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# Europe-China relations – from the 2020 Strategic Agenda to seeking de-risked engagement

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**Contact:**

**Markus Herrmann Chen | 陈瑞华**

*Co-Founder and Managing Director*

[mherrmann@chinamacro.ch](mailto:mherrmann@chinamacro.ch)

[China Macro Group \(CMG\)](#)

# Agenda

**1 Economic baseline – Europe-China economic cooperation**

**2 EU and European policy towards China**

**3 PRC policy towards EU/Europe**

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**1 Economic baseline – Europe-China economic cooperation**

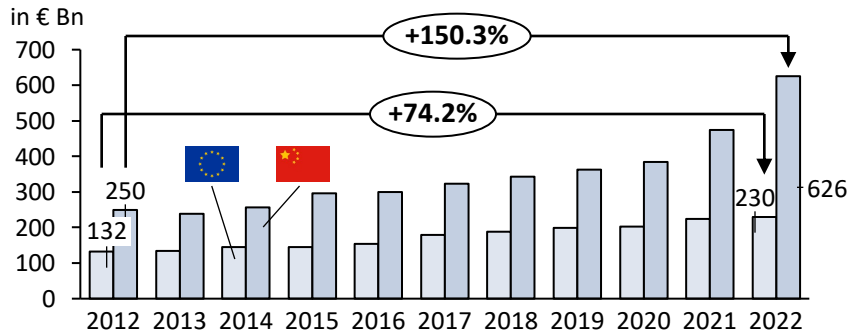
2 EU and European policy towards China

3 PRC policy towards EU/Europe

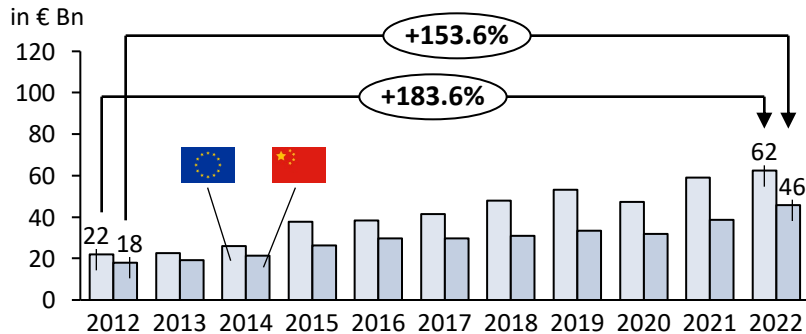
# Top-level economic baseline: rapid trade and investment integration, “muted” mutual portfolio investments

## Trade: trade keeps growing, especially services ...

**Goods: EU-China bilateral trade by exporting country**



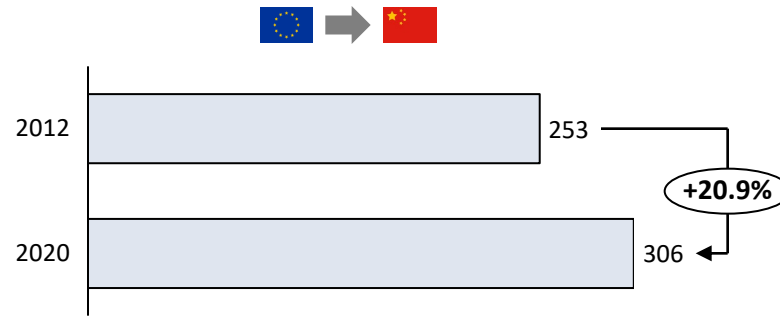
**Services: EU-China bilateral trade by exporting country**



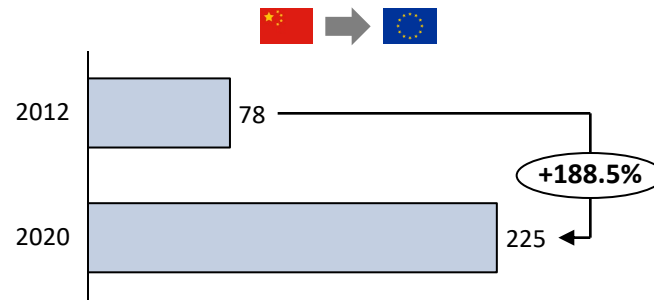
- In 2022, total annual trade in goods reached 856 € Bn, making China the **EU's 3<sup>rd</sup>** - and the **EU China's 2<sup>nd</sup>** - most important export destination
- EU now records a **396 € Bn trade in goods deficit**, while running a relatively small **surplus for services of 20.2 € Bn**

## Investment: FDI stocks grow in both directions

**EU FDI stock in China (in € Bn)**



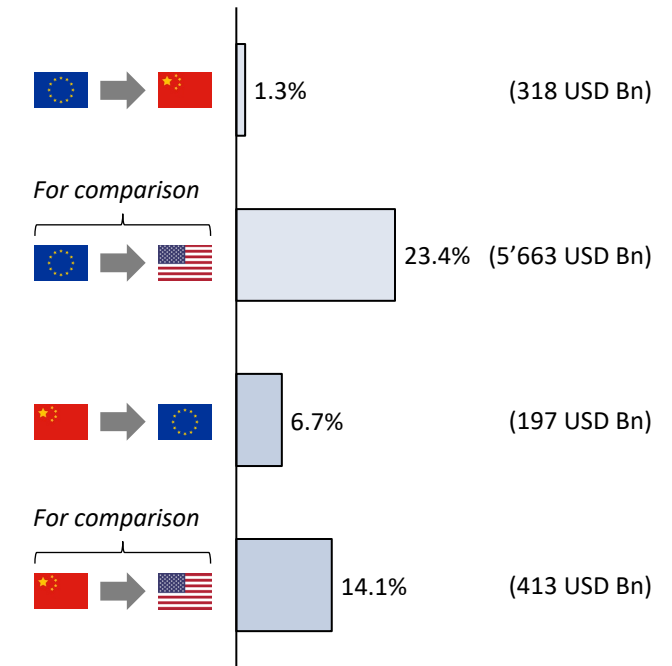
**Chinese FDI stock in the EU (in € Bn)**



- **EU outbound FDI stock in China increased moderately (CAGR 2.7% 2012-2020)**, now accounting for 3.8% of total
- **Chinese outbound FDI stock in the EU increased quite rapidly (CAGR 14.2% 2012-2020)**, now accounting for 3.1% of total

## Portfolio investment: low integration

**Outward portfolio investment (in % of total outward portfolio investment, June 2022)**



- EU with **positive investment balance with China**, although Chinese outward portfolio to EU accounts for a relatively much larger share of Chinese total portfolio investment
- **US-EU far more financially integrated**

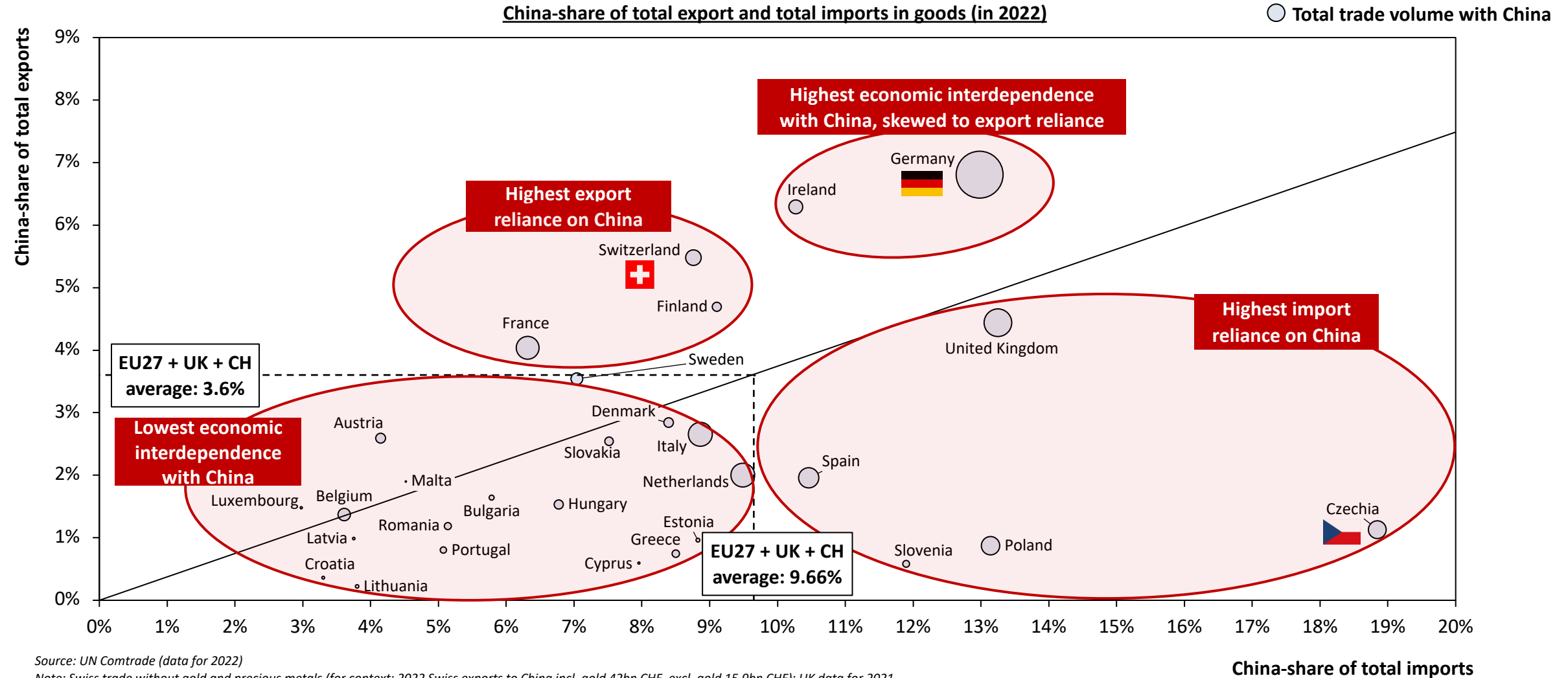
Sources: Eurostat, BACI Database (2021), Institut der deutschen Wirtschaft, IMF

Notes: FDI and portfolio investment data for China includes Hong Kong

**EU's growing trade deficit vis-à-vis China contrasted by a trade in services surplus, as well as a positive investment balance**

# EU view/trade: Germany with highest interdependence with China – dominating EU trade with China

China a key trading partner for Europe, but varying highly in significance across countries – DE alone accounting for 48% of EU27's China exports



Source: UN Comtrade (data for 2022)

Note: Swiss trade without gold and precious metals (for context: 2022 Swiss exports to China incl. gold 42bn CHF, excl. gold 15.9bn CHF); UK data for 2021

China-share of total imports

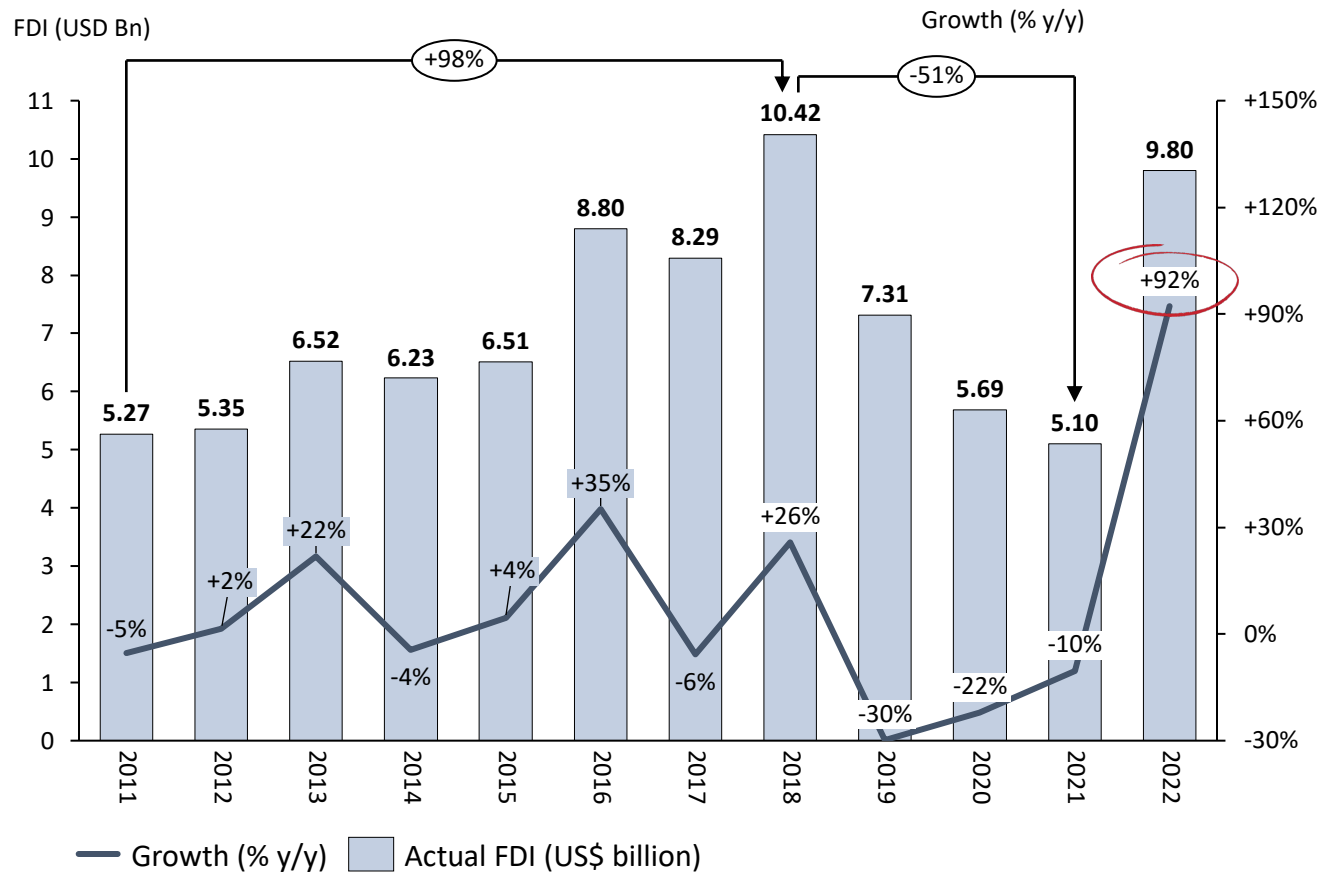


**Lower direct importance of the Chinese export market in countries lacking high-tech manufacturing and international brands**

# EU view/investment: EU FDI in China rebounds in 2022, but concentrated in a few deals in narrower sectors

## Strong rebound of EU investments into China in 2022 after decline

Annual FDI flows from the EU to China (excl. HK)



Source: PRC MOFCOM (data source for 2022 are preliminary); Caixin

## EU FDI to China become less, but bigger transactions

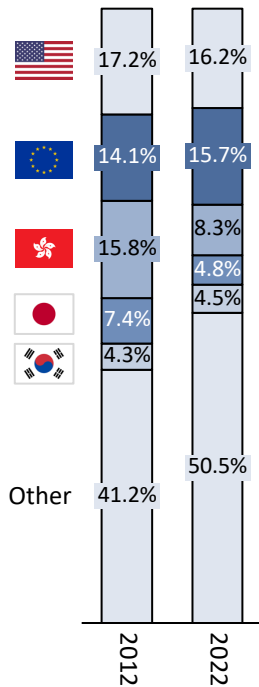
- FDI from EU countries **dropped between 2018 and 2021 by 51%**, despite overall FDI inflows to China reaching a historic high in 2021
  - This can be explained by a **combination of reasons** pertaining to Covid-induced investment hold-backs, regulatory uncertainty, declining growth expectations as well as growing geopolitical risks
- In recent years, European FDI to China has overall been driven by a **small number of big ticket transactions from a few EU companies**
  - From 2018-2022, the **four German companies** VW, BMW, Daimler and BASF alone accounted for **>1/3 of all European investment to China**
  - In 2021, just **five sectors** (automotive, biopharma, chemicals, consumer products manufacturing, and food processing) **attracted around 70% of total FDI from Europe**

Mid-term trend since 2018, indicating EU FDI in China driven mainly by a few big transactions – mainly from Germany

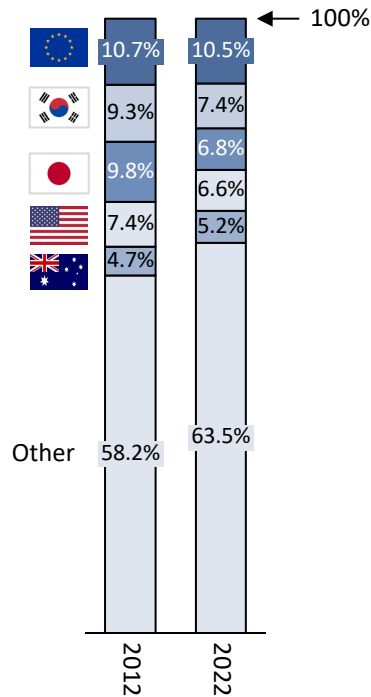
# PRC view: geopolitical dynamics show impact on Chinese FDI trends, while trade relations remains fully intact

## EU remains key trade partner for China...

China's goods exports by destination (in %)

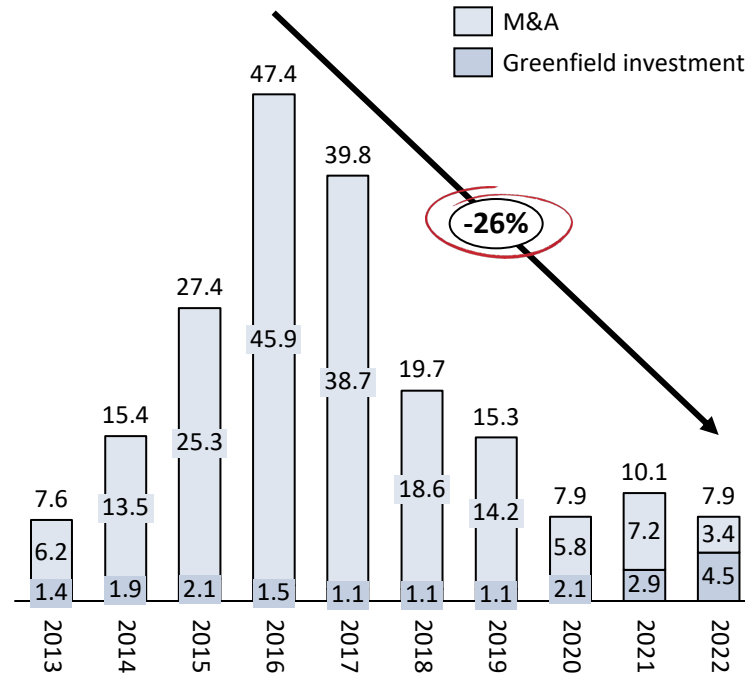


China's goods imports by source (in %)



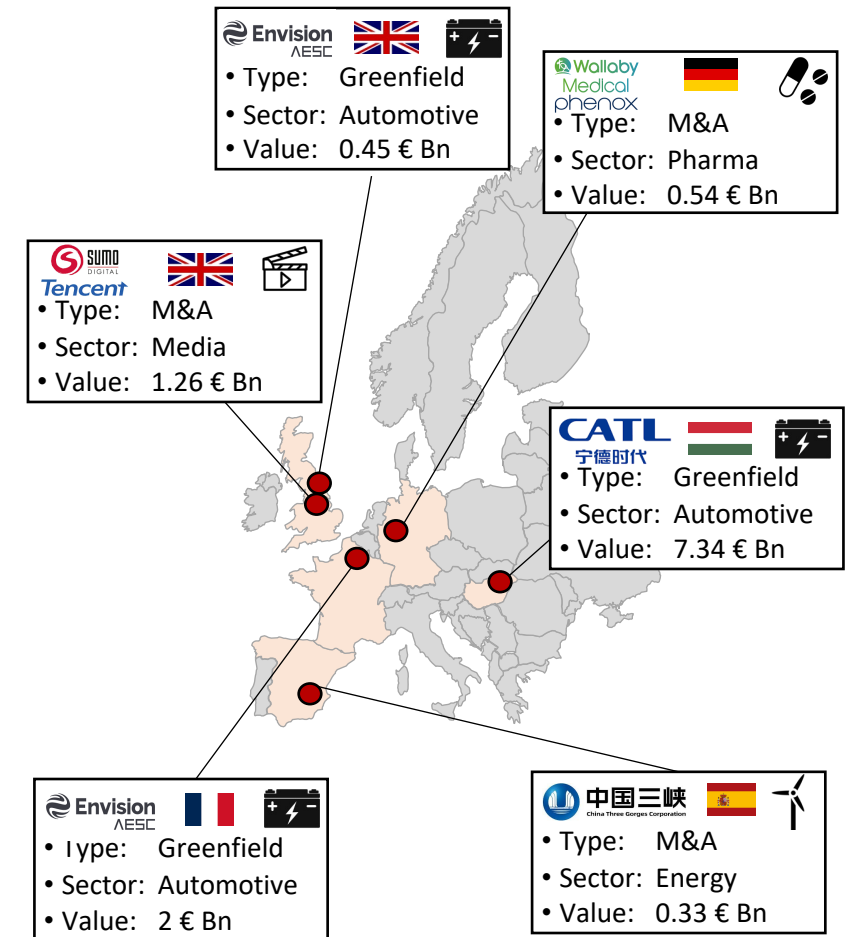
## ...while its FDI flows to the EU have collapsed...

Chinese FDI flows to EU27 + UK (in € Bn)



## ...now concentrating on greenfield FDI in NEV

Largest 6 Chinese FDI announcements in Europe since 2021



- Since 2012, EU remained a key trading partner for China, especially as **exports to EU have risen more than China's total export**
- Declining share of China's top 5 export and important partners show **trade diversification**

- Key reasons for **strong decline of FDI** since 2016:
  1. Tighter **CN capital controls** as well as a **less favorable economic and regulatory support**
  2. **EU FDI screening instruments** and **more scrutiny** of Chinese investments (esp. SOEs)

Sources: UN Comtrade; Rhodium Group

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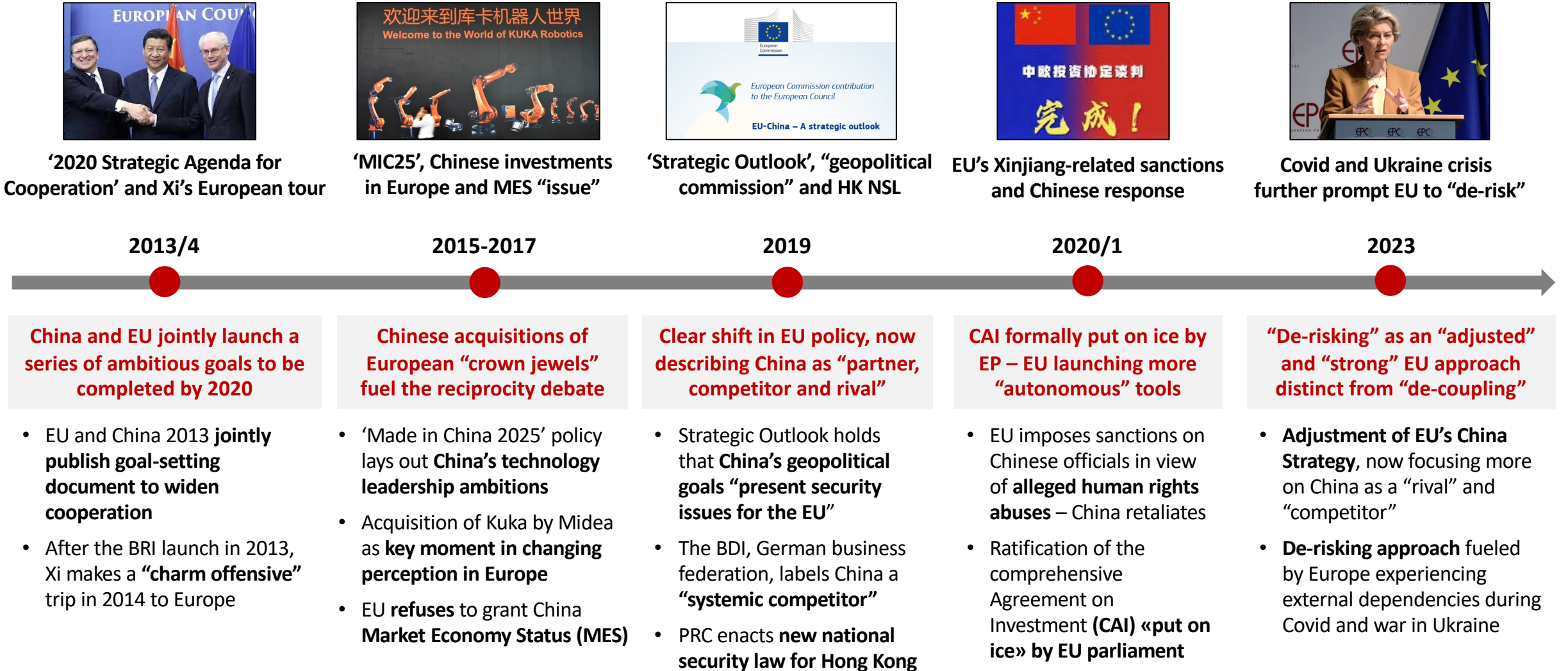
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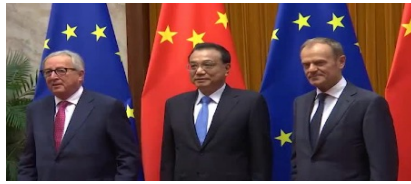
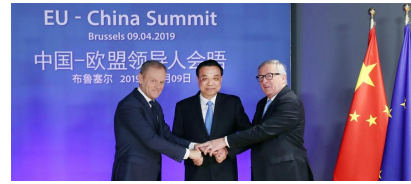




# EU-China milestones: loosing enthusiasm within a decade, from joint strategic agenda to the EU's de-risking...

EU-China relations over the last decade – navigating growing economic, geopolitical and normative complexities



... reflected in narrowing outcomes of EU-China summits, as disagreements – mostly voiced by EU – multiply

	<i>Tensions over reciprocity in economic relations</i>		<i>Increase in interest convergence amid US isolationism, while EU reflects on its China policy</i>		<i>Rise in tensions after shift in EU's China policy, multiplication of global crises (Covid, Ukraine, Taiwan)</i>	
	19 <sup>th</sup> Summit (2017)	20 <sup>th</sup> Summit (2018)	21 <sup>st</sup> Summit (2019)	22 <sup>nd</sup> Summit (2020)	23 <sup>rd</sup> Summit (2022)	
<b>Policy fields</b>						
<b>Multilateralism</b>	Memorandum of Understanding on BRI-EU Investment Fund signed	Joint support for multilateralism and opposition to protectionism	Continued shared commitment to multilateralism	Stressing difference in values, political systems and approach to multilateralism	N/A	
<b>Economy</b>	Need to address overcapacity Opposing EU anti-dumping measures	CAI negotiations go into new phase after market access offers	MoU signed on state-aid control dialogue and fair competition review	Agreement on Geographical Indications / shared calls for acceleration of CAI negotiations	Differences over reciprocated sanctions / both sides calling for fair market access	
<b>Security</b>	N/A	Joint support for Iran Nuclear Deal after US withdrawal	Reaffirmed joint support for Iran Nuclear Deal (JCPOA)	Concerns voiced over Hong Kong National Security Law	EU emphasizes China's "special responsibility" in the Ukraine crisis	
<b>Global challenges (esp. climate &amp; sustainability)</b>	Shared support for Paris Agreement after US withdrawal	Joint statement on climate change and clean energy	Joint statement signed on clean energy transition and energy security	Shared support for cooperation on climate change	Cooperation on global biodiversity framework	
<b>Formal outcome of summit</b>	<i>Failure to reach Joint Statement over China's Market Economy Status</i>	<i>Agreement on Joint Statement</i>	<i>Agreement on Joint Statement</i>	<i>Failure to reach Joint Statement over disagreement on Hong Kong and Xinjiang</i>	<i>Failure to reach Joint Statement over disagreement on war in Ukraine</i>	

Cooperation
  Disagreement

# On the basis of direction on China policy set in March 2019, the EU Commission turns more assertive

## EU shifts strategic posture towards China ...



EU-China – a strategic outlook, EU Commission March 2019

### EU 10-point “Action Plan”

- 1 Cooperate on UN commitments
- 2 Call on China to peak emissions by 2030
- 3 Deepen engagement on regional security
- 4 Cooperate on principles for 3rd countries (EU-China Connectivity)
- 5 Rebalance economic relationship
- 6 Reciprocity in procurement
- 7 Ensure level-playing field of public procurement in EU
- 8 Address foreign market distortions
- 9 Protect critical digital infrastructure
- 10 FDI screening in EU-MS

## ... evolving to the Commission’s re-articulated ‘clear-eyed’ approach in March 2023



EC President Ursula von der Leyen lays out the EU Commission’s new approach on China in her speech on 30 March 2023 in Brussels

Von der Leyen draws **3 key conclusions** that demand a recalibrated EU posture

- **Domestic hardening:** China “moving into a new era of security and control”
- **Securitized trade:** The “imperative for security and control now trumps the logic of free markets and open trade”
- **International order:** The CCP’s “clear goal is a systemic change of the international order with China at its centre”

### In response, the EU vows to adapt its approach towards China

#### Diplomatic «de-risking»

- “Strengthen the **international system** itself”
- “Ensure diplomatic stability and **open communication with China**”

#### Economic «de-risking»

- „Our relations are not black or white – and our response cannot be either. This is why **we need to focus on de-risk – not de-couple.**”
- “But our **relationship is unbalanced** and increasingly **affected by distortions** created by China's state capitalist system.”

#### New four-pronged approach

- Competitive, resilient **economy and industry**
- Strengthened **trade defense** instruments
- **Investment controls** for sensitive technologies
- Cooperation with **partners**

<sup>1</sup> Including resolutions, initiatives, non-legislative enactments, consultation procedure; <sup>2</sup> Resolution for a new EU-China strategy – EU Parliament, September 2021

# Switzerland: altered context pushes Switzerland's China policy away from honing a "special relationship"

## From a "special relationship" and "pioneer spirit"...



**1950:** early recognition of PRC



**1980:** first sino-foreign JV (Schindler)



**2009:** early granting of MES to China



**2013:** first continental European and comprehensive FTA



**2016:** early country supporting the AIIB



**2016:** «strategic innovative partnership»



**2018:** UBS as first foreign bank with majority ownership

## ... to altered context for Switzerland's China policy...

- General damage to China's **reputation** in the "West", e.g. with Zero-Covid policy
- **US-China** strategic competition and the **EU's** more confrontational China policy – rising costs for pragmatic China policy
- **Swiss parliament and public** more concerned about human rights situation and ESG topics
- Frustration over lack of materialized cooperation under **Sino-Swiss BRI Memorandum of Understanding**
- China's alleged **influencing operations** in Switzerland

## ... to China strategy (March 2021) seeking calibration and coherence

### Acknowledging new geopolitical realities

- Recognizes China as a new global power
- Points out non-convergence, and is explicit e.g. on increasing societal control, challenges for ethnic minorities and China's intent to "change rules of international cooperation"
- Recognizes trade-offs in balancing values and interests

### Relations today – broad, multi-layered and "constructive"

- Adherence to One China policy
- Divergences and unsatisfactory outcomes on human rights dialogue

### Geopolitical positioning – pro engagement

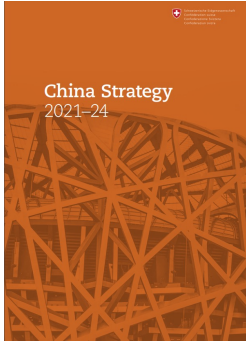
- Continue independent, universal, neutral and "bloc-free" foreign policy
- Focus on strengthening multilateralism
- Pro engagement, no intent to change China – but structured relations with the EU and closer cooperation becoming more important

### Key priorities

- Unapologetic on human rights (e.g. HR dialogue)
- Economic policy, esp. broadening market access and FTA update

### Enablers

- China competence, but no budget associated
- "Whole-of-Switzerland" approach and cross-ministerial working group (IDAG)



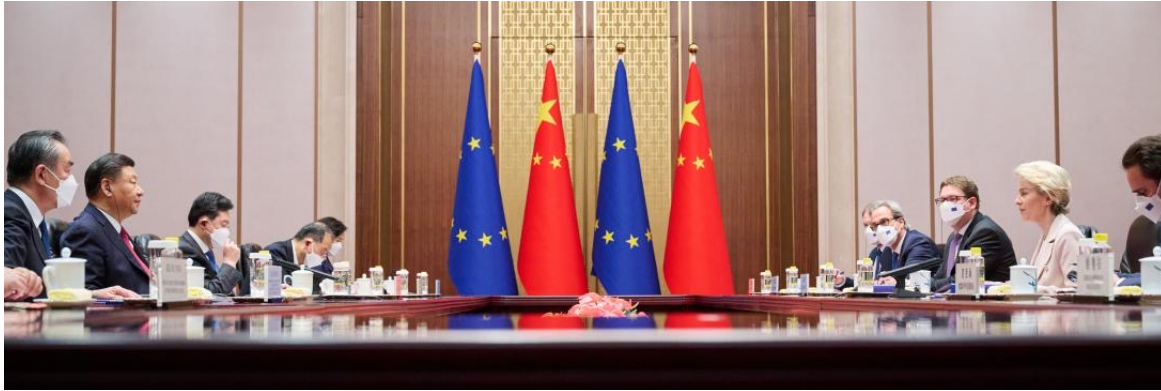
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# In “a complex international situation”, Beijing continues to see Europe as “comprehensive strategic partner”...

## China continues to push for constructive relations with the EU...



*“China has always regarded the EU as a strategic force in the international landscape, and has always regarded the development of China-EU relations as a priority for Chinese diplomacy. We will continue our good tradition with the European side, maintain close communication, enhance strategic mutual trust, focus on mutually beneficial and win-win cooperation, and work together to overcome disturbances and challenges, and achieve a high level of performance of China-EU relations.”*

—Xi Jinping during visit of European Commission President Ursula von der Leyen in Beijing in April 2023

Source: <sup>1</sup> Xi's speech during EC President VdL's visit; <sup>2</sup> New Statesman interview with Chinese Ambassador to the EU, Fu Cong; <sup>3</sup> China's 2018 EU White Paper

## ...driven primarily by geopolitical and economic considerations

### Strategic intent vis-à-vis the EU<sup>1,2</sup>

- Preserving constructive relations and a **shared interest-focused engagement logic** between the EU and China
- Advocating an **independent EU approach to China under the EU's “strategic autonomy” policy**, without interference or influence from “third parties” (i.e. the US)
- Ensuring **access to EU markets and technology knowhow**, while also attracting **foreign investment from the EU**

### Prioritized areas of cooperation with the EU<sup>3</sup>

- **Shaping multilateralism**: Pursuing shared interests of enhancing cooperation and coordination in the intl. system with the UN at its core and ensuring equality
- **Economic cooperation**: Continuing to strengthen ties with the EU as China's largest trading partner
- **Improving market access**: Attracting EU investment to China, while also getting better access to EU markets
- **Technology cooperation**: Access to EU technologies, research collaborations, and investment opportunities
- **Sustainable development**: Cooperation with the EU on transnational issues, such as climate change

### Attitude towards EU de-risking<sup>2</sup>

- Is “**neither realistic nor desirable**” for either side - no matter if it is called “de-risking” or “de-coupling”
- “Dependency” on China is exaggerated – (1) is **not as high as is often suggested** and (2) is actually **mutual dependency**

# ... building on policy continuity of EU White Papers since 2003, yet China increasingly asserts own principles

*Analysis of change vs. 2003 White Paper*

Policy dimension	China's 2003 EU White Paper	China's 2014 EU White Paper	China's 2018 EU White Paper
External environment and China's position	<ul style="list-style-type: none"> <li>Multi-polarization and globalization continued, though with some difficulties</li> <li>Peace and development as theme of times</li> <li>China hoped to create a favorable international environment as it needed to build a "prosperous society"</li> </ul>	<ul style="list-style-type: none"> <li><u>China did not fundamentally change its view of the external environment</u></li> <li>China claimed its comprehensive power increased, but <u>China did not change its judgement about its global position</u></li> </ul>	<ul style="list-style-type: none"> <li>China held that <u>unilateralism, protectionism, and anti-globalization trends on the rise</u></li> <li>China started aiming to <u>build new type of international relations and a "community of shared future for mankind"</u></li> </ul>
EU's power and global role	<ul style="list-style-type: none"> <li>EU integration process as irreversible, though facing many difficulties and challenges</li> <li>EU would play an increasingly important role in regional and international affairs</li> </ul>	<ul style="list-style-type: none"> <li>Though the EU was challenged by the international financial crisis, no change of China's <u>sentiment about EU's power and global role</u></li> </ul>	<ul style="list-style-type: none"> <li>Although EU affected by events such as Brexit, no change of China's <u>sentiment of EU's power and global role</u></li> </ul>
EU-CN relationship and overarching objectives and principles	<ul style="list-style-type: none"> <li>No fundamental conflict of interest between China and EU and not a threat to each other</li> <li>Shared interests "far outweigh divergences"</li> <li>Key objectives are:                             <ul style="list-style-type: none"> <li>Deepen political relationship and maintain world peace</li> <li>Deepen economic and cultural exchange</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><u>4 new targets</u> proposed:                             <ul style="list-style-type: none"> <li>Promote bilateral economic development</li> <li>Share experience in reform, for example, global governance reform</li> <li>Maintain world peace</li> <li>Enhance cultural connections</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><u>4 new principles</u> proposed:                             <ul style="list-style-type: none"> <li>Keep mutual respect and adhere to "One China Principle"</li> <li>Complete global governance system together</li> <li>Maintain cultural exchanges</li> <li>Insist on openness and inclusiveness</li> </ul> </li> </ul>
Key areas of cooperation	<ul style="list-style-type: none"> <li>Politics, economy and culture as key cooperation sectors</li> <li>Military cooperation also suggested</li> </ul>	<ul style="list-style-type: none"> <li><u>Military cooperation removed</u></li> </ul>	<ul style="list-style-type: none"> <li><u>No relevant change</u></li> </ul>
China's aggregated stance towards EU	EU seen as just another economic partner, no intention to partner on global affairs	China starts laying out ambition to work together on global governance reforms, and seeks to deepen economic cooperation	China asserting "conditions" for continued cooperation, wanting to partner with EU to reform global governance together

Though importance of EU-CN relation unchanged to China, more friction expected with China adding more conditions

# China vis-à-vis key EU MS: China's foreign policy focus lies on maintaining constructive relations

Key relations	China's key strategic interests	Recent developments	Outlook
<b>Sino-German relations</b> 	<ul style="list-style-type: none"> <li>Get <b>access</b> to Germany's advanced manufacturing, <b>technological expertise</b> and the <b>EU single market</b></li> <li>Leverage Germany's central position in the EU to <b>shape EU policies</b> on trade, investment, and technology</li> </ul>	<ul style="list-style-type: none"> <li>China emphasizing common ground in the face of <b>German ambivalence</b> <ul style="list-style-type: none"> <li>Nov 2022: Xi received Chancellor Scholz as first G7 leader in 3 years, focus on business ties</li> <li>Apr 2023: FM Baerbock's assertive visit with main focus on Taiwan perceived as hypocritical</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><i>Germany's potentially more assertive <b>new China Strategy</b> could lead China to reconsider its <b>approach</b></i></li> <li><i>In June 2023, Premier Li Qiang will visit Chancellor Scholz in Berlin</i></li> </ul>
<b>Sino-French relations</b> 	<ul style="list-style-type: none"> <li>Build <b>support against US-led containment</b> via this important and less US-leaning EU member</li> <li>Get <b>access</b> to France's advanced <b>research and technology</b> in key areas such as aerospace, civil nuclear technology, and pharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li>China backing France in its push for EU "<b>strategic autonomy</b>" and <b>revitalizing business ties</b> <ul style="list-style-type: none"> <li>Macron received <b>lavish reception by Xi</b> in April with several major Sino-French deals signed</li> <li>Macron subsequently stressed need of <b>own EU approach</b>, not just being "followers of the US"</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><i>Maintaining <b>strategic ties</b> with Russia while dealing with key EU MS becomes more challenging</i></li> <li><i><b>Xi-Macron personal relationship</b> is important factor as annual head-of-state meetings are resumed</i></li> </ul>
<b>Sino-Polish relations</b> 	<ul style="list-style-type: none"> <li>Get <b>access</b> to the <b>EU single market</b> via infrastructure investments in Polish logistics hubs</li> <li><b>Prevent</b> atlanticist Poland from tipping the EU more <b>towards the US</b></li> </ul>	<ul style="list-style-type: none"> <li>China trying to convince Poland of the importance of a <b>political settlement of the Ukraine crisis</b>:           <ul style="list-style-type: none"> <li>Special envoy Li Hui travels to Warsaw for talks, voicing China's support for peace talks</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><i>As Russia's war in Europe continues, China with increasingly difficult task not to push <b>Poland closer to its US ally</b> and distance itself from China</i></li> </ul>
<b>Sino-Italian relations</b> 	<ul style="list-style-type: none"> <li>Get <b>strategic harbor ports</b> for better access to Eastern Europe and Northern Europe</li> <li><b>Impact EU's China policy via Italy</b> and <b>coordinate and cooperate with Italy in G20</b>, who is also a G7 member</li> </ul>	<ul style="list-style-type: none"> <li>In 2023 April, Taiwan <b>set up Rep. Office</b> in Milan</li> <li>Italy is <b>screening Chinese SOE's (state-owned enterprise) new investment agreement</b> in Pirelli</li> <li>Italy claims that it has <b>not decided about the extension of BRI</b> but will not damage its relationship with China in any case</li> </ul>	<ul style="list-style-type: none"> <li><i>With <b>strengthened Italy-Taiwan relations</b> and Italy's <b>possible exit from the BRI</b>, Sino-Italian relationship could be affected</i></li> <li><i>Prime Minister Giorgia Meloni announced to <b>visit China</b> in 2023</i></li> </ul>



**Contact:**

**Markus Herrmann Chen | 陈瑞华**  
*Co-Founder and Managing Director*  
[mherrmann@chinamacro.ch](mailto:mherrmann@chinamacro.ch)

[China Macro Group \(CMG\)](#)