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EU-China business relations in geopolitical times

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In March 2023, European Commission President Ursula von der Leyen announced that the EU will pursue a strategy of “de-risking, not de-coupling”, vis-à-vis China.

In this short special report, Euractiv explores how this strategy impacts Chinese companies operating in Europe.
Chinese businesses criticise EU’s ‘de-risking’ approach

By Jonathan Packroff | euractiv.com

Despite assurances that the EU does not want to decouple its trade from China, Chinese companies operating in Europe say they are facing uncertainty regarding their future, but nevertheless continue to invest in the bloc.

Following increasing concerns over trade dependencies on third countries after the Russian aggression against Ukraine, EU Commission President Ursula von der Leyen in March said it was necessary for the EU to “de-risk” its relationship with China.

While this was said as a reaction to a full “decoupling” between the Chinese and Western economies, as debated notably in the US, it has nevertheless concerned Chinese companies operating in Europe, according to a survey conducted by the China Chamber of Commerce (CCCEU) and the business consultancy Roland Berger.

“Chinese enterprises are really concerned regarding the EU’s de-risking strategy and trade barriers, they believe that this initiative will harm China and the EU and impact global economy recovery,” Yang Xiaohong of Roland Berger said when presenting the survey results on Tuesday (14 November).

Of surveyed companies, 73% said that their operation was negatively affected by the “de-risking” approach. Nevertheless, 83% of the businesses report that they want to expand their presence in Europe, with a majority expecting revenue from existing operations to increase.

In its proposed changes to the law, the Committee calls for a minimum share of 50% of green technologies originating in countries that have signed the World Trade Organisation’s Agreement on Government Procurement (GPA), which China has not.

For example, green technology bids using mostly solar panels that were made in China could not be bought in public procurement or supported by renewable energy subsidies awarded in auctions any more.

The Parliament’s position will be voted on in the plenary next week before it will be negotiated with the member states in the so-called trilogue negotiations.

Investigation into Chinese electric vehicles

“We don’t we don’t think the Chinese EV sector is a harm to the EU market,” Liang Linlin, Director of Communication and Research at the CCCEU said.

“We are highly complementary to each other,” she said, adding that “Chinese and European companies also have a very deeperened cooperation in this regard.”

The investigation into Chinese electric vehicles (EVs) was announced by von der Leyen during her ‘State of the Union’ address in September, where she complained that global markets would be “flooded” with Chinese electric cars.

Their prices would be “kept artificially low by huge state subsidies”, von der Leyen said, announcing the investigation that could lead to new tariffs, so-called countervailing duties, to be put on Chinese EVs.

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Since European Commission President von der Leyen introduced the concept in her dedicated speech on EU-China ties in March 2023, the mantra “De-risking but not decoupling” has become a central tenet in the EU’s approach to China.

By the China Chamber of Commerce to the EU

This approach has not only permeated the EU’s playbook but has also found its way into the G7’s official statement and garnered a notable endorsement from Washington. Many of the EU bubble’s China-goers spent quite some time in Beijing trying to convince their Chinese counterparts that this approach is country-agnostic and only aims to increase the EU’s resilience. However, these efforts seem to have yielded limited success, as China expresses caution, asserting that the purportedly neutral stance is merely a façade for decoupling, posing potential harm to the stability of global supply chains.

Such suspicions find an early validation in a comment from Bruegel in June, suggesting that while de-risking may ostensibly aim to shift from a focus solely on cost optimisation to one also emphasising resilience, it could also serve as a cover for protectionist measures. The broader implications of this approach raise concerns, as estimates from an IMF blog post in October indicate that the adverse effects of ‘de-risking’ strategies are not confined to China alone but are poised to exert a substantial drag on global growth. The combined scenarios of “friend-shoring” and “re-shoring” are anticipated to result in approximately 6% loss of global GDP.

The repercussions of Brussels’ pivot towards de-risking are evident on the ground. Recent findings from the CCCEU’s survey conducted between July and October reveal that 72% of Chinese companies feel negatively impacted by the EU’s “de-risking” strategy. Breaking down the impact, 37% cited repercussions in the trade sector, 36% felt disadvantaged in market competition, 26% reported constraints on their investments in the EU, while 21% indicated hindrances in engaging in public procurement within the EU.

Regrettably, this sentiment cast a pall over the EU’s overall business environment, as highlighted in the CCCEU’s annual flagship report released on November 14, showing declines for the fourth consecutive year. The report, titled “Building Trust, Boosting Prosperity—CCCEU Report on the Development of Chinese Enterprises in the EU 2023/2024,” not only unveils the concerning downturn but also provides a comprehensive analysis of the EU’s political, research, human resources, economic and industrial, infrastructure and support, and business service environments. Drawing insights from a survey involving 155 Chinese companies and supplemented by in-depth interviews with approximately 30 enterprises and organizations, the report offers a nuanced perspective on various facets of the EU’s business landscape.

As the EU endeavours to reduce its reliance on China, particularly in the crucial realms of green and digital transitions pivotal to its de-risking strategy, obstacles have arisen in sectors where Chinese enterprises excel. One notable instance is Brussels’ ongoing anti-subsidy investigation into China’s battery electric vehicles, instigating uncertainties and widespread apprehensions concerning the sustainable development of Chinese enterprises within the EU. Furthermore, in the digital sector,
certain Chinese companies have been dubiously labeled as “high-risk vendors” without concrete legal evidence, a move that stretches the concept of “national security” and has left Chinese technology firms operating in Europe deeply disillusioned.

The deteriorating business environment, according to surveyed Chinese enterprises, is linked to a deepening trust deficit between Brussels and Beijing, exacerbated by pandemic-induced restrictions hindering communication and exchanges. The EU’s perception of China as more of a systemic rival than a reliable partner has intensified the challenges faced by businesses operating in this environment.

However, there is potential for improvement. The CCCEU report puts forth around 200 recommendations to advance the development and cooperation between China and the EU. These suggestions are aimed at both governments and Chinese enterprises in the EU, covering nine key aspects. These aspects include fortifying mutually beneficial trade and economic development, aspiring towards a sustainable world, nurturing a digital future, invigorating the business environment, revitalising and deepening communication to strengthen bilateral ties, ensuring fair and open markets through dialogue and collaboration, intensifying science and technology innovation, stabilizing the global supply chain, and rebuilding mutual trust for a shared future. The recommendations are crafted with the aspiration that China and the EU can achieve synergistic effects in their collaboration, resulting in shared prosperity that surpasses the sum of its parts.

In the midst of these challenges, Chinese companies maintain an optimistic outlook on the future of China-EU business, economic, and trade relations. Even in the face of numerous challenges, over 60% of respondent enterprises express optimism regarding the mid-and long-term prospects for China-EU trade and economic ties. An overwhelming 94% of surveyed enterprises believe that the European market will assume a more significant role in their global expansion over the next one to three years. Additionally, 83% have concrete plans to expand their presence in the EU. These survey results paint a vivid picture of potential growth and collaboration between Chinese and European markets.

The 20th anniversary of the comprehensive strategic partnership between China and the EU, coupled with a resurgence in high-level meetings, sets the stage for a long-awaited China-EU summit at the year’s end. This juncture presents a timely opportunity to mitigate the risks associated with de-risking, actively fostering mutual trust to propel prosperity for a shared future.