.[72]

As European countries turn cold towards Beijing, Budapest has continued its pro-China approach, with Hungarian Foreign Minister Peter Szijjarto calling "de-risking" from China an act of "suicide" for Europe. Hungary was the only EU member state to use China's COVID-19 vaccines and the first European country to join the BRI, which supported the €2.3 billion Budapest-Belgrade railway project.[73] While other European nations have banned Huawei from their 5G networks, Hungary has a strategic partnership with the company, hosting Huawei's largest supply centre outside China.[74]

Since Prime Minister Viktor Orbán came to power in 2010, Hungary has pursued a 'Keleti Nyitás' (Eastern Opening) policy to boost ties with the East while reducing its dependence on the West.[75] Close political and economic relations with China enable Hungary to maintain some autonomy from the US and EU, particularly in the context of ongoing rule of law disputes with Brussels and the conditions attached to EU funding. These render Beijing a more accessible alternative source of investments and funds, and a means to increase political leverage at the EU level. Orban's illiberal and authoritarian style of governance resembles that of Xi, removing the clash of values that other European countries face in their dealings with China.

China is the top investor in Hungary and its largest trading partner outside the EU. These investments, while posing risks to European security in the form of potential "debt traps," also garner economic benefits for Hungary. Chinese company Contemporary Amperex Technology Co. Ltd's plans to build Europe's largest battery plant in Hungary (at a cost of over €7 billion), which will be a boon for the country's automobile industry (comprising a fifth of its exports).[76] Such investments have influenced Hungarian conduct at the EU level, such as diluting EU condemnation of Beijing's actions in the South China Sea or the Hong Kong crackdown.

The Trade and Investment Factors

Trade and economy have been the driving force behind relations between European countries and China. As these countries try to re-evaluate and restructure their relations with Beijing, a key question over their economic interdependence emerges. Regarding economic and trade relations, the European countries and the EU appear to agree and disagree. Consider von der Leyen's March 2023 address, where she highlighted the need for Europe to "derisk" its economy from China. However, the trade figures of each country under study reveal a different story (see Table 1). Over the past few years, trade between China and these countries has increased, irrespective of their stances on Beijing and the issues of equitable market access or practices used by Chinese companies. Even countries engaged in a stand-off situation with China, such as Lithuania and Estonia, have seen increased trade with China. As such, China remains the EU's largest trading partner, with a bilateral flow exceeding €850 billion in 2022.[77]

Table 1
Europe's Trade Relations with China

	2019	2020	2021	2022
Denmark				
Export	4,836,593	5,540,716	5,929,263	5,690,449
Import	6,544,486	6,920,806	8,952,497	10,929,046
Total Trade	11,381,079	12,461,522	14,881,760	16,619,495
Germany				
Export	95,983,94	95,840,086	103,564,379	106,879,139
Import	110,054,162	117,373,256	142,964,313	192,006,011
Total Trade	119,652,556	213,213,342	246,528,692	298,885,150
Sweden				
Export	7,111,023	7,953,835	7,385,024	-
Import	9,119,388	8,721,820	12,174,168	-
Total Trade	16,230,411	16,675,655	19,559,192	-
The UK				
Export	35.9	27.2	27.3	37.6
Import	50.8	50.8	57.4	66.5
Total Trade	86.7	84.6	93.8	111.0

	2019	2020	2021	2022
Czech Republic				
Export	2,330,053	2,457,450	2,828,352	-
Import	26,735,848	29,282,947	33,101,578	-
Total Trade	29,065,901	31,740,397	35,929,930	-
France				
Export	20,937	17,620	24,417	24,102
Import	53,276	56,497	64,412	78,269
Total Trade	74,213	74,117	88,829	102,371
The Netherlands				
Export	515,264	482,713	589,202	594,065 (Jan-Oct)
Import	459,893	423,823	527,055	554,782 (Jan-Oct)
Total Trade	975,157	906,526	1,116,257	1,148,847 (Jan-Oct)
Lithuania				
Export	-	316	227.9	99.6
Import	-	1,172.29	1,570.00	1,986.44
Total Trade	-	1,488.29	1,797.90	2,086.05
Estonia				
Export	166	244	194	210
Import	548	647	712	954
Total Trade	714	891	906	1164
Greece				
Export	942,528	919,961	1,596,546	-
Import	4,289,096	4,033,062	11,178,473	-
Total Trade	5,231,624	4,953,023	12,775,019	-
Hungary				
Export	1,572,206	1,946,173	2,335,970	-
Import	6,753,296	8,507,370	9,270,022	-
Total Trade	8,325,502	10,453,543	11,605,992	-

Note: All figures are in million euros except for the UK numbers, which are in billion pounds

Source: Statistics; The database of the Federal Statistical Office; World Bank; Government of the UK; World Bank; Department of Statistics and Foreign Trade Studies; Department of Statistics and Foreign Trade Studies; Statistics Netherlands; Embassy of Lithuania; World Bank; World Bank[78]

The Trade and Investment Factors

Recent developments at the EU level, such as adopting the foreign investment screening mechanism, the foreign subsidies regulation, and the anti-coercion instrument, point towards increasing recognition of the need for a level-playing field and ensuring economic security in terms of balancing trade relations with China. Notably, the EU Commission launched an anti-subsidy investigation into electric vehicles (EVs) from China after Chinese EV imports to the EU members in the first seven months of 2023 increased by 112 percent and 361 percent from 2021.[79] These developments have further complicated the complex partnership, which was already under pressure due to disagreements on human rights issues, growing Chinese influence in Europe, intellectual property rights issues, and unequal access to Chinese markets.

Additionally, the EU is caught amid the stand-off between the US and China over trade issues. For example, the US has pressured EU member states and various European companies to uphold its chips export-ban regime against China. The Netherlands complied, announcing restrictions on exports of semiconductor equipment,[80] which drew sharp reactions from China. However, this position has not been endorsed by other member states. These trends highlight the contradictory approaches adopted by the European countries towards China. While many EU countries have highlighted concerns related to their overdependence on China and the emerging risks from such dependencies, they have also acknowledged that their economic ties with China are important, which can be seen in many overtures from the European leadership towards China (such as Macron and Scholz's visits to the country). This to-and-fro on the policy front raises questions on whether the European countries have a comprehensive and coherent policy on China.

China has bilateral investment treaties with all EU member states (except for Ireland) and has signed avoidance of double taxation agreements with all the countries assessed in this report. While the EU and China currently do not have any trade or investment treaty, the Comprehensive Agreement on Investment (CAI) was set to replace the bilateral investment treaties once it was implemented. Considered a landmark agreement—which committed China to improve market access and establish an equal playing field for both EU and Chinese companies, along with transparency in subsidies and rules against forced technology transfers—the approval process for the CAI was put on hold by the EU Parliament[81] in 2021 after China sanctioned several members of the EU Parliament while calling on the bloc to reassess ties with the country.

Still, China has been an important destination for investments from the EU member states, primarily due to its economic growth and market size. According to a 2022 study, the Netherlands, the UK, France, and Germany were responsible for about 87 percent of total investments in China in 2018-2021 (with Germany accounting for 43 percent of total investments), despite these countries reevaluating their strategies towards China. Still, although "European investment has grown much more concentrated...While a handful of large firms, many of them German, continue to pour money into their China operations, many other firms with a presence in China are withholding new investment."[82] (See Table 2 for details on the screenings of Chinese investments by European countries).

Table 2

European Screening of Chinese Investments

Chinese Investor	European Target	Country	Sector	Status (as of end 2022)
Aeonmed	Heyer Medical	Germany	Medical equipment	Annulled by the government
Beijing Infinite Vision Technology	University of Manchester	UK	Camera technology	Licensing deal blocked by government
CCUI and CRRC	Alpi Aviation	Italy	Drones	Annulled by the government
CIMC	Maersk's box manufacturing unit, MCI	Denmark	Logistics	Offer withdrawn after concerns surrounding anti-monopoly review
China General Nuclear (CGN)	Sizewell Nuclear Project	UK	Nuclear power U	UK government bought out CGN stake
China Power International Holding	XRE Alpha Limited	UK	Critical infrastructure	Permitted, subject to certain rules
COSCO	HHLA Container Terminal Tollerort	Germany	Logistics	Permitted, subject to certain rules and smaller equity share

Chinese Investor	European Target	Country	Sector	Status (as of end 2022)
EFORT Intelligent Equipment	Robox	Italy	Robotics	Equity increase permitted, technology transfer deal denied
Nexperia	Newport Wafer Fab	UK	Semiconductors	Initially cleared, then forced sale of additional shares
Redrock Investment Limited	Electricity North West	UK	Critical infrastructure	Collapsed after government limitations on the deal
SAI Microelectronics	Elmos	Germany	Semiconductors	Blocked
Shanghai Kington Technology	Perpetuus	UK	Graphene	Collapsed after review
Shanghai Sierchi Enterprise Management Partnership	Flusso	UK	Semiconductors	Screened but cleared
Super Orange HK Holding Limited (Univista)	Pulsic Limited	UK	Semiconductors	Blocked
Syngenta (Chinese owned)	Verisem	Italy	Agriculture	Court has upheld government veto
Unknown Chinese Company	ERS Electronic	Germany	Semiconductors	Blocked

Source: Report by Rhodium Group and MERICS[83]

At the same time, Europe has been a primary destination for Chinese foreign direct investments (FDI), with investment reaching a peak of €37.3 billion in 2016. However, Chinese FDI in Europe has declined since then, reaching €7.9 billion in 2022, marking an 83 percent drop.[84] There could be two potential causes for this: first, the lack of Chinese outbound mergers and acquisitions due to various internal (zero-COVID-19 policy) and external factors (Ukraine crisis), and second, increased scrutiny over Chinese investments by the European countries.

The UK, France, Germany, and Hungary are the top European destinations for Chinese FDI, with the first three countries accounting for over 68 percent of Chinese FDI.[85] However, increased scrutiny over the type of investments and the implementation of the EU's investment screening regulations have led to a decrease in Chinese investments, especially in sensitive technology sectors.

The Trade and Investment Factors

Market conditions in both Europe and China have become more challenging in recent years. While there was once some excitement among the major companies and industries in Europe regarding the Chinese market, there is now a stark reversal of the same due to the slowdown of economic growth and increasing geopolitical tensions. Issues regarding the EU's new screening processes and the de-risking policies of certain EU member states further complicate the matter. However, the de-risking process will be time-consuming as its contours are still being defined. In the meantime, these countries may continue establishing several screening and scrutiny regulations for Chinese investments, even while they remain open to increased trade relations.

> "China has bilateral investment treaties with all EU member states (except Ireland) and has signed avoidance of double taxation agreements with all the countries assessed in this paper."

Conclusion

Several European countries have developed strategic approaches to China, but only a few have published an official China strategy. Most European countries have China-specific approaches embedded in their overall policy frameworks.

European policy toward China is currently pointing in diverse directions, with countries in Central and Eastern Europe converging more closely with the US's more hawkish approach, while more powerful member states such as Germany and France seek a middle-ground system. Yet Europe has, overall, turned a page in its China policy.

On cosier China-Russia relations, almost all European assessments have called for caution over the evolution of this 'no-limits partnership'. China's support to Russia over Ukraine has increased European concerns over the potential supply of military hardware to Russia, even as trade relations between the two countries have undermined the impact of Western sanctions.

Another factor that merits consideration is the transatlantic relationship that has strengthened in the wake of the Russia-Ukraine war, with Europe applying some of the lessons from its previous over-reliance on Russia towards its relationship with China. However, Europe is unlikely to fully converge with the US on China, primarily due to its geopolitical ambitions. Europe's goals of achieving strategic autonomy relate as much to European dependence on the US as on China. Uncertainties relating to the future trajectory of American politics are an issue of concern, and Europe may not prefer to put all its eggs in the American basket. In addition, Europe would likely navigate the strategic arena through a balancing act between the US and China rather than wholly aligning with one or the other, especially as many European countries have benefited economically from the Chinese markets and with the severing of economic and energy ties with Russia putting considerable strain on Europe. European countries do not appear to favour the US's overtly confrontational approach to China. Even so, the balance will continue to be heavily skewed in favour of the US based on shared concerns over China's assertive behaviour, resulting in an increasingly hardened European positioning towards China.

Cooperation and business with China is becoming increasingly conditional and scrutinised for Europe. Trade and investment relations will continue to dominate the agenda of European countries, characterised by more clarity on the need to reconfigure trade relations with China but glaring ambiguity on how to achieve this. While the EU and its member states call for de-risking their economies on China, they remain elusive on implementation details.

Conclusion

However, unlike the US, the issue does not centre much around strategic competition with China for Europe. If Europe can arrive at a fairer and more level-playing economic field and improve the trade imbalance in ties with China through, for instance, the CAI, Europe's grievances towards China may lessen, and China could once again be viewed as an opportunity for Europe. This is evident in European leaders' visits to China, where the priority issue was Ukraine, but the accompanying European business delegations struck economic deals.[86] Moreover, even if the EU and member states succeed in formulating more concrete policy measures, reducing trade interdependence with China will likely be a long and cumbersome process.

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Endnotes

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