

EU-China Relations: The economic and political environment

Embaixador
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1.

Some years ago, my friend, Pascal Lamy, wrote an article entitled “An isolated China is a more dangerous China”. In it, and among other things, he described how “isolating China further would be a mistake” and, furthermore, that a “globalised China is less dangerous for Europe and the rest of the world than an autarkic China.”*

I agree with Pascal Lamy’s clear positions.

Here, I aim to analyse them within the context of the economic relations currently prevailing between Europe and China and the respective political environment. And also what Portugal’s contribution to this dialogue might be.

2.

Some economic facts framing our China relationship:

- China is the second largest economy in the world: in 2023 its GDP at the current USD exchange rate came in at 17.7T USD with the U.S. in front on 26.8T;
- The largest single European country, Germany, was in third place, with its GDP valued at 4.4T, about one quarter of the Chinese economy;
- Furthermore, China is already the world’s largest economy by PPP, the accounting criteria applied by Eurostat to classify EU member states, for example;

- Trade in goods and services between the EU and China totalled 965.8B euros in 2022: 2.64B per day;
- In 2023, there was a drop of 3 per cent in exports from Europe against an 18 per cent fall in imports from China; but trade nevertheless still reached 737B euros: 2.01B per day;
- In 2023, China was Europe's largest supplier providing 20.5 per cent of total imports from outside Europe and the third largest buyer, taking 9 per cent of total European exports;
- Exports already account for a fifth of China's GDP and China's share of global manufacturing stands at 31% (FT, March 27, 2024);
- The EU runs a large trade deficit with China in goods but registers a surplus both in services and in FDI - Foreign Direct Investment;
- The EU depends to a greater extent on trade with China than the US: its imports and exports of goods represent 5.4% of GDP against 2.7% for the US;
- 10% of German GDP depends either on exports or investments in China (The Economist);
- Germany exports more to China than France, Italy and the United Kingdom combined;
- China's trade surplus with G-7 countries grew by a third between 2019 and 2023 while it more than tripled with developing countries (Rhodium Group);
- An example of economic prosperity and infrastructural development: car sales. In 2022 sales of motor vehicles in China: 28.8 million. In US: 14.2 million- In the 11 first European countries: 9.6 million. The first European is Germany with 2.9 million;
- A final example: in terms of the critical investments in renewable energy technologies (wind turbines, photovoltaics panels): between 2020 and 2022, China's market share of EU green product imports surged from 11% to 41%. China's share of the same market in the United States advanced from 13% to 19% over the same period.

3.

The Europe and China relationship is:

- Essential and crucial to both parties in political and economic terms;

- But relationship is nevertheless asymmetrical across Europe, depending on the different situations and positions of member states;
- This relationship is now politically controversial with different positions of member states and with Europe subject to political pressures from the United States;
- China is also becoming an unavoidable political and economic partner in markets important to some European countries, such as Africa, Latin America and Asia.

In 2019 the EU approved a strategic position defining China simultaneously as:

- A partner for economic co-operation and negotiation;
- An economic competitor;
- A systemic rival;

As a partner, Europe has to attain a balance, fine-tuning the defence of its interests. And maintaining an open relationship with fluid diplomatic dialogues.

As a competitor, China is entering European markets primarily in technological areas. However, Europe also wants to do business in the Chinese market.

As a systemic rival, China has alternative political and strategic means and does not follow the systems and norms of European governments.

Indeed, in 2020, the European Parliament refused to ratify the “Comprehensive Agreement on Investment” negotiated by the EU on Germany’s initiative. However, this apparently has not prevented subsequent investment flows and even while the European Parliament’s position does more harm to Europe, more than it does to China.

4.

European perceptions of relations with China vary from one member state to another. While this clearly reflects in the economic relations ongoing, it also clearly cannot be separated from geostrategic objectives, political constraints, memories of history and the alternatives available to different Europeans.

China needs European markets just as various European countries need the Chinese market.

And while China still needs Europe, the European geopolitical alternative depends on its difficult dialogue with the United States. Even after the San Francisco Summit, this dialogue does not yet seem to have stabilised with so much depending on the US

elections on 5 November. Electoral political cycles also influence relations with China.

In fact, China, like Ukraine or Gaza, has entered the U.S. election campaign. And this is never a positive development in terms of foreign policy. The aim of foreign policy should be the defence of each country's national interests, not the electoral circumstances. However, the USA is hardly the only example of such incursions.

5.

What is Europe's perception of China?

This certainly differs between Lithuania and Austria or Portugal, for example.

The history and historic relationships with China certainly influence such knowledge and perceptions.

Portugal was the first European country to reach China by sea in 1516 and the last European state to leave China, with the handover of Macau in December 1999. Two and a half years after Hong Kong.

Thus, we share greater knowledge of China than other Europeans. Especially as, in many cases, these partners forced China to take on the so-called "Unequal Treaties" in the 19th century.

For a European stakeholder, what is China today?

- A country with an economy modelled on Western markets, with its own rules and especially in the wake of Deng Xiaoping;
- A one-party political model, classed as authoritarian model, more Leninist than Marxist, in which probably the "emperor-mandarins" pyramidal tradition was replaced by the structure of the Chinese Communist Party organisation;
- A country that has a civilisation, more than a culture, that is 3,000 years old, where Confucianism maintains its traditions and still inspires;
- In its most recent political developments under President Xi Jinping, security has seemed to condition and guide the post-pandemic economic recovery;
- Just as in the West, national security has been imposing increasing constraints on the economy;
- According to Washington, in a position some European leaders are following, Beijing will become the main rival in political and strategic terms in the coming years. However, the conflict in Ukraine has once again brought Russia to the fore.

Specially now when we celebrate the 75th years of NATO;

- China's moves regarding Taiwan and its eventual return to the "mainland" could determine the future policy model of Western states towards China. I believe that the large majority of Europeans will condemn any move from China to change the current status of Taiwan. And probably the US will press Europe to follow Washington in order to prevent a military Chinese solution. Ukraine could be a good example for a similar situation.
- A few European countries (France and UK) are particularly concerned with China's position in the Pacific. Following the USA in that strategic question. One of the US goals is securing the Indo-Pacif zone from Chinese influence. AUKUS, the alliances with Japan, South Korea and Philippines are several of the US answers to the tensions with Beijing mainly in the Pacific and in South China Sea.

6.

With this realisation and in keeping with the prevailing economic reality and geopolitical situation, Europe's responses to the Chinese challenges remain hesitant.

- Firstly, the EU advocated "de-coupling": turning away from China, Chinese trade and investment whenever Europe's strategic security, economic and geopolitical interests are at stake;
- The same position as the USA;
- Given the vagueness of its overall interests, and disagreements between member states, the EU then advanced with the criterion of "de-risking": limiting vulnerabilities in strategic sectors (minerals, semiconductors, solar panels, turbines and electric cars); this rather reflects an attempt to protect against high risks to the economy and not only to the security of Europeans;
- Shortly afterwards, some interlocutors in the U.S. (the National Security Advisor) joined the European concept of de-risking;
- Europe encounters constraints in this de-risking format:
 - Its vagueness;
 - The differing perceptions of different countries as the concept, its definition, security policies and economic dynamics are national and not European;
 - Hence, for example, the diversity of behaviours and decisions regarding the presence of Chinese companies in different European markets (such as

Huawei and the G-5 market);

- Furthermore, Europe's economic growth depends more on foreign markets than American growth does;

- And Europe has fewer natural resources than the USA and its supply chains are already more deeply integrated with the Chinese economy than those of the U.S.;

- These policies are fostering distortions in the EU-China market and with European businesses losing out on opportunities in the Chinese market;
- Opportunities the private sector does not want to go begging: hence, when Scholtz or Macron go to Beijing, they are accompanied by extensive business delegations even after Brussels began insisting on "de-risking";
- The replacement of some supply chains and the adoption of "friendshoring" and "nearshoring" are proving difficult and, above all, making products more expensive; with possible political consequences in social political, economic and electoral terms in European countries;
- Europe probably needs more cohesion or more common positions in future relations with China. Sometimes, Europe seems to be divided. Let's hope that, after European elections in June, the new European institutions manage to facilitate that cohesion.

7.

As regards China, the U.S. and the EU, to some extent, are weaponizing their economies, that is, deploying the economy as a weapon or a tool of war.

China's trade surplus and market distortions fail to explain anything.

Brussels claims the measures are not directly aimed at China. But the Chinese interests that are the most affected by the rules on investments screening, misuse of state aid, trade restrictions, the lack of reciprocity and anti-coercion instruments.

The applications of secondary sanctions on Chinese companies involved in "dual use" supplies to Russia also constitutes an example of how the West is weaponizing the economy.

However, one holds the impression that Chinese leaders are primarily concerned with the US. And in Beijing, China-EU relations are often analysed through the prism of China-US relations. Chinese diplomacy holds a clear interest in emphasising the differences between Europe and America. And, should the opportunity be there, to deepen those

differences and raise their visibility.

As far as EU is concerned, Chinese diplomacy prefers to deal separately with European countries instead of European institutions, mainly the Commission. Both in political or economic issues.

All of this contributes to tensions on both sides of the Atlantic over how to deal with China. The EU and the US do take different positions in keeping with asymmetries on the European side and somewhat fluctuating on the American side, mainly due to partisan electoral campaigning.

“Europe’s main concern is over China’s behaviour. The U.S. is concerned about China’s power, perceiving it as a geopolitical rival in the East Asian region” (CER, Annual Reports, Charles Grant). But China is likely to expand at twice the rate of the United States in the years ahead (Foreign Affairs, N. Lardy).

8.

Nevertheless, China does still seek to preserve the European and American markets it needs.

It sometimes deploys specific responses in the case of Europe. For example, placing limitations on the import of cognac in retaliation for French restrictions on Chinese imports.

However, the Chinese response emerges more specifically in two other fields: the financial and geopolitical.

China is seeking to reduce its vulnerabilities by defending its financial security through developing alternatives to dependence on the US dollar for international trade and energy imports.

Beijing’s strategy involves striving to broaden usage of the renminbi. While seeking out alternatives in the international financial system to position the country to dispense with the US dollar.

On the other hand, by promoting the SCO – the Shanghai Cooperation Organisation and the BRICS, depending on and achieving their enlargement, China is seeking to frame and optimise its diplomatic, economic, and military actions in the Global South.

The objective is not only to develop a non-dollar based economic and financial system but also, for geostrategic reasons, to ensure a strong bilateral presence in countries across the so-called South.

9.

At the European level, Portugal endeavours to maintain the centuries-old relationship with China that was consolidated by the success of the Macau hand-over. Today's situation differs very sharply from that in Hong Kong.

Unlike Italy, which has broken off, Portugal is maintaining its agreement with China to participate in the Belt and Road Initiative (BRI).

Trade with China does not attain any great significance even though China does rank as an important non-European partner:

- Imports: 4.7% (USA: 2.7%);
- Exports: 1% (USA: 5.1%).

The investment situation is rather different. Portugal stands out as the second European country with the most Chinese investment "per capita". China has invested in banking, energy (production and distribution), insurance, health, and property.

In its political and economic relations with China, Macau is fundamental and an essential platform for Portuguese companies, especially for the GBA - Great Bay Area - markets.

10.

Conclusions

- China's development over the last 40 years classes as the greatest example of economic growth in human history;
- To a certain extent, this represents only a return to the balance prevailing in the 15th and 16th centuries when China accounted for around 40 per cent of the world's GDP;
- The EU's strategic competition with China does not take on the scale of the China-US confrontation. Washington is particularly concerned with China's growing excess manufacturing capacity and Chinese strategic growing power;
- To Europeans, stable bilateral relations are essential to:
 - Create European roads to China;
 - Influencing the European Commission to review and effectively align the focus and definition of European policies and mechanisms;

- Promoting political dialogue and strengthening trade and mutual investment.

- European markets are also fundamental to the Chinese economy. And the Chinese market holds importance for many European countries;
- The European world is essential for China, which have no interest in seeing European positions coincide with American policies;
- The EU must adopt common policies and guidelines in its relationship with China without automatically following US decisions. But achieving this without jeopardising transatlantic ties.

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